Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

8 NOVEMBER 2019

REPORT OF CORPORATE FINANCE AND GOVERNANCE PORTFOLIO HOLDER

A.7 FINANCIAL PERFORMANCE REPORT – IN-YEAR PERFORMANCE AGAINST THE BUDGET AT END OF THE SECOND QUARTER 2019/20 AND LONG TERM FINANCIAL FORECAST UPDATE

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To provide an overview of the Council's financial position against the budget as at the end of September 2019 and to present an updated long term forecast.

EXECUTIVE SUMMARY

- These regular finance reports present the overall financial position of the Council by bringing together in-year budget monitoring information and timely updates on the development of the long term forecast.

- Therefore the report is split over two distinct sections as follows:

  1) ***The Council's in-year financial position against the budget at the end of September 2019***

  2) ***An updated long term financial forecast***

In respect of the in-year financial position at the end of September 2019:

- The position to the end of September 2019, as set out in more detail within the appendices, shows that overall the General Fund Revenue Account is overspent against the profiled budget by **£1.483m.** It is acknowledged that expenditure or income trends may still be emerging with the position to date largely reflecting the timing of expenditure and/or income. However any significant issues arising to date have been highlighted and comments provided as necessary.

- In respect of other areas of the budget such as the Housing Revenue Account, capital programme, collection performance and treasury activity, apart from additional details set out later on in this report, there are no major issues that have been identified to date.

- Any emerging issues will be monitored and updates provided in future reports which will include their consideration as part of updating the long term financial forecast.

- Some necessary changes to the 2019/20 budget have been identified which are set out in **Appendix H,** with an associated recommendation also included within this report. The net impact of all of the budget adjustments will be moved to or from the Forecast Risk Fund. At the end of the second quarter, it is necessary to call money down from the fund **(£0.147m)** rather than make a contribution to it. Although this trend may not continue, it does present a challenging situation given that the long term forecast is based on the identification of **£0.500m** of in-year outturn savings. It will be important to review this situation at the end of quarter 3.

- A half year treasury management review has been carried out with a summary set out later on in this report along with an associated recommendation to temporarily increase the aggregate limit of funds that can be placed overnight with the Council's bankers for the period that the offices will be closed over the Christmas break.

- It is recognised that 2020/21 may be the last year of Essex Authorities being able to enter into business rates pooling arrangements, given the move to a 75% rates retention model from 2021/22. Given the financial benefits that the current pooling arrangements have had over the last few years, it is proposed to continue to remain a member of the Essex Pool in 2020/21.

In respect of the updated long term financial forecast:

- The forecast has been reviewed and updated at the end of quarter 2. An increase in unavoidable / on-going cost pressures is still expected in 2020/21, which has had a knock on impact on the level of annual on-going savings required. Based on the initial forecast, the savings target was increased from **£0.300m** per year to **£0.450m** per year, with nothing emerging during quarter 2 that fundamentally changes this position.

- An initial assessment of potential savings along with an updated list of cost pressures is set out in Section 2 of this report.

- Overall the revised forecast can still provide an effective method of managing financial risk and although the annual deficit or surplus position for each year of the forecast has been amended, they can still be accommodated within the overall projected long term financial position, supported by the Forecast Risk Fund that has been set up to underwrite such risks.

- As already mentioned, it is important to highlight that unlike previous quarters, the in-year budget adjustments set out in **Appendix H** require a call on the Forecast Risk Fund rather than a contribution to it. This position will need to be kept under review as it remains essential that net contributions are made to this fund over the course of the whole year as it forms an integral part of the long term forecast approach.

- A detailed review of risks associated with the long term forecast is subject to on-going review and is separately reported within **Appendix K.**

- As mentioned during the development of the longer term approach to the budget over the last two years, it is important to continue to deliver against the new longer term forecast as it continues to provide a credible alternative to the more traditional short term approach, which would require significant additional savings to be identified in 2020/21.

- In terms of delivering against the forecast for 2020/21 and beyond, work remains on-going across the 5 key work strands of:

1) Increases to underlying income
2) Limiting expenditure / inflationary increases where possible
3) The identification of savings / efficiencies
4) Delivering a positive outturn position each year
5) The mitigation of cost pressures wherever possible.

