

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

29 JANUARY 2021

REPORT OF THE CORPORATE FINANCE AND GOVERNANCE PORTFOLIO HOLDER

A.8 LATEST FINANCIAL FORECAST / GENERAL FUND BUDGET PROPOSALS 2021/22
(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To seek Cabinet's approval of the latest financial forecast and council tax amount for 2021/22 and a delegation to the Portfolio Holder for Corporate Finance and Governance to agree the detailed budget proposals and formal draft resolutions / 'technical' appendices required for Full Council on 16 February 2021.

EXECUTIVE SUMMARY

- At the meeting on the 18 December 2020, Cabinet considered the Updated Financial Forecast / Budget 2021/22. The forecast at that time provided for a deficit of **£1.647m** that was to be met by drawing down money from the Forecast Risk Fund.
- The Updated Financial Forecast was subject to consultation with the Resources and Services Overview and Scrutiny Committee which met on the 14 January 2021 to consider it and their comments are set out elsewhere on the agenda.
- Since the Cabinet's meeting on 18 December 2020, additional changes have been required, primarily as a result of new or revised information becoming available which includes the Government's Financial Settlement announcements.
- The changes required result in reduced deficit for 2021/22 of **£1.227m**, a change of **£0.420m** compared to the **£1.647m** deficit presented to Cabinet in December. **Appendix A** provides further details across the various lines of the forecast, with the most significant change being the receipt of the revenue support grant from the Government.
- In previous years, this report set out the full detailed estimates along with the various resolutions / 'technical' appendices required for Full Council in February. However given the increased and on-going COVID 19 workload of a number of officer's who play a key role in developing the budget, it has not been possible to finalise this more detailed information at this stage.
- However, the most up to date forecast, savings schedule and cost pressure summary are set out in this report, with a recommendation included below that delegates approval of the more detailed budget information and associated 'technical' appendices and resolutions to the Portfolio Holder for Corporate Finance and Governance.
- This budget position may change as further adjustments could be required as part of finalising the budget for presenting to Council on 16 February 2021, with a further delegation included in the recommendations to reflect this.

- Based on the final proposed budget for 2021/22, the Council Tax requirement is **£8.604m**, which is based on a £5 increase for this Council's services, with a Band D council tax of **£177.64**. These figure will remain unchanged and therefore will be reflected in the various budget resolutions / 'technical' appendices proposed to be delegated to the Portfolio Holder for Corporate Finance and Governance.
- The Council's annual budget and the district and parish elements of the council tax will be considered by Full Council on 16 February 2021 with approval of the 'full' council tax levy for the year to be considered by the Human Resources and Council Tax Committee in February 2021.
- Similarly to last year, the approval of the associated Treasury Strategy for 2021/22 for consultation with the Resources and Services Overview and Scrutiny Committee is recommended to be delegated to the Portfolio Holder for Corporate Finance and Governance.
- As agreed by Council back in November, a council tax discount policy for young people leaving care has now been finalised, which is set out in Appendix D.

RECOMMENDATION(S)

Cabinet approves:

- a) The latest financial forecast set out in Appendix A, along with the savings and cost pressures set out in Appendix B and C respectively that form the firm proposals for the 2021/22 budget and *recommends to Full Council:***
 - (i) A Band D Council Tax for district services of £177.64 for 2021/22 (a £5 increase), along with the associated council tax requirement of £8.604m.**
- b) a delegation to the Portfolio Holder for Corporate Finance and Governance, to agree the 'technical' appendices and resolutions for the budget proposals for recommending to Full Council on 16 February 2021;**
- (c) that subject to b) above, in consultation with the Leader and the Corporate Finance and Governance Portfolio Holder, the Chief Executive reports directly to Council in respect of the formal resolutions necessary to implement the Executive's budget proposals along with any late information or notifications received from the Government;**
- (d) that in respect of the Treasury Strategy 2021/22, delegation be given to the Portfolio Holder for Corporate Finance and Governance to approve the draft Strategy for consultation with the Resources and Services Overview and Scrutiny Committee; and**
- (e) the council tax discount policy for young people leaving care as set out in Appendix D and recommends this to full Council for adoption.**

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING 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 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, businesses and visitors.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The financial implications are set out in the body of the report.

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.

