RESOURCES AND SERVICES OVERVIEW AND SCRUTINY COMMITTEE

16 NOVEMBER 2020

Report Reference for this Committee: A.4

Key Decision Required:	**Yes**	**In the Forward Plan:**	**Yes**

CABINET

13 NOVEMBER 2020

REPORT OF CORPORATE FINANCE AND GOVERNANCE PORTFOLIO HOLDER

A.5 FINANCIAL PERFORMANCE REPORT – IN-YEAR PERFORMANCE AGAINST THE BUDGET AT END OF THE SECOND QUARTER 2020/21 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 2020 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 2020

  2) An updated long term financial forecast

In respect of the in-year financial position at the end of September 2020:

- This report is the first detailed financial performance report for 2020/21 but builds on the report presented to Cabinet in May, which provided a timely assessment of the impact of COVID 19 on the Council's financial position.

- Although this report continues to be in the same format as previous regular finance reports, the issues raised in the report back in May are either revisited specifically or form part of the overall review at the end of the second quarter.

- The position to the end of September 2020, as set out in more detail within the appendices, shows that overall the General Fund Revenue Account is underspent against the profiled budget by **£6.858m (£4.137m** of which relates to the timing of expenditure from COVID funding received from the Government). It is acknowledged that other expenditure or income trends may still be emerging with the position also largely reflecting the timing of other general expenditure and/or income budgets. 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 2020/21 budget have been identified which are set out in **Appendix H,** with an associated recommendation also included within this report. The same appendix also sets out the necessary changes to the budget that reflect the impact of COVID 19, the costs of which have to date been met by the general financial support provided by the Government.

- The net impact of the budget adjustments will be moved to or from the Forecast Risk Fund. At the end of the second quarter, it has been possible to make a small contribution to the fund of **£41k,** which supports the requirement set out in the long term forecast of identifying in-year savings of **£500k** each year.

- 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 proposed to continue to be a member of the Essex Business Rates Pool if it remains advantageous to do so and if the opportunity is still made available by the Government in 2021/22.

- The recommendations below also respond to the phased reintroduction of membership fees and charges across the various leisure facilities that coincide with the phased reopening up of facilities over the reminder of the year.

In respect of the updated long term financial forecast:

- The forecast has been reviewed and updated at the end of September 2020 and reflects an early assessment of the impact of COVID 19. The updated forecast is set out in **Appendix I.**

- The savings target for 2021/22 has been removed from the forecast with work resuming on this line of the budget as part of the medium / longer term recovery in response to COVID 19.

- Work remains on-going in consultation with the various Services across the Council to identify unavoidable cost pressures, which will be assessed for inclusion or otherwise in the detailed budget report that will be presented to Cabinet in December.

- Overall the revised forecast can still provide an effective method of managing financial risk but the annual deficit or surplus position for each year of the forecast has been amended. However, the medium to long term impact from the COVID 19 crisis remains unclear and it is therefore important to highlight that the money set aside in the Forecast Risk fund should not be seen as overly cautious as sensitivity testing indicates that the fund could be deleted within as little as 3 years if a number of factors arose during the same period.

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

- As mentioned during the development of the longer term approach to the budget over recent years, it is important to continue to deliver against this plan as it continues to provide a credible alternative to the more traditional short term approach, which would require significant savings to be identified in 2021/22.

- In terms of delivering against the forecast for 2021/22 and beyond, work remains on-going across the various strands set out in **Appendix I.**

RECOMMENDATION(S)

That in respect of the financial performance against the budget at the end of September 2020, 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;

(c) a delegation to the relevant Corporate Director in consultation with the Portfolio Holder for Leisure and Tourism be agreed to amend leisure membership fees in response to the national lock down period and the resumption of a phased approach to reopening up leisure facilities later in the year;

(d) 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; and

(e) the Council continues to be a member of the Essex Business Rates Pool in 2021/22 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 2020, 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.

