

<b>Key Decision Required:</b>	<b>Yes</b>	<b>In the Forward Plan:</b>	<b>Yes</b>
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## CABINET

20 DECEMBER 2019

### REPORT OF CORPORATE FINANCE AND GOVERNANCE PORTFOLIO HOLDER

#### A.2 UPDATED FINANCIAL FORECAST / BUDGET 2020/21

(Report prepared by Richard Barrett)

#### PART 1 – KEY INFORMATION

##### PURPOSE OF THE REPORT

To enable Cabinet to consider the updated financial forecast and proposed position for 2020/21 for consultation with the Resources and Services Overview and Scrutiny Committee.

##### EXECUTIVE SUMMARY

- As part of maintaining a 'live' forecast, further updates to the position for 2020/21 have been made since the financial forecast was last considered by Cabinet on 8 November 2019.
- At this stage of the budget process, there is a net deficit of **£0.023m** forecast in 2020/21, an overall change of **£0.946m** compared with the **£0.969m** deficit reported to Cabinet on 8 November 2019. Therefore the long term forecast remains on the right trajectory over the period it covers.
- Similarly to last year, it is important to highlight that the 2020/21 budget includes an estimated collection fund surplus of **£1.360m**. Although this is an on-going item in the budget it is reviewed each year based on in-year collection performance and can therefore only be deemed a one-off 'saving' in 2020/21. Although the amount is available to support the 2020/21 budget, if this was excluded from the forecast, there would be a budget deficit of **£1.383m** for 2020/21.
- Although subject to potential changes to the forecast over the remaining budget setting period, the current forecasted deficit **£0.023m** will be met by drawing money down from the forecast risk fund.
- The timing of the Local Government Finance Settlement has been disrupted this year due to the General Election and at the time of finalising this report the date of the announcement was unclear. However, given that the revenue support grant has been completely removed in 2020/21, the main remaining items of note will relate to the confirmation or otherwise of the ability to increase the level of Council Tax by a maximum of £5 along with other specific grant funding. However, if known in time, any changes emerging from the detailed Local Government Finance Settlement will be reported directly at the meeting, otherwise they will be included in the figures that will be presented to Cabinet in January 2020 when it considers its final budget proposals for recommending to Full Council in February.
- Once the final position for 2020/21 is determined, the remaining years of the 10 year forecast will be revised, set against the revised 2020/21 position and will be reported to members later in the budget setting process.

<b>RECOMMENDATION(S)</b>
<b>That Cabinet:</b>
<p>a) Approves the updated Financial Forecast and proposed position for 2020/21 as set out in this report and Appendices; and</p> <p>b) requests the Resources and Services Overview and Scrutiny Committee's comments on this latest financial forecast and proposed position for 2020/21.</p>

## PART 2 – IMPLICATIONS OF THE DECISION

<b>DELIVERING PRIORITIES</b>
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 10 year approach to the forecast 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.
<b>FINANCE, OTHER RESOURCES AND RISK</b>
<p><b>Finance and other resources</b></p> <p>The financial implications are set out in the body of the report.</p> <p>Although the availability of financial resources is a key component in the delivery of services there will also need to be appropriate input of other resources such as staffing, assets and IT.</p> <p><b>Risk</b></p> <p>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:-</p> <ul style="list-style-type: none"> <li>• Economic environment / instability;</li> <li>• Emergence of additional cost pressures;</li> <li>• Changes to the local authority funding mechanisms such as the Government's fairer funding review that is proposed;</li> <li>• New legislation placing unfunded duties on the Council or reducing the level of the Council's core funding;</li> <li>• Local or national emergency;</li> <li>• Income is less than that budgeted for, including business rate income retained locally.</li> </ul> <p>However the forecast is based on relatively conservative estimates with no optimistic bias included.</p> <p>As previously discussed, the Council's ability to financially underwrite the forecast is an important element of the 10 year plan. 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.</p> <ol style="list-style-type: none"> <li>1) To date it is estimated that <b>£3.253m</b> 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.</li> </ol>

- 2) The forecast will remain 'live' and be responsive to changing circumstances and it will 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 if required in the early years of the forecast. 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.

The 2020/21 position includes net savings of **£0.369m** which is slightly behind the annual target of **£0.450m**. (further details are set out in **Appendix B**). This figure will 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. Conversely, cost pressures included to date total **£0.491m**, which is lower than the original figure of **£0.600m** included in earlier forecasts. However it is acknowledged that although some emerging costs pressures plan to be mitigated in 2020/21, they may continue at a level that requires them to be considered for inclusion in the 2021/22 budget (further details are set out in **Appendix C**)

It is important to continue to deliver against the forecast in the early years 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.