RECOMMENDATION(S)

That in respect of the financial performance against the budget at the end of September 2019, it is recommended that:

(a) The position be noted;

(b) the proposed in-year adjustments to the budget as set out in Appendix H be agreed; and

(c) in respect of the Council's Treasury Management Practices, the aggregate amount of money that can be placed overnight with the Council's bankers be increased temporarily from £1.000m to £1.500m for each day the offices are closed over the Christmas break;

(d) the Council continues to be a member of the Essex Business Rates Pool in 2020/21 if it remains financially advantageous to do so;

That in respect of the Updated Long Term Forecast it is recommended that:

(a) The updated forecast be agreed and the Resources and Service Overview and Scrutiny Committee be consulted on the latest position.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Effective budgetary control is an important tool in ensuring the financial stability of the authority by drawing attention to issues of concern at an early stage so that appropriate action can be taken. Financial stability and awareness plays a key role in delivering the Council's corporate and community aims and priorities.

The forecasting and budget setting process will have direct implications for the Council's ability to deliver on its objectives and priorities. At its heart, the long term approach being taken seeks to establish a sound and sustainable budget year on year through maximising income whilst limiting reductions in services provided to residents, business and visitors.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The financial implications are considered in the body of the report.

Risk

In respect of the position at the end of September 2019, a number of variances will be subject to change as the year progresses although at this stage it is expected that any adverse position can be managed within the overall budget. The budget position will be monitored and reviewed as part of both the future budget monitoring arrangements and Financial Strategy Processes.

In respect of the long term forecast, there are significant risks associated with forecasting such as cost pressures, inflation and changes to other assumptions that form part of the financial planning process. There are a number of areas that could lead to additional expenditure being incurred, such as: -

- Economic environment / instability;
- Emergence of cost pressures;
- Changes to the local authority funding mechanisms such as the Government's fairer funding review;
- New legislation placing unfunded duties on the Council or reducing the level of the Council's funding;
- Local or national emergency;
- Income is less than that budgeted for, including business rate income retained locally.

However the forecast is based on relatively conservative estimates with no optimistic bias included. **Appendix K** discusses the various risks to the forecast with a Red / Amber / Green risk assessment approach taken.

Another potentially more important action to manage and mitigate risk is the Council's ability to financially underwrite the forecast. As with any forecast, some elements of income and expenditure will be different to that forecasted. It is fair to say that many may offset each other over the longer term. However, there are two important aspects to how this will be managed.

1) To date it is estimated that **£3.253m** will have been set aside by the end of 2019/20 within the Forecast Risk Fund to support the budget in future years. This money is available to be drawn down if the timings within the forecast differ in reality and the net position is unfavourable compared to the forecast in any one year.

2) The forecast will remain 'live' and be responsive to changing circumstances and it will continue to be revised on an on-going basis. If unfavourable issues arise that cannot be mitigated via other changes within the forecast then the forecast will be adjusted and mitigating actions taken. Actions to respond will therefore need to be considered but can be taken over a longer time period where possible. In such circumstance the Council may need to consider 'topping' up the funding mentioned in 1) above over the life of the forecast if required. This may impact on the ability to invest money elsewhere but will need to demonstrate that its use is sustainable in the context of the ten year forecast.

Set against the above foundations, the original long term forecast was based on the need to identify on-going savings of **£0.300m** each year. Due to changes to the forecast such as an unexpected increase in on-going costs pressures in 2020/21 (from **£0.150m** to potentially **£0.600m)** this savings figure has been increased to **£0.450m** per year. This increase is required to ensure that an annual surplus can still be delivered over the life of the forecast with such surpluses forecast from 2025/26 onwards.

This savings 'target' will still need to remain flexible and react as a counterbalance to other emerging issues as it is accepted that this figure may need to be revised up or down over the life of the forecast.

It is important to deliver against the forecast in the early years to continue to build confidence in the longer term approach. This will, therefore, continue to need robust input from members and officers where decisions may be required in the short term or on a cash flow basis.

Another aspect to this approach is the ability to 'flex' the delivery of services rather than cut services. As would be the case with our own personal finances, if we cannot afford something this year because of a change in our income, we can potentially put it off until next year. There is a practical sense behind this approach as we could flex the delivery of a service one year but increase it again when the forecast allows.

In addition to the above it is important to note that the Council has already prudently set aside money for significant risks in the forecast such as **£1.758m** (NDR Resilience Reserve) and **£1.000m** (Benefits Reserve), which can be taken into account during the period of the forecast if necessary. The Council also holds **£4.000m** in uncommitted reserves which supports its core financial position.