COVID 19 has introduced a number of risks to the Council's financial position, which cut across many of the specific issues highlighted above. The underlying forecast remains based on relatively conservative estimates with no optimistic bias included. However the potential impact from COVID 19 has been included directly in the forecast and as part of the sensitivity testing that is undertaken alongside the forecast. **Appendix J** discusses the various risks to the forecast with a Red / Amber / Green risk assessment approach taken.

The Council's ability to financially underwrite the forecast therefore remains as important as ever. 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) **£3.253m** has already been set aside 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. As set out later on in this report, given the increased risks introduced by the COVID 19 crisis, this current reserve level should not be seen as too pessimistic as the sensitivity testing undertaken indicates that this reserve could be depleted in as little as 3 years if some of the risks are borne out in reality.

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.

The long term approach to the forecast does provide flexibility to respond to risks such as those presented by COVID 19. For instance, the savings target has been 'relaxed' for 2021/22. However it must be highlighted that the savings targets set out in the forecast will still need to be delivered in the longer term but they need to remain flexible and react as a counterbalance to other emerging issues and it is therefore accepted that this figure may need to be revised up or down over the life of the forecast.

It is important to continue to deliver against the forecast to retain 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 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 2020/21

The Council's financial position against the approved budget has been prepared for the period ending 30 September 2020. This builds on the report presented to Cabinet back in May where a timely update was provided given the significant financial risks presented by the COVID 19 crisis.

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
- Collection Performance
- HRA Revenue
- Capital Programme – General Fund
- Capital Programme - HRA
- Treasury Activity

Previous financial performance reports have included specific reference to the Garden Communities Project. However given the events this year, which saw the project evolve into a more specific Tendring / Colchester Borders scheme, the associated appendix has been removed. Work remains on-going as part of winding up NEGC Ltd and updates will be included in future reports alongside the development of this project where necessary.

GENERAL FUND REVENUE

The position to the end of September 2020, as set out in more detail in the Executive Summary attached, shows that there is an overall net underspend of **£6.858m**.

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, the most significant of which relates to the administration of the various COVID 19 Business Support grants where a final reconciliation process has yet to be finalised.

The appendices still reflect the previous senior management structure as the move to the new Assistant Director structure is still on-going, as a subsequent phase is expected to see potential knock-on changes to other areas of the budget which may see responsibilities move between directorates that better reflect synergies that the new structure has presented. However it is expected that the necessary changes will be made in time for the next financial performance report early in 2021.

As at the end of September 2020, the Council had received COVID support funding from the Government totalling **£1.884m.** As set out in the earlier report to Cabinet back in May, this funding was initially provided to meet the cost of additional expenditure and losses in income directly attributable to COVID 19. The allocation of this funding is set out at the bottom of **Appendix H** and covers a range of items such as the cost of reopening facilities, IT equipment to facilitate the significant shift to working from home and losses in income. These adjustments have already been included within the appendices to remove the significant level of variances that would otherwise be associated with COVID 19, to make it easier to highlight / identify other underlying variances at the end of September.

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

Income Budgets - General

As set out in the report to Cabinet back in May, one of the more significant impacts from COVID 19 is the loss of income. This mainly effected leisure facilities and parking as other areas of income such as in Planning can be classed as deferred income rather than lost income.

In terms of major income budgets, a summary at the end of September 2020 is as follows (adjusted for the COVID support funding allocations mentioned above):

Income Stream	Full Year Budget (£)	Budget to end of Sept (£)	Actuals to end of Sept (£)	Variance (£)
Parking	767,910	529,513	603,336	(73,823)
Cemeteries and Crematorium	1,696,770	844,731	673,214	171,517
Beach Huts	947,940	932,700	1,002,678	(69,978)

Sport and Leisure (incl. the Princes Theatre)	1,862,340	531,199	119,126	412,073
Planning	1,057,520	577,520	620,433	(42,913)
Building Control	178,910	89,455	83,548	5,907