Risk

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 additional cost pressures;
- Changes to the local authority funding mechanisms such as the Government's fairer funding review that is proposed;
- New legislation placing unfunded duties on the Council or reducing the level of the Council's core 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. Although the potential impact from COVID 19 has been reflected in the forecast position where possible, the long-term impact and the speed and scale of the wider economic recovery remains uncertain.

One of the primary risks introduced by the COVID 19 crisis is the potential impact on key income streams for the Council such as from Council Tax, Business Rates and general fees and charges. In respect of the first two items, the estimates for 2021/22 reflect the potential impact. In respect of the third item, it is very difficult to forecast the level of impact and how far it may continue into 2021/22. Therefore it is not proposed to make changes to the underlying income budgets but underwrite this specific risk by refocusing an existing reserve for this purpose. This is felt to be a pragmatic approach given any changes in 2021/22 are likely to be temporary with income expected to return to pre-COVID 19 levels in future years. Therefore 2021/22 should be seen as a transitional year, a position that will be kept under on-going review as part of in-year financial performance reports.

The specific risk to income budgets should be seen as separate from the underlying risk to the forecast, which are underwritten via the Forecast Risk Fund. As previously discussed, the Council's ability to financially underwrite the wider 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, an update against the two important aspects to how this is being managed are as follows:

- 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. Based on the current position, it is proposed to draw down **£1.227m** from this reserve in 2021/22, a reduction compared with the **£1.647m** presented to Cabinet on 18 December 2020. Although the forecast has been significantly impacted by COVID 19, as set out in **Appendix A**, annual surplus balances are still expected to remain within this reserve over the remaining life of the forecast.
- 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. 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 therefore provides 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 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 other 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 Business 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

revised 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.

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 such 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

On 18 December 2020 Cabinet considered the Updated Financial Forecast / Budget 2021/22 for consultation with the Resources and Services Overview and Scrutiny Committee. The report set out an estimated deficit of **£1.647m** in 2021/22.

The development of the forecast / budget has continued since Cabinet's meeting on 18 December 2020, primarily to reflect the latest information such as the outcome of the Local Government Finance Settlement. The most up to date position is set out in **Appendix A**, which highlights a reduced deficit position for 2021/22 of **£1.227m**.

In previous years, this report set out the full detailed estimates along with the various 'technical' appendices for recommending onto Full Council in February. However given the increased and on-going COVID 19 workload of a number of officer's who play a key role in developing the budget, it has not been possible to finalise this more detailed information at this stage.

However, the most up to date forecast, savings schedule and cost pressure summary are set out in this report, with a recommendation included above that delegates approval of the more detailed budget information and associated appendices to the Portfolio Holder for Corporate Finance and Governance. It is important to highlight that the more detailed position delegated to the Portfolio Holder will be a reflection of the updated high level forecast set out in this report.

At the time of finalising this report, work remained on-going in respect of the Council's overall salary costs along with the associated internal recharges. It is therefore possible that further changes to the budget may be required when these areas of the forecast are finalised. The delegation referred to above will therefore also enable further changes to be reflected in the budget, including the use of reserves that will then be recommended to Council on 16 February 2021 if necessary.

Regardless of the above, the proposed council tax amount for 2021/22 will not be subject to any amendment and will remain as **£177.64** as set out in this report.

For completeness, the more detailed / technical information proposed to be delegated to the Portfolio Holder for Corporate Finance and Governance for approval, will include the following:

- *Detailed General Fund revenue estimates, capital programme and reserves 2021/22*
- *Special Expenses 2021/22*
- *Requisite Budget Calculations 2021/22*
- *District Council Taxes for All Areas 2021/22*
- *Precepts on the Collection Fund – District Amounts 2021/22*
- *District Council Tax Amounts 2021/22 (excluding Council Tax amounts for Town and Parish, County, Fire and Police services)*
- *Calculation of Estimated Surplus on the Collection Funds for 2021/22*

- *Prudential Indicators 2021/22*
- *S151 Officer Statement - Robustness of Estimates and Adequacy of Reserves*

The formal approval of the 'full' council tax levy for the year including the district amount approved by Full Council in February along with the Essex County Council and Police / Fire precepts will be considered by the Human Resources and Council Tax Committee later in February 2021.

LATEST FINANCIAL FORECAST AND BUDGET PROPOSALS 2021/22

As highlighted earlier in this report, the forecast considered by Cabinet at its 18 December 2020 meeting set out a deficit of **£1.647m**.

This deficit has subsequently been revised downwards to **£1.227m**, a change of **£0.420m** as set out in **Appendix A**.

This change is made up of the following adjustments:

- **Receipt of Revenue Support Grant (RSG) – income of £0.431m has been added to the forecast. (Line 6 – Appendix A)**

The Government have maintained RSG funding for a further year with a small inflationary uplift in 2021/22.

In previous years, the Council has reduced the LCTS grant to Town and Parish Councils in line with its own reduction in Revenue Support Grant. The forecast had therefore reduced the grant payable to Town and Parish Council's to nil in 2021/22. However, given the Government have maintained the RSG for at least one more year, the principle of passing some of this funding onto Town and Parish Councils that was established in prior years is proposed to continue into 2021/22. An adjustment of **£0.037m** has therefore been reflected in the forecast, representing the total cost of the grants to Town and Parish Council's in 2021/22. **(Line 12 – Appendix A)**

- **On-going Net Savings - £0.026m (Line 15 – Appendix A)**

This adjustment reflects an increase in the annual contribution ECC makes to the Council to support the kerbside collection of food waste. The total savings included in the forecast has been subsequently increased to **£0.239m** as set out in **Appendix B**.

Although there is no net impact on the budget, as part of the annual Local Government Finance Settlement, the Government also announced:

- New Homes Bonus Grant - **£0.644m**
- General COVID Support Grant - **£1.023m**
- Homelessness Support Grant - **£0.781m**

In respect of the first two items, commitments against this funding will be considered during the year. In respect of the Homelessness support grant, as has been the case in previous years, this will be used to increase the general homelessness budgets to continue to support associated schemes and initiatives as well as meeting the demand for temporary accommodation.

In addition to the above, the Government have also indicated that they will provide funding to support the potential increased cost of providing local council tax support in 2021/22. An

indicative figure of **£0.197m** has been provided by the Government. However this has not been included in the budget at this stage as it remains subject to Government consultation. Once the outcome is known, the budget will be adjusted accordingly and updates provided as part of the in-year financial monitoring reports.

There have been no changes to the level of cost pressures included within the forecast, with items totalling **£0.516m** remaining in the forecast as set out in **Appendix C**.

Cliff Stabilisation Work

As set out in previous reports, major remedial work is required along the Holland-on-Sea seafront where areas of the cliff have slipped. Current estimates indicate these remedial works will cost £4m. Although the Council remains committed to seeking contributions from other stakeholders, given the relative urgency of the work required, it is likely that the Council will have to fund the full cost of the project itself.

No provision is currently included in the forecast either to fund the direct cost of the works or to accommodate the financing costs that would arise if the money required was raised via a loan.

If the Council entered into a loan arrangement, then it is likely that on-going revenue costs in excess of **£0.200m** would need to be added to the forecast. Corresponding savings would therefore need to be found to accommodate this cost in the long term plan. The alternative approach would be to review and reallocate money from existing budgets, which may require a change in the scale and speed that other projects and priorities can be delivered.

Work remains on-going to identify the most advantageous approach, which will be subject to a separate report that will be presented to Members shortly.

Council Tax – Discount for Young People Leaving Care

As agreed at Full Council on 24 November 2020, a policy has now been developed to enable council tax discounts to be provided to young people leaving care.

The policy is set out in **Appendix D** and enables support to be given to young people leaving care until the age of 21 and will be backdated to 1 April 2020. The policy is consistent with the policies introduced by other Essex Local Authorities.

The cost of this scheme is not expected to have a major impact on the overall council tax base, but it will be kept under review this year. It is important to highlight that the full cost of providing these discounts will not fall to the Council alone, as the major preceptors have committed to meet their share of the cost based on a pro-rata amount equal to their element of the overall council tax bill.

Council tax discounts are considered by Full Council in November each year, and subject to approval of the policy set out above, this policy will 'automatically' be included in this annual review process going forward.

Council Tax Income

As part of the Local Government Finance Settlement, the Government announced the council tax 'capping' criteria for 2021/22 and it has been confirmed that District Councils can increase their council tax by 2% or £5, whichever is the greater. An increase of £5 had already been included in the forecast, so subject to agreement by Cabinet / Council, no further changes are required.

A £5 increase results in a council tax for a Band D property of **£177.64** in 2021/22, with a Council Tax Requirement of **£8.604m**.

Business Rates Income

No changes are required to the forecast. Unless a Local Authority withdraws from the Essex business rates pool, the pool will continue in 2021/22. At present the forecast does not reflect any financial benefit from being a member of the pool, which will be revisited as part of developing the forecast in future years or reflected in the in-year budget position as necessary during 2021/22.

Capital Programme

No changes to the forecast have been required at this stage.

Reserves

No changes to the forecast have been required at this stage.

Fees and Charges

As reported to Cabinet in December, in a change from previous years, fees and charges are now agreed separately by the relevant Portfolio Holder.

However they continue to be reviewed within the framework of the financial forecast and therefore they will be considered against the following key principles:

- general inflationary increases where possible or lower where appropriate / justified
- 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

No changes to the forecast have been required at this stage.

Although they are now agreed separately, a full schedule of fees and charges will be included within the final budget proposals to Full Council on 16 February 2021.

Treasury Strategy 2021/22

In accordance with the Budget and Policy Framework the Treasury Strategy is required to be considered by the Resources and Services Overview and Scrutiny, following which it will be reviewed by Cabinet for recommending to Full Council in March. As has been the case in previous years, a recommendation is included earlier on in this report to delegate the approval of the Treasury Strategy 2021/22 to the Corporate Finance and Governance Portfolio Holder for consultation with the Resources and Services Overview and Scrutiny Committee.

BUDGET SUMMARIES

Based on all of the adjustments set out elsewhere in this report, the proposed budgets for 2021/2022 are summarised below.

General Fund Revenue Budget

Table 1

	2020/21 Original	2021/22 Original
	£m	£m
Net Cost of Services	19.337	19.494
Revenue Support for Capital Investment	0.267	0.059
Financing Items	(3.472)	(5.264)
Net Expenditure	16.133	14.289
Contribution to /(from) Uncommitted Reserve	0	0
Net Use of Earmarked Reserves	(1.551)	(0.776)
Total Net Budget	14.582	13.513
Less Funding		
Business Rates (<i>excl. S31 Govt. Grant funding</i>)	4.438	4.478
Revenue Support Grant	0.429	0.431
Collection Fund Balance	1.360	0
Council Tax Requirement (for Tendring District Council) (Excludes Parish Precepts)	8.534	8.604

The council tax requirement for 2021/22 is based on a Band D council tax of **£177.64**, an increase of **£5 (2.90%)** over the 2020/21 amount of **£172.64**.

General Fund Capital Programme

Table 2

	2021/22 Original Budget
	£m
EXPENDITURE	
Information and Communications Technology Core Infrastructure	0.055
Disabled Facilities Grants	0.757
Enhancement Equipment Replacement – Printing and Scanning	0.004
Total Expenditure	0.816
FINANCING	
Government Grants	0.757
Direct Revenue Contributions	0.055
Earmarked Reserves	0.004
Total Financing	0.816

UPDATES TO THE FORECAST FOR THE PERIOD 2022/23 AND BEYOND

Taking the most up to date position set out in this report, the expected annual position for each remaining year of the forecast is as follows:

Year	Net Budget Position (including adjusting for prior year use of reserves to balance the budget)
2022/23	£1.249m deficit
2023/24	£1.018m deficit
2024/25	£0.781m deficit
2025/26	£0.540m deficit
2026/27	£0.294m deficit

Although the figures set out within the table above will change as part of updating the forecast on a regular basis during 2021/22, there have been no issues arising that indicate that the long term approach is unsustainable. Against this background and as discussed previously, it may not be possible to avoid or mitigate adverse issues, such as cost pressures, over the remaining years of the forecast. However, the level of savings required will need to continue to act as the 'safety valve' with the overall position being subject to further updates as part of reporting the quarterly position going forward.

BACKGROUND PAPERS FOR THE DECISION

Working Papers in Accountancy

APPENDICES

Appendix A	Updated Financial Forecast 2021/22
Appendix B	Net On-Going Savings Items 2021/22
Appendix C	Cost Pressures Summary 