## **LEGAL**

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.

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.

In respect of special expenses that form part of the budget setting process, expenditure is classed as a Special Expense if it satisfies the requirements of the Local Government Finance Act 1992, Section 35. The only category relevant to this Council is contained within Section 35(2)(d) relating to concurrent functions with Parish and Town Councils. Under the Local Government Finance Act 1992, the Council must identify as its Special Expense, proposed expenditure on those functions which the Council performs in part of the district but which Parish or Town Councils perform elsewhere in the District. If, in the Council’s view, a special expense should properly be charged over the whole of the district’s area, the Council may pass an express resolution to this effect (known as a **contrary resolution**).

In order for expenditure to be a Special Expense, there are two conditions that must be fulfilled:

1. Expenditure is estimated to be incurred by the District Council in the whole or part of its area on the provision of a function;
2. Expenditure on the provision of the same function is to be incurred by at least one parish/town council elsewhere in the district.

The proposals set out in this report are in accordance with the Council’s budget and policy framework.

## **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.

Special expenses are based on the principle of ensuring there is equality across the district in levying Council Tax to residents based on services and facilities provided by Town and Parish Councils in specific areas that are also provided by the District Council.

## PART 3 – SUPPORTING INFORMATION

### BACKGROUND

Continuing on from last year and as part of the longer term approach to the budget setting process, the forecast is updated on an on-going basis, with the most recent position (at the end of September 2019) being reported to Cabinet at its 8 November 2019 meeting and it was resolved that:

*In respect of the Updated Long Term Forecast, the updated forecast be agreed and the Resources and Services Overview and Scrutiny Committee be consulted on the latest position.*

The Resources and Services Overview and Scrutiny Committee are due to consider the report referred to above at its meeting on 16 December 2019. Due to the timing of this meeting, their comments are planned to be set out within a separate report elsewhere on the agenda.

### UPDATED FINANCIAL FORECAST 2020/21

The forecast has been subject to a number of changes since it was last considered by Cabinet at its 8 November 2019 meeting. **Appendix A** sets out an updated forecast for 2020/21 that reflects these changes which show an overall deficit of £0.023m.

Work remains on-going as part of the continuing development of the budget which will need to react to a number of issues such as any announcements from the Government as part of the annual local government financial settlement process. Any changes will be reported to members as they arise throughout the remainder of the budget setting process and will be included in the final budget proposals to be considered by Cabinet in January before recommendations are made to Full Council.

The following table provides a commentary on the changes to the initial forecast set out in **Appendix A** (excludes items where there has been no change to the relevant line of the forecast considered by Cabinet on 8 November 2019):

Item in the Forecast	Change since forecast was considered on 8 November 2019	Comments
<b><i>Underlying Funding Growth in the Budget</i></b>		
<b>Line 4</b> - Growth in Business Rates / Council Tax - general property growth	Income Increased by £0.188m	This reflects an improvement in the forecast for business rates collectable during the year.
<b>Line 5</b> - Collection Fund Surpluses b/fwd	Income Increased by £0.923m	This reflects an improvement in the forecast for business rates and council tax collectable during 2019/20 which will be rolled forward into 2020/21.

<b>Net Cost of Services and Other Adjustments</b>		
<b>Line 9</b> - Inflation - Employee Costs (including annual review adjustments)	Expenditure Increased by <b>£0.127m</b>	Following the completion of the detailed salary estimates, there has been an estimated increase due to the cost of people joining the pension scheme and standby and overtime payments.
<b>Line 10</b> - Inflation - Other	Expenditure Increased by <b>£0.075m</b>	This reflects an increase in gas and electric prices expected over 2020/21.
<b>Line 14</b> - Specific Changes in Use of Reserves	Expenditure Increased by <b>£2.179m</b>	The change to this line of the forecast broadly reflects required presentational changes as the budget is put together within the Council's financial systems, for example, some changes to reserves include a corresponding adjustment elsewhere in the budget. These corresponding adjustments are included within <b>Line 17</b> below.
<b>Line 15</b> - On-going savings / increases in income  A full detailed list of all items is set out in <b>Appendix B</b>	Savings achieved total <b>£0.369m</b> , which is <b>£0.081m</b> lower than the initial allowance of <b>£0.450m</b>	Although the savings achieved are lower than the initial target of <b>£0.450m</b> , the total has increased by <b>£0.082m</b> compared with the figure reported at the end of quarter 2 and include changes to a number of items that reflect the most up to date information. One item relating to the Disabled Facilities Grant Coordinator that was included at the end of quarter 2 has now been removed as it was double counted and was already included elsewhere in the forecast.
<b>Line 16</b> - Unmitigated Cost Pressures  A full detailed list of all items is set out in <b>Appendix C</b>	Costs Pressures included in the budget total <b>£0.491m</b> , a reduction of <b>£0.109m</b> compared with the initial allowance of <b>£0.600m</b>	The items identified have increased by <b>£0.081m</b> compared with the figure reported at the end of quarter 2 and include changes to a number of items that reflect the most up to date information and further items submitted by services as part of developing the budget.
<b>Line 17</b> - Other Adjustments	Expenditure Reduced by <b>£2.188m</b>	Please see comments against <b>Line 14</b> above.