To support the forecast, sensitivity testing has been undertaken which is set out in more detail later in this report.

LEGAL

The Local Government Act 2003 makes it a statutory duty that Local Authorities monitor income and expenditure against budget and take appropriate action if variances emerge.

The arrangements for setting and agreeing a budget and for the setting and collection of council tax are defined in the Local Government Finance Act 1992. The previous legislation defining the arrangements for charging, collecting and pooling of Business Rates was contained within the Local Government Finance Act 1988. These have both been amended as appropriate to reflect the introduction of the Local Government Finance Act 2012.

The Local Government Finance Act 2012 provided the legislative framework for the introduction of the Rates Retention Scheme and the Localisation of Council Tax Support.

The Calculation of Council Tax Base Regulations 2012 set out arrangements for calculation of the council tax base following implementation of the Local Council Tax Support Scheme. The new arrangements mean that there are now lower tax bases for the district council, major preceptors and town and parish councils.

The Localism Act 2012 introduced legislation providing the right of veto for residents on excessive council tax increases.

Under Section 25 of the Local Government Act 2003, the Chief Finance Officer (S151 Officer) must report to Council as part of the budget process on the robustness of estimates and adequacy of reserves. The proposed approach can deliver this requirement if actively managed and will be an issue that remains 'live' over the course of the forecast period and will be revisited in future reports to members as the budget develops.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.
Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no other implications that significantly impact on the financial forecast. However, the ability of the Council to appropriately address these issues will be strongly linked to its ability to fund relevant schemes and projects and determination of the breadth and standard of service delivery to enable a balanced budget to be agreed.

An impact assessment will be undertaken as part of any separate budget decisions such as those that will be required to deliver the necessary savings.

PART 3 – SUPPORTING INFORMATION

SECTION 1 – IN YEAR FINANCIAL PERFORMANCE AGAINST THE BUDGET AT THE END OF THE SECOND QUARTER OF 2019/20

The Council's financial position against the approved budget has been prepared for the period ending 30 September 2019.

This is the second such report on the Council's financial position against the budget for 2019/20. Some expenditure or income trends may still be emerging as it is still relatively early in the financial cycle. However comments are provided below where necessary, against the following key areas:

- General Fund Revenue and Proposed Changes to the in-year budget
- HRA Revenue
- Capital Programme – General Fund
- Capital Programme - HRA
- Collection Performance
- Treasury Activity
- Garden Communities / NEGC Project

GENERAL FUND REVENUE

The position to the end of September 2019, as set out in more detail in the Executive Summary attached, shows that there is an overall net overspend of **£1.483m**.

As set out in the appendices, elements of this variance are due to the timing of expenditure and income or where commitments / decisions have yet to be made.

Appendix B provides a more detailed narrative against significant variances with some highlights as follows:

- Income achieved to date remains ahead of the profile in areas such as investment income **(£0.127m**), parking **(£0.104m),** planning **(£0.209m),** Building Control **(£0.031m)** and at the crematorium **(£0.020m).** This income position is offsetting areas of reduced income such as across cemeteries **(0.032m)** and the career track service **(£0.050m).** This overall income position will remain under review over the remainder of the year and considered as part of the long term forecast and budget setting processes for 2020/21.

- Similarly to the position at the end of quarter 1, additional costs of responding to planning appeals / inquiries continue to be incurred. In addition to the adjustment of **£0.163m** made at the end of the first quarter, a further budget adjustment of **£0.150m** is proposed at the end of the second quarter. This adjustment is included within **Appendix H** along with an associated adjustment to the planning income budget mentioned above to offset this increase in costs.

The net overall position set out in **Appendix H** results in a net contribution from the

Forecast Risk Fund of **£0.147m.** However it is still expected that this amount can will be reversed as further adjustments to the 2019/20 budget are identified over the remainder of the year with the aim of meeting the **£0.500m** requirement highlighted earlier on in this report.

Other net neutral budget adjustments have also been included within **Appendix H.**

The Council has been a member of the Essex Business Rates Pool since 2015 with a summary of the financial benefit that this has generated for the Council set out in the following table:

Year	Income received (£)
2015/16	224,980
2016/17	376,714
2017/18	586,974
2018/19	582,513
2019/20 (projected)	603,670

Along with other Essex Authorities, it is proposed to continue with an Essex Business Rates Pool in 2020/21, which could be the last year that these arrangements are possible given the Government's move to a 75% business rates retention model from 2021/22. A recommendation is therefore included above that seeks agreement to remain as a pool member in 2020/21 (on existing terms) if still financially advantageous to do so.