- The position against parking shows a full recovery against the losses incurred during the full lockdown period earlier in the year.
- As set out in the appendices, the position within the cemeteries and the crematorium budgets is primarily due to the period that the crematorium was not operational following a fire earlier in the year. This will be kept under review over the second half of the year as it may be a recoverable position.
- Although the loss of income within sports and leisure is significant, there are corresponding underspends against expenditure budgets of **£583k**. It is also important to highlight that membership fees at the sports facilities have been maintained at 50% of the usual price to respond to the fact that a phased approach to fully reopening was being taken. However, the second period of national lockdown has resulted in this phased approach being halted and a recommendation is included above to enable the service to respond quickly to any necessary changes once the lockdown period ends.

The position against income budgets will however need to be kept under review over the second half of the year, especially in light of the Government's introduction of a second lockdown period.

Although the above is a relatively positive underlying position in terms of the overall impact of COVID 19 on income to date, since the report in May, the Government have introduced a Sales, Fees and Charges (SFC) compensation scheme. This further improves the relatively positive outlook for the Council's financial position. The SFC scheme is based on Local Authorities having to meet the first 5% of any COVID related losses in income, following which the Government will fund 75% of the remaining balance. In-year claims under the SFC scheme can be made with a full reconciliation process undertaken at the end of the year. This means that even if there are no expected losses in some income streams at the end of September, if they emerge over the second half of the year then further claims can be made to compensate for losses as part of the end of year reconciliation process.

It is currently unclear how the **£1.884m** general support provided by the Government as mentioned previously relates to the SFC scheme as there is clearly an overlap in how it has been applied to date. However further guidance is expected to be made available by the Government at some time over the second half of the year and a further update will be provided in the next financial performance report when this information becomes available.

It is also important to highlight the position against other income budgets such as those not associated with sales, fees and charges. As set out in the appendices, income from increased recycling rates is ahead of the profiled budget by **£114k** at the end of September. If this level of income is sustained over the remainder of the year, then this will be available to contribute to the Council's overall financial position for the year.

Expenditure Budgets

A number of budgets have been adjusted as set out in **Appendix H** to respond to emerging issues during the first half of the year.

The appendices also set out further details around a number of other emerging issues, some of which relate to the timing of expenditure rather than an underlying issue that may remain at the end of the year.

However it is important to highlight the follow key points:

- As the 2020 Clacton Airshow did not go ahead this year, the associated budget of **£80k** remains unspent. As set out in the appendices, this budget will be considered as part of the Back to Business initiative where the money may be able to support other events over the year that could contribute to the district's economy. A corresponding adjustment is therefore set out in **Appendix H.**

- The cost of the In-house Engineering Service – as reported at the end of 2019/20, there was a significant overspend related to this service, which was in part due to having to urgently mobilise the in-house team following the unexpected and sudden demise of ROALCO, the appointed external contractor who undertook repairs to the Council's housing stock. Although the position at the end of June was broadly in-line with the budget, an adverse position of £133k has emerged at the end of September. This is currently being urgently reviewed with the initial response being to cease any non-urgent activity whilst the position is fully resolved. One key challenge for the in-house service is to remain competitive when compared to external providers and limit where ever possible the level of non-productive time. To bring the budget back in-line, one option may be to increase the service's charge out rate, but this is subject to further investigation as this would have the knock on impact of increasing costs and reducing the spending power of services who currently use the in-house team.

COLLECTION PERFORMANCE

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

There has undoubtedly been an impact from COVID 19 on collection performance, especially as recovery action was ceased over the first half of the year given the pressure faced by people and organisations within the district. Although recovery action will be resumed shortly, some important highlights are as follows:

- Housing rents are broadly on target and consistent with the performance last year.

- General debt recovery performance covers a significant range of income streams from repairs to leasehold properties to rechargeable works to dangerous structures. At the end of September, the position is also skewed by significant one-off debts such as those associated with the Princes Theatre prosecution case and a housing disrepair issue. Following the recent successful prosecution associated with the theatre, this position will shortly be updated in-line with the recovery decision ordered by the Court. All other debts will be subject to recovery action as necessary over the second half of the year.