*The above position excludes changes to indirect costs such as internal recharges within the General Fund and technical accounting adjustments that do not have an overall net impact on the budget. However the full detailed budget, reflecting the above changes, will be presented to Cabinet at its January 2020 meeting.*

As set out in **Appendix A**, taking the above adjustments into account in the forecast results in an estimated deficit for 2020/21 of **£0.023m**, compared with the forecasted deficit of **£0.969m** considered by Cabinet at its 8 November 2019 meeting – an overall movement of **£0.946m**

Any adjustments required to reserves to reflect the above changes to the forecast will be included on within the final budget proposals that will be presented to Full Council in February 2020.

The mitigation of cost pressures continues to form an important element of the long term forecast. To date, significant cost pressures have been avoided by identifying alternative options / approaches such as those associated with the Waste, Recycling and Street Cleansing service, the restructuring of services to react to changes in associated income such as the expected reduction in housing benefit administration grant receivable from the Government and 'recycling' planning income to provide the right capacity within that service. Further details are set out within **Appendix C** which also includes items which will require on-going review as they may need to be built into the budget on an on-going basis in future years if they cannot be mitigated as indicated.

As identified when the financial performance report was considered by Cabinet earlier in the year, the cost pressures identified for inclusion in the budget largely reflect 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 performance report for quarter 1, which in effect acts as a 'buffer' protecting the revenue forecast that is coming under increasing pressure. 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.

The impact on the forecast from sensitivity testing and risk management reviews are reported as part of the quarterly financial performance reports throughout the year (the latest one being reported to Cabinet on 8 November 2019). It is important to highlight that as there are no significant issues that have arisen since the last position was reported, they have not been repeated as part of this report, however they will continue to form part of the regular reporting of the financial forecast going forward.

In addition to the issues discussed above, the budget also reflects the payment of the Council's revised pension deficit payment of **£2.056m** in one lump sum in April 2020 rather than in 3 equal instalment over three years. This is a repeat of the approach taken at the last triennial pension review and saves the Council in excess of **£0.093m** over the three years (equal to a return on investment of 4.3%). The cost will be met from the Building for the Future Reserve, which will be paid back over 2021/22 and 2022/23.

## ADDITIONAL INFORMATION

### Council Tax Levy 2020/21

Based on a proposed £5 increase, the Council Tax for a band D property would be **£172.64** in 2020/21. The updated property base is **48,392**, an increase of **936.8** over the 2019/20 figure of **47,455.2**.

The ability to increase Council Tax by £5 remains subject to confirmation from the Government. This is expected to be confirmed within the Local Government Financial

Settlement which is expected shortly.

If such an increase is not permissible and it is necessary to revert back to an increase of 1.99%, on-going income would be reduced by **£0.079m**, which would require corresponding savings to be identified over the life of the forecast.

### **Locally Retained Business Rates**

As set out above, an increase in income is forecast due to an inflationary uplift and an increased rateable value / property base.

The Council has agreed to remain a member of the Essex Business Rates Pool in 2020/21. No income generated from being a pool member is currently included in the forecast as it is proposed to treat it as a one-off item during the year, given it is very unlikely to continue in 2021/22 and beyond under the Government's revised 75% retention model proposals.

### **Fees and Charges**

Similarly to previous years, Departments have been asked to review their fees and charges on an individual basis as changes may need to be made to meet specific aims or strategic objectives or in some cases in response to external factors such as market forces.

Detailed fees and charges will form part of the final budget proposals to Cabinet in January and Full Council in February, with proposed fees and charges set against the following key principles:

- general inflationary increases or lower where appropriate
- amounts rounded for ease of application, which may result in a slightly above inflation increase.
- on a cost recovery basis as necessary
- reflect statutory requirements.
- increases where market conditions allow
- to meet specific priorities or service delivery aims / objectives

### **GENERAL FUND CAPITAL PROGRAMME 2020/21**

As has been the case in prior years, only 2 schemes are included in the base budget on a recurring basis each year and these relate to the on-going cost of replacing the Council's core IT infrastructure along with disabled facilities grants. Estimates of **£0.055m** and **£0.757m** have therefore been included within the 2020/21 Capital Programme respectively. The investment in IT core infrastructure is funded by a direct revenue contribution, with disabled facilities grants funded by estimated external grant funding from ECC. The investment in IT core infrastructure has been reduced from the historic annual amounts of **£0.100m** to reflect the figures set out in previous digital transformation reports considered by Cabinet.