The pool is supported by an agreement signed by all pool members that includes protections to reduce any associated financial risks.

HRA REVENUE

An overall position is set out in the Executive Summary with further details included in **Appendix C**. At the end of September 2019, the HRA is showing a small net overspend of **£0.027m,** which primarily reflects rental income remaining slightly behind profile along with increased expenditure relating to council tax that is due on empty properties. An in-year budget adjustment for the latter item is included within **Appendix H.**

CAPITAL PROGRAMME – GENERAL FUND

The overall position is set out in **Appendix D.**

As at the end of September 2019 the programme is broadly on target against the profiled position. Detailed comments are provided within the appendix against a number of schemes.

One net neutral change to the budget relating to the purchase of additional recycling boxes / bins is set out in **Appendix H.**

CAPITAL PROGRAMME – HOUSING REVENUE ACCOUNT

The overall position is set out in **Appendix D.**

As at the end of September 2019 the programme is behind profile by **£0.313m.**

This budget relates primarily to the on-going major repairs and improvements to the

Council's own dwellings. There are no specific issues to highlight at this stage and the expectation is that expenditure / commitments will be broadly in line with the budget over the course of the year as work is progressed and procurement processes completed.

In respect of the New Build Initiatives / Acquisitions Scheme and the new homes in Jaywick Sands, both of these schemes are being supported by the use of 'one for one' capital receipts that the Council is able to retain from right to buy sales. There is currently a three year deadline imposed by the Government by which Local Authorities have to spend the money retained under the 'one for one' scheme, but the Government are considering extending this to as much as five years. Notwithstanding this, 'spend by dates' are included in **Appendix D** which the Council needs to remain alert to. Although the receipts will be targeted towards a more strategic approach, the option of purchasing properties on the open market remains a fall-back position to ensure the money retained from right to buy sales stays in the district and not paid over to the Government.

Further commitments against these receipts are being made with adjustments set out within **Appendix H** relating to the second phase of the construction of the 10 starter homes in Jaywick Sands.

COLLECTION PERFORMANCE

A detailed analysis of the current position is shown in **Appendix E**.

There are no significant issues to highlight at the present time. Income will continue to be collected over the reminder of the year with recovery arrangements and action taken as necessary.

TREASURY ACTIVITY

A detailed analysis of the current position is shown in **Appendix F.**

The Council agreed the Treasury Strategy for 2019/20 on 26 March 2019 and in accordance with Financial Procedure Rules this strategy and associated activity have been subject to a half yearly review with the outcomes set out below:

The Economy and the outlook for next 6 months

A detailed analysis has been provided by the Council's treasury advisors with highlights set out as follows:

This first half year has seen UK economic growth fall. The Bank of England Monetary Policy Committee meeting of 19 September emphasised their concern about the downturn in world growth. Inflation measured by the Consumer Prices Index (CPI) has been close to the Bank of England's target of 2% during 2019 but fell to 1.7% in August. Wage inflation picked up to a high point of 3.9% in June before easing back slightly to 3.8% in July, which is faster than inflation.

Growth in the Eurozone has been slowing from +1.8% during 2018 to around half of that in 2019. The outlook for growth during the rest of 2019/20 is weak across the US, UK, EU and China.

Investments

Investment returns are well ahead of the budget, reflecting the impact of the current bank base rate of 0.75% along with money currently held by the Council ahead of it being spent. Due to a significant level of uncertainty as set out above it is not clear whether the next movement in interest rates will be up or down. The weighted average interest rate at the end of September stood at 0.87%, with the budget assuming a target of 0.60%. As set out in **Appendix H** it is proposed to increase the in-year budget for 2019/20 by a further **£0.120m** that reflects the investment performance to date.

The closure of Council Offices between Christmas and New Year 2019 means that daily treasury management actions will not be able to be undertaken for a short period. Despite planning to maintain adequate headroom across the Council's current accounts, significant council tax and non-domestic rates payments are expected during the Christmas closedown period and along with other income the current **£1.000m** limit that can be placed overnight with the Council's current account bankers is likely to be exceeded. A similar situation occurred last year which was brought to the attention of members. Accordingly, it is requested that the limit be temporarily increased to **£1.500m** for this period. Officers will monitor the wider market conditions / intelligence and will only place money up to this revised limit if there are no adverse indicators around Lloyds bank that would increase risks. During the year Lloyds Bank have seen a strengthening position in terms of their overall ratings from the main rating agencies increasing confidence in them which reduces any risk associated with the proposed approach set out above.

Borrowing
The borrowing rates that the Council can access remain relatively low. Due to the low yield on investments, the Council has maintained the position of not replacing the **£1.000m** external loan which matured in March 2014 and no additional borrowing is currently planned in 2019/20.

The impact of the recent 1% increase in PWLB rates will be considered going forward and as part of any specific borrowing decisions that may emerge in future.

In respect the Council's commercial property portfolio, there have been no additions since the purchase of the property in Clacton in 2017. In respect of this property, the lease with the existing tenant remains on-going, with nothing emerging to date that alters that position or puts at risk the income currently receivable by the Council.

Notwithstanding the above, there are no significant matters to highlight at the present time with investment and borrowing activity on-going in line with the Treasury Strategy and associated practices / requirements.

GARDEN COMMUNITIES / NEGC PROJECT

As requested during the review of the financial performance report for quarter 1, a summary of the financial position relating to the NEGC Project is set out in **Appendix I**. This provides the position at the end of September 2019, with no significant issues to highlight at the present time. However this will be subject to further updates as part of future financial performance reports and within separate future reports associated with this major project.

SECTION 2 – UPDATED LONG TERM FORECAST

The long term forecast is updated on an on-going basis, with the latest position set out in **Appendix J**.

The long term forecast was last considered by Cabinet on 13 September 2019. The overall net changes to the forecast since that time are set out in **Table 1** below.

Table 1

Year	Net Annual Budget Position Considered by Cabinet 13 September 2019	Updated Net Budget Position
2020/21	£0.990m (Deficit)	£0.969m (Deficit)
2021/22	£0.956m (Deficit)	£0.935m (Deficit)
2022/23	£0.671m (Deficit)	£0.651m (Deficit)
2023/24	£0.385m (Deficit)	£0.365m (Deficit)
2024/25	£0.096m (Deficit)	£0.076m (Deficit)
2025/26	£0.196m (Surplus)	£0.215m (Surplus)
2026/27	£0.488m (Surplus)	£0.507m (Surplus)

A summary of the relatively minor changes required since the last update reported to Cabinet on 13 September 2019 is set out below:

Changes to Underlying Income – Council Tax and Business Rates

- **Appendix J Line 3 – Growth In Business Rates – Inflation**
  This figure has been reduced to £0.110m (from £0.129m) in 2020/21 to reflect a lower level of CPI. The initial forecast included CPI at 2% where the relevant figure for September 2019 was 1.7%. The impact of this change in future years has also been reflected in the forecast.

- **Appendix J Line 4 – Growth In Business Rates / Council Tax – general property growth**
  This figure has been increased to £0.177m (from £0.139m) in 2020/21 to reflect the latest council tax base calculations.

Changes to Net Cost of Services and Other Adjustments

- **Appendix J Line 10 – Inflation – Other**
  This reflects a small reduction to £0.156m (from £0.158m) in 2020/21 due to the latest CPI figures. The impact of this change in future years has also been reflected in the forecast.

- **Appendix J Line 16 – On-going Savings Required**
  A number of potential savings have been identified that remain subject to a validation process before final inclusion in the budget that will be presented to Cabinet in December. Potential items identified to date are included in the following table:

Item	Amount On-Going £	Comment
Reduction in Expenditure - Removal of one-off items – Disabled Facility Grants Coordinator	26,800	The funding for this post is now coming from the associated grant so this can be removed from the budget on an on-going basis.
Increased Income - Interest on Investments	50,000	Based on current trends, it is expected that additional investment returns are achievable. This approach will

		also be supported by exploring alternative investment 'vehicles' such as property unit trusts and money market funds whilst still balancing the overall risk to the Council.
Reduction in Expenditure - Waste Transfer Station – move to A120 site	27,000	As reported as part of the original contract extension decision, a net saving is now deliverable following ECC agreeing terms for the use of their waste transfer site along the A12.
Increased Income - Potential Increased Recycling Credit Income	50,000	To reflect increased recycling tonnages being achieved following the roll-out of the new service. This figure may increase once recycling tonnages start to feed through from the new recycling service.
Reduction in Expenditure - Interest on borrowing and reduced minimum revenue provision contribution	44,000	Reduced costs are expected as the general fund borrowing is repaid in accordance with the associated loan terms.
Increased Income - Council tax benefit recoverable from prior years	10,000	This is expected to be recovered for pre-LCTS claims where historic overpayments are identified that become recoverable.
Reduction in Expenditure - Various small underspends	30,000	This represents modest 'targets' for departments to deliver during the year by reviewing historic outturn positions
Increased Income – General fee and charges income	50,000	There are potential options to increase income in areas such as building control and parking.
Total Initial Savings Identified	**287,800**	

- **Appendix J Line 17 – Unmitigated Cost Pressures**
  The latest position is set out in the table below with work remaining on-going before a final assessment can be included in the budget that will be presented to Cabinet in December: (Where necessary, the table also presents an update on the items reported in the financial forecast update at the end of the first quarter)

Item	Amount On-going	Comment

	£	
Reduced Income - Expiry of commuted sums	8,500	This represents the amount receivable from developers towards the cost of maintaining open space / playing facilities
Reduced Income - Council Tax Sharing Agreement	158,000	This represents a change to the amount paid by the major preceptors (sharing amount reduced from 14% to 12%). However at the present time negotiations remain on-going with the major preceptors and it may be possible to potentially limit the reduction in income through a revised income sharing model.
Increased Expenditure - Digital Transformation Project	113,940	This amount was set out in the report to Cabinet on 13 September 2019 where additional costs of the Council's general use of digital technology was highlighted. Given the on-going project and volatile market, this figure could increase.
Increased Expenditure - Insurance Premiums	16,000	There was a small increase in costs following the renewal of the Council's portfolio of insurance policies on 1 October 2019. The originally expected increase was in excess of £200k but following a move to a higher excess (£50k per claim from £5k per claim for property cover), the price was significantly reduced. However, as set out in **Appendix H**, it is proposed to use the existing contingency budget to underwrite the cost of operating with a higher level of excess. An action plan has also been developed to improve the Council's historic claims history. If successful it should put the Council in a better light when it next goes out to the market for quotes so it may be possible to limit future premium increases in 2021/22 and beyond.

Increased Expenditure - Historic one-off items now built into the budget on an on-going basis	113,000	The following items are proposed to be built into the budget on an on-going basis: Air show - **£0.060m** Sea and Beach Festival - **£0.020m** Mental Health Hub Contribution - **£0.023m** Kerbside Clinical Waste Collection Service - **£0.010m**
Total Potential Cost Pressures	**409,440**	

To date, the figure set out in the table above is significantly lower than the potential **£0.600m** figure presented at the end of the first quarter, but it remains significantly more than the **£0.150m** target set out in the original long term plan. However services are still reviewing their budgets for 2020/21 and additional items are likely to emerge over the remaining budget setting cycle.

It is also worth highlighting that the triennial pension review is also currently underway but at the time of finalising this report, the financial impact was unknown. However it is hoped that there will be no increase in costs when taking the on-going contribution rate together with the deficiency contribution that the Council has to make, as a central aim of the Pension Fund's funding strategy is to maintain stable contributions for scheme members across years.

Delivering a positive outturn positon each year
As already mentioned above, the long term forecast is based on achieving in-year savings of **£0.500m**. Although a contribution of **£0.077m** was made to forecast risk fund at the end of the first quarter, this has been more than offset by the proposed use of the forecast risk fund at the end of the second quarter of **£0.147m**. Therefore to achieve the **£0.500m** target, net in-year savings of **£0.570m** are required to be delivered over the second half of the year.

Risk Assessment
Given the inherent risks to the forecast, a risk assessment of each line of the forecast is maintained as set out in **Appendix K**.

As was the case at the end of the first quarter, attention is drawn to the following key areas of the forecast which have been given the highest risk rating:

- **Growth in Business Rates / Council Tax – General Property Growth -** As highlighted within the appendix, the Government plan on completing a spending review in the near future which will in turn influence the fair funding review for Local Government and the money that Local Authorities can retain from business rates collected locally. Given the uncertainty about the outcome from the Government's review and the its timing, this line of the forecast could potentially be subject to significant amendments from next year, which will be reflected in future forecast updates as necessary.

- **Ongoing Savings Required –** as highlighted earlier, the annual target has been increased from **£0.300m** to **£0.450m** from 2020/21. Although the final position is yet to be confirmed, the total of the items set out above make a significant contribution to the overall target in 2020/21. However activities remain in progress to continue to deliver against the annual targets set out in the long term forecast.

- **Unmitigated Cost Pressures –** as highlighted within the appendix, this line of the forecast presents one of the more significant risks going forward. Although the total of the items highlighted above is lower than the initial estimate of **£0.600m,** the positon for 2020/21 has not yet been finalised.

  The items identified to date are largely unavoidable items. Capital / asset repair and improvement items will be considered outside of the annual budget setting process via a separate reporting process - items identified in consultation with services will be prioritised against the **£1.134m** budget identified as part of the financial report for quarter 1, which in effect acts as a ‘buffer’ protecting the revenue forecast that is coming under increasing pressure as discussed earlier. The items identified above will include actions emerging from the climate change working party and other associated activities.

  Other items, such as those supporting the delivery of the Council’s priorities will also be considered outside of the annual budget setting cycle as part of developing a delivery plan that will underpin the emerging corporate plan. This review could include the reprioritisation of existing budgets to ensure that every pound set aside is working to deliver against the Council’s priorities and supporting long term financial sustainability wherever possible.

To date the Council has also refrained from using one-off money such as the New Homes Bonus and reserves to support the on-going budget. The forecast is based on this prudent principle continuing which supports the robust approach developed and addresses the associated issue raised by the Council’s External Auditor, where the use of reserves does not underpin on-going financial sustainability in the long term.

Sensitivity Testing
There are numerous risks inherent in forecasting and **Appendix J** includes the potential impact if assumptions within the forecast change such as inflation, reduction in income, the level of costs pressures or underperformance in securing the required on-going savings.

Although there will always be a large number of permutations, apart from two scenarios, all others tested are still expected to deliver an annual surplus within the life of the forecast.

The sensitivity test that would have one of the greatest impacts on the forecast is if council tax rises were 1% less than the base position. In aggregate, the annual deficits would be **£4.714m** compared with base position of **£2.274m,** so it could be managed within the overall forecast risk fund amount but would not return an annual surplus until sometime after the last year of the current forecast. A similar situation would occur if the savings achieved were 20% less than required.

If a number of issues came together at the same time then it is possible that the forecast becomes unsustainable in the longer term. This will be monitored as the forecast continues to be developed as it may be that the level of savings required needs to be increased to ensure the long term sustainability of the Council’s financial position or the Council reverts back to the historic short term approach to setting the budget which would require significant savings early in the process.

Forecast Risk Fund

Appendix J also sets out the annual change in the Forecast Risk Fund with a broadly increasing balance over the life of the forecast.

As mentioned above, it is recognised that the use of reserves to balance the budget is not sustainable in the long term. However the use of the Forecast Risk Fund is on a controlled basis with underlying income expected to offset the net increases in expenditure in the long term, which provides for a more resilient approach to resisting potential reductions in the provision of services compared with the more traditional short term approach taken in the past.

The approach to the forecast continues to be undertaken within a robust risk management framework which includes the regular reporting of a 'live' forecast as set out in this report which will enable timely actions to be taken in response to any adverse issues that may emerge. It is also important to highlight that delivery of the long term forecast in the early years will continue to provide confidence to the revised approach being taken.

Although this will be subject to revisions and updates as the year / forecast progresses, it does set out the initial estimated position for 2020/21 which includes a draw down from the Forecast Risk Fund of an estimated **£0.969m** to balance the budget in accordance with the long term forecast.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

RELATING TO SECTION 1 OF THE REPORT

Front Cover and Executive Summary

Appendix A – Summary by Portfolio / Committee
Appendix B – General Fund Budget Position by Department
Appendix C – Housing Revenue Account Budget Position
Appendix D – Capital Programme
Appendix E – Collection Performance – Council Tax, Business Rates, Housing Rent and General Debts
Appendix F – Treasury Activity
Appendix G – Income from S106 Agreements
Appendix H – Proposed Adjustments to the 2019/20 Budget
Appendix I – NEGC Project - Financial Summary

RELATING TO SECTION 2 OF THE REPORT

Appendix J – Updated Long Term Financial Forecast
Appendix K – Risk Analysis of Each Line of the Forecast