In respect of Council Tax and Business Rates, some early performance figures were reported to Cabinet back in May, at which time there was only a limited impact from COVID 19.

Unsurprisingly the position at the end of September has worsened, but not to an unmanageable extent in the context of the overall position for the year and the long term forecast. Key performance statistics at the end of September are as follows:

Cost of the LCTS Scheme	*Budgeted Cost* £11,987,000	*Actual Cost* £11,975,121	*Reduction of* £11,879
Council Tax*	*Collection Performance Sep 2019* 58.76%	*Collection Performance Sep 2020* 55.38%	*Reduction of* 3.38%
Business Rates**	*Collection Performance Sep 2019* 57.42%	*Collection Performance Sep 2020* 52.87%	*Reduction of* 4.55%

The % figures above differ to those set out in Appendix E, as the above are based on the budgeted amounts within the collection fund rather than against the total amount billed as set out in that appendix.

****This is based on the position where no recovery action has been taken to date but does include where the Council has entered into payment arrangements with customers such as recalculation of instalments.***

*****The position above has been adjusted to reflect that a significant element of the money due is now receivable from the Government via the new COVID reliefs introduced this year rather than from the business themselves.***

The Government have also recognised the pressure on council tax and business rates collection performance from COVID 19, and are now going to allow any deficits against budgeted collection targets at the end of the year (accounted for in the collection fund) to be charged to the General Fund over the following three years rather than the usual one year.

Although it is acknowledged that collection performance may worsen over the remainder of the year due to the on-going COVID 19 crisis, the relatively positive position to date indicates that it may be possible to contain any losses within 2020/21 and therefore avoid the need to charge deficits to future years, which will reduce the pressure on the long term forecast.

An update against this position will be included in the forecast and detailed budgets that will be presented to Cabinet in December.

There is also likely to be a financial gain from being a member of the Essex Business Rates Pool, which would also support the overall collection performance position at the end of the year.

In terms of the Essex Business Rates Pool, it looks likely that the Government may allow pools to continue into 2021/22. Based on the benefit that the pool has provided to the Council over recent years, it is proposed to continue to be a member of the pool in 2021/22 subject to it remaining advantageous to do so. An associated recommendation is set out above.

Over the first half of the year, the Council has successfully administered a number of Business Rate Grants schemes with a summary of the financial position as follows:

Grant Type	Number of Grants Paid	Value of Grants Paid
Small Business Grants	2,200	£22,000,000
Retail, Hospitality and Leisure Grants	572	£8,960,000

Discretionary Grants	182	£1,727,721
Total	**2,954**	**£32,687,721**

HRA REVENUE

An overall position is set out in the Executive Summary with further details included in **Appendix C**. At the end of September 2020, the HRA is showing a small net underspend **£141k,** which primarily reflects the timing of spend against general repairs and maintenance budgets. As set out in the appendix, void loss is now running at 4% compared to the budgeted 2% which has resulted in reduced income at the end of September and increased council tax payable on empty properties. This is currently subject to a separate review which will be reported to Members shortly.

Some additional items of unavoidable expenditure have also occurred to date with adjustments set out within **Appendix H,** which results in **£166k** being called down from HRA General Balances. General Balances at the start of the year totalled **£5.270m** so after this adjustment, **£5.104m** remains available to support the HRA going forward.

CAPITAL PROGRAMME – GENERAL FUND

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

As at the end of September 2020 the programme is broadly on target against the profiled position. Detailed comments are provided within the appendix against a number of schemes.

CAPITAL PROGRAMME – HOUSING REVENUE ACCOUNT

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

As at the end of September 2020 the programme is behind profile by **£223k.**

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.

However, in respect of the new homes in Jaywick Sands, **Appendix H** includes an increase to the existing budget of **£1.2m** which is the estimated cost to finalise the scheme. As set out in a previous report, this scheme reflects a proof of concept approach that will support future regeneration activities within Jaywick Sands, and a more detailed outcome analysis including lessons learnt will form part of a future report.

However the above scheme has enabled '1-4-1' capital receipts to be used avoiding the potential for any unspent monies having to be returned to the treasury.

TREASURY ACTIVITY

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

The Annual Capital and Treasury Strategy for 2020/21 was approved by Full Council earlier in the year. 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 more detailed analysis has been provided by the Council's treasury advisors but highlights are set out as follows:

The Bank of England cut the bank base rate to 0.25% on 11 March 2020, with a further cut to 0.10% on 19 March 2020, the base rate has since then remained unchanged.

The pace of recovery in the economy is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August. This will, however, be dependent on the extent of actions required to deal with second waves of the virus. The last three months of 2020 are now likely to show no growth.

Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Investments
Investment returns are still ahead of the profiled budget at the end of September 2020, but as investments placed prior to the cut in bank rates in March mature and are replaced by far lower returning investments, this position will decline to the end of the year which has necessitated the need to adjust the associated income budget by **£96k** as set out in **Appendix H**. The Council's treasury management advisors are forecasting no change in the bank base rate until after March 2023, so this ultra-low investment rate environment is likely to remain for some time.

As was the case last year, the closure of Council Offices between Christmas and New Year 2020 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. 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 has not seen a decline in terms of their overall ratings from the main rating agencies and the Financial Policy Committee reported on 6 August its assessment that the banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the Monetary Policy Committee's (MPC's) central projection, with the economic output needing to be twice as bad as the MPC's projection. Therefore the proposed approach set out above is considered to be reasonable whilst acknowledging a relatively low level of risk.

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 2020/21.

<u>Other Emerging Issues and Contribution to the Forecast Risk Fund</u>

The net overall position set out in **Appendix H** results in a net contribution to the Forecast Risk Fund of **£41k,** which represents the first contribution to the fund as part of the commitment to contribute **£500k** over the course of the whole year that is built into the long term plan. Although subject to the on-going impact from COVID 19, opportunities to contribute further money to the fund will be explored over the second half of the year.

Within the financial performance report presented to Cabinet back in May, two Non-COVID cost pressures were highlighted as follows:

1) **Potential Cremator Replacement – potential cost £1.5m+**
Following the recent collapse of the company who supplied and maintained the Council's cremators, the risk of the cremators failing and therefore becoming un-operational were increased. The Service have since identified a sustainable medium term management and maintenance approach with an external provider. Although this removes the urgency from the situation, a longer term response is still required which will need to be considered at some point over the period covered by the long term plan. This remains under review with further updates provided as necessary as part of future financial performance reports.

2) **Cliff stabilisation works – potential cost £4.0m+**
As set out in the report in May, there have been two recent significant cliff failures along the Holland-on-Sea stretch of coastline. The relevant Service is currently exploring options including the availability or otherwise of external funding from interested stakeholders. This work remains on-going alongside the development of the budget for 2021/22 and at the present time it is expected that associated decisions will form part of the detailed estimates that will be presented to Cabinet in December / January.

At the time of finalising this report, the Council was working through the various Government announcements following their decision to put in place a second national lockdown period from 5 November. Although announcements in respect of further business grant schemes are expected, the Government have confirmed further general support grant for Council's, with **£1.116m** being made available to TDC. Updates will either be provided directly at the meeting or will form part of separate decision making processes to reflect the likely urgency around the delivery of associated support schemes.

Notwithstanding the various points and discussions above, the impact of COVID 19, both nationally and locally remains very unclear, and further updates will be provided as part of developing the long term forecast and detailed budget over the remainder of the year and going into 2021/22, with further details set out in the next section of the report.

SECTION 2 – UPDATED LONG TERM FORECAST

As stated when developing the new long term plan back in 2017, one of the key aims of moving to a ten year forecasting cycle was to give flexibility in responding to emerging issues over longer time periods rather than the more traditional short term outlook.

As highlighted in the report to Cabinet on 29 May 2020 which reviewed the impact of COVID 19, there are different economic views of the longer term impact of the COVID 19 crisis. Although it is still remains unclear as to the 'shape' the economic recovery will be, some optimistic economic views suggest a 'V' shaped recovery remains a possibility with a relatively quick bounce back whilst other less optimistic views suggest an elongated 'U' shaped economic recovery. The actual recovery may well fall somewhere in the middle (which is broadly consistent with the Council's treasury advisors views highlighted earlier on in this report), although the current tightening of restrictions via a second national lockdown period will undoubtedly result in a delay to any meaningful recovery into 2021/22 and beyond.

Given the uncertainty going into 2021/22, it is very difficult to reflect the potential impact of COVID 19 on the remaining years of the forecast. Therefore the long term forecast has been revised based on an expected underlying position, but with sensitivity testing undertaken to draw out how the immediate future may look if a number of financial possibilities arose.

The outcome of this work is set out in **Appendix I**, with an accompanying risk assessment in **Appendix J**.

Before discussing the outcomes in more detail, it is worth highlighting that given the 'telescopic' effect of the various items included within the work undertaken, the amount of **£3.253m** within the Forecast Risk Fund at the end of 2019/20 should not be seen as being too cautious, as in many of the scenarios tested, it could be depleted in as little as three years. Such circumstances would require a significant and immediate response, which could include an increase in the savings target to balance the budget over the life of the forecast.

Financial Forecast – Expected Underlying Position
In terms of the current forecast compared with the one prepared back in February 2020, the following table sets out the annual surplus or deficit over the remaining forecast period:

YEAR	Forecast in February 2020 Deficit / (Surplus)	Current Forecast Deficit / (Surplus)
2021/22	£0.842m (Deficit)	£1.774m (Deficit)
2022/23	£0.509m (Deficit)	£1.358m (Deficit)
2023/24	£0.172m (Deficit)	£1.127m (Deficit)
2024/25	£0.169m (Surplus)	£0.892m (Deficit)
2025/26	£0.515m (Surplus)	£0.651m (Deficit)
2026/27	£0.867m (Surplus)	£0.406m (Deficit)

The following table sets out the forecast balance on the Forecast Risk Fund over the same time period compared with the position last reported back in February:

YEAR	Forecast in February 2020 Surplus Balance	Current Forecast Surplus Balance
2021/22	£3.411m	£2.479m
2022/23	£3.402m	£1.621m
2023/24	£3.730m	£0.993m
2024/25	£4.399m	£0.602m
2025/26	£5.414m	£0.450m
2026/27	£6.780m	£0.544m

These changes in the forecast balances are significant and reflect as previously highlighted, the 'telescopic' effect of the changes required to the long term forecast, which are summarised below along with the risk rating (RAG):

Changes to Underlying Income – Council Tax and Business Rates

- **Appendix I Line 1 & 2 – Council Tax Increase 1.99% / £5 (**RAG Rating **– AMBER)**
  No changes are proposed as these assumptions remain consistent with proposed increases originally set out in the long term plan, although remain subject to the 'capping' criteria set by the Government each year.

- **Appendix I Line 3 – Growth In Business Rates – Inflation (**RAG Rating **– GREEN)**
  Inflationary growth in business rates is based on the prevailing CPI rate at September each year. The long range forecast continues to reflect the Bank of England's target rate of 2%, but for 2020/21 the estimated CPI rate at the time of writing this report was 0.6%, which reduces the projected income by **£95k** in 2021/22.

- **Appendix I Line 4 – Growth In Business Rates / Council Tax – general property growth (**RAG Rating **– RED)**
  There has been no change between forecasts but it does remain a high risk item. The main risk to this line of the forecast has been the move to the new business rate retention model which could see a Government 'reset' which could have a major impact on tax base growth. The risk has increased due to the fact that any long term impact from COVID 19 would be reflected in this line of the forecast. Such risks could include reduced collection rates in both Council Tax and Business rates and from any increases in the 'cost' of the Local Council Tax Support Scheme. Some potential adverse scenarios have been included as part of the sensitivity work undertaken which is set out further on in this report.

- **Appendix I Line 5 – Collection Fund Surpluses B/Fwd (**RAG Rating **– RED)**
  Although line 4 of the forecast reflects the longer term collection performance of Council Tax and Business Rates, this line of the forecast reflects the more immediate impact in 2021/22. Any surplus or deficit against the budgeted collection performance at the end of March 2021 is automatically carried forward into 2021/22 in line with associated accounting guidance. Over recent years the amount carried forward has reflected a surplus and therefore a favourable position against which to 'build' the following year's budget. However, given the in-year collection performance as discussed in Section 1 of this report, there may be a deficit on the collection fund at the end of this year, although expected to be within manageable parameters.

  As part of the Government's general response to COVID 19 and supporting Local Authorities, it has revised the accounting treatment for collection fund deficits and it will now be possible to spread the cost of any deficit at the end of 2020/21 across the following three years rather than just the one. Although it is not yet clear what the Council's position will be at the end of 2020/21, this will provide some flexibility if the Council is faced with an end of year deficit on its Collection Fund.

  At the present time, no collection fund deficit or surplus has been reflected in the forecast for 2021/22 to provide a neutral position at this point in the budget setting process for next year.

Changes to Net Cost of Services and Other Adjustments

- **Appendix I Line 6 – Reduction in RSG (**RAG Rating **– GREEN)**
  When developing the budget for 2020/21, the Government unexpectedly continued the pay Local Authorities a Revenue Support Grant although it was originally planned to be phased out completely in that year. It was assumed that the Government took this approach to reflect that the roll-out of the new 75% Business Rates Retention Model had been delayed. Given the COVID 19 crisis, the move to a new Business Rates retention model has been further delayed. Although no RSG has been included in the forecast in 2021/22 (only the removal of the RSG in 2020/21 has been included), it could be possible that the Government continue with the existing arrangement and pay a modest RSG to Local Authorities again in 2021/22. This will

be kept under review as part of developing the budget over the coming months and will reflect the outcome of the Government's Spending Review (which they have announced will cover only one year rather than three as was originally planned).

- **Appendix I Line 7 & 8 – Removal of One-off Items from Prior Year, including the Collection Fund Surplus (**RAG Rating **– GREEN)**

  Only minor technical adjustments have been made to the forecast to reflect changes between years.

- **Appendix I Line 9 – Employee Costs (**RAG Rating **– AMBER)**
  This line of the forecast has seen an increase of **£133k** in 2021/22 which reflects the rebased position following the 2.75% pay award agreed in 2020/21. The changes in future years of the forecast reflect the knock on impact of this along with underlying increases of 1.5% each year.

- **Appendix I Line 10 – Inflation – Other (**RAG Rating **– AMBER)**
  There has been a small reduction in 2021/22 to reflect the lower level of CPI expected for the business rates as discussed above but in this case applies to the rates paid by the Council on its own properties.

- **Appendix I Line 11 – Impact of PFH WP Savings (**RAG Rating **– GREEN)**
  Given the COVID 19 crisis there is expected to be delays to the office transformation project and the savings that will emerge from the disposal of the Council Offices in Weeley. Although part year savings may be deliverable based on the actual disposal date, the forecast currently reflects this will start to be fully realised in 2022/23 onwards. However an adjustment is set out in **Appendix H** which will allow this expected saving to be accounted for in 2021/22 as originally planned.

- **Appendix I Lines 13, 14 and 17– Revenue Contribution to the Capital Programme, Changes in Reverses and Other Adjustments (**RAG Rating **– GREEN)**
  These reflect a number of technical adjustments that net to nil at this stage of developing the budget for 2021/22. One of the biggest changes relates to the use of reserves to fund the pension deficit contribution upfront rather than across three years, which generated a significant revenue saving. This has been removed in 2021/22 and replaced with an associated contribution to reserves to pay back the amount initially drawn down to meet the deficit payment costs.

- **Appendix I Line 15 – On-going Savings Required (**RAG Rating **– RED)**
  Following a recent commitment from the Portfolio Holder for Corporate Finance and Governance, the required savings target has been 'relaxed' in 2021/22 given the current COVID 19 crisis and the on-going pressures faced by services. The long term approach to the forecast was always designed to provide some degree of flexibility such as the timing of savings for example, which enables the proposed approach to be taken in 2021/22.

  However it is important to highlight that significant savings are still required over the life of the long term forecast and targets may have to be increased to respond to any adverse issues such as those that may emerge as the country recovers economically from the on-going COVID 19 crisis as discussed elsewhere in this report.

- **Appendix I Line 16 – Unmitigated Cost Pressures (**RAG Rating **– RED)**

As has been the case in recent years, cost pressures have been limited wherever possible to those that cannot be avoided. This has been supported via the identification of one-off budgets to meet major costs associated with the repair and maintenance of the Council's assets for example, which aims to 'protect' as far as possible the Council's underlying revenue budget.

Other items, such as those supporting the delivery of the Council's priorities will also be considered wherever possible, outside of the annual budget setting cycle, e.g. delivering actions that support the emerging corporate plan and/or Back to Business Initiative. 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.

Consultation with Services is currently on-going to identify unavoidable items in 2021/22. Although the Government have supported the Council during the COVID 19 crisis via support payments and underwriting losses in income, it is unclear whether such adverse conditions will continue in 2021/22 and whether or not the Government considers providing further support.

Although this line of the forecast will be subject to further change as the budget for 2021/22 is developed, the cost pressure 'allowance' has been increased to **£250k** from **£150k** in earlier forecasts to reflect the increase in risks.

As discussed previously, the long term forecast remains 'live' and will be updated over the remainder of the year to take account of issues that emerge of where additional certainty emerges around specific issues and challenges.

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 J**.

Further details are provided in respect of each line of the forecast above where the current RAG has been highlighted.

As discussed previously, it is proposed to review the long term forecast in 2023 which would see 3 to 4 years to go until the end of the original 10 year plan. This will provide an opportune time to review the Council's financial position going forward and reflect on any longer term impact from the current COVID 19 crisis.

Delivering a positive outturn positon each year
The long term forecast is based on achieving in-year savings of **£500k.** A contribution of **£41k** can be made to Forecast Risk Fund at the end of the second quarter. As previously mentioned, opportunities to identify further in-year savings will be considered over the second half of the year with the aim of achieving the **£500k** target by the end of March 2021.

To date the Council has also refrained from using one-off money such as the New Homes Bonus and general reserves to support the on-going budget. The forecast is based on this prudent principle continuing which supports the robust approach developed and aims to address any potential issues raised by the 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.

As part of the review this year, the impact of the current COVID 19 crisis has been included. Although it is unclear as to its impact, both scale and speed of recovery, a number of scenarios have been revised to reflect this new threat to the forecast. Although the Forecast Risk Fund was established to underwrite the risks to the long term approach to the forecast, ‘Forecast Sensitivities - Table 2’ within **Appendix J** highlights that if some of the scenarios become reality, then the fund could be depleted in as little as 3 years. This would therefore require the Council’s overall financial position to be reviewed which will undoubtedly require the savings targets to be increased to be able to sustainably deliver a balanced budget.

In repeating a point made earlier in this report, against the limited number of scenarios tested the level of the Forecast Risk Fund should not be seen as too cautious as it only provides a modest level of financial ‘protection’ over the life of the forecast.

The forecast will therefore need to continue to remain alert and reflect the most up to position in terms of the impact from COVID 19. If the Council’s financial position looks to be moving to a position where the long term approach to the forecast starts to become unsustainable, then this will be brought to the attention of Management Team and Members at the earliest opportunity.

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 In-Year Budget

RELATING TO SECTION 2 OF THE REPORT

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