Other items included in the Capital Programme for 2020/21 reflect the fact that existing schemes have been reprofiled across years as set out in previous financial performance reports considered by Cabinet.

Based on the above, a summary of the proposed Capital Programme for 2020/21 is as follows:

<b>On-going Schemes</b>	<b>Budget 2020/21</b> £
Information and Communications Technology Core Infrastructure	55,000
Disabled Facilities Grants	757,000
<b>Existing Schemes - Reprofiled</b>	
Office Rationalisation	31,760
Laying out of Cemetery	168,470
Replacement Scan Stations	12,000
<b>Total General Fund Capital Programme 2020/21</b>	<b>1,024,230</b>

The full 5 year capital programme incorporating the above will be included within the final budget proposals that will be considered by Cabinet in January before being presented to Full Council in February.

### **SPECIAL EXPENSES 2020/21**

Special expenses amounts cannot be finalised until the budget for the year has been completed and the associated technical adjustments reflected in the budget. Therefore at this stage of the budget process it is more practical to review the principles against which the special expenses will be calculated rather than the specific amounts themselves, which are subject to change as the budget develops.

It is not proposed to make any changes to the principles behind the calculation of special expenses with the key principles remaining the same as in 2019/20 as set out below:

- A deminimus amount of **£0.025m** is applied to determine which expenses are excluded from the special expenses calculations;
- Any allocation to specific areas less than **£0.001m** is excluded for the purposes of determining special expenses.

Although subject to the final budget calculations, expenses to be allocated as special expenses are likely to remain as in 2019/20 and apply to open space and recreation area costs.

For completeness, the underlying technical background to the calculation of special expenses is set out below:

*Certain expenditure referred to as ‘Special Expenses’ is regarded as being chargeable to only certain parts of the district. The rest of the Council’s expenditure is regarded as being chargeable over the whole district and is referred to as ‘General Expenses’. Local authorities have the power to pass a resolution in respect of any particular Special Expense to the effect that the amount of that expense should be charged across the whole district. This is referred to as the contrary resolution.*

*In exercising this power the Council also has to consider how the burden of Special Expenses will be charged to the taxpayers of the district.*

## **Information from parish/town councils**

Each year parish councils complete a return to identify changes to the services they undertake

### **Consideration of Determining the Contrary Resolution**

In judging whether the contrary resolution should be passed in respect of any special expenses, the following matters are relevant:

- i) Whether in respect of this Council's expenditure the function is to be provided generally for the whole district or is to be restricted to a part or parts of the district?
- ii) To what extent, if any, are restrictions placed on any part of the district as to the accessibility of the function?
- iii) The use of the facility/activity to which the Special Expense relates.

These matters must each be considered and a view taken as to whether it would be appropriate to pass the contrary resolution in respect of some of the budgeted expenditure on Special Expenses.

In determining how the burden of special items should be charged to the taxpayer of the district, the following matters need to be considered.

- i) Where is the facility situated?
- ii) Who uses it?
- iii) How much expenditure is to be spent in the various parts of the district?

Wherever possible the Council aims to charge the cost incurred in performing a function in a part of the district, to the taxpayers of that part. In assessing the area of benefit to which a function identified as a special expense relates, parish boundaries have been treated as the appropriate areas.

The tax base for apportioning Special Expenses to each parish and the unparished area is that used to determine the Council's overall Council Tax base.

## **ANNUAL MINIMUM REVENUE PROVISION POLICY STATEMENT**

Where relevant, figures included in the 2020/21 budget are based on the following policy statement that will be presented to Full Council on 21 January 2020 for approval:

**In accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, the Council's policy for the calculation of MRP for 2020/21 shall be the Capital Financing Requirement Method for supported borrowing and the Asset Life (equal instalment) Method for prudential borrowing.**

## **BACKGROUND PAPERS FOR THE DECISION**

Working papers held in Accountancy

## **APPENDICES**

- |                   |                                       |
|-------------------|---------------------------------------|
| <b>Appendix A</b> | Updated Financial Forecast 2020/21    |
| <b>Appendix B</b> | Updated Net Savings Items 2020/21     |
| <b>Appendix C</b> | Updated Cost Pressure Summary 2020/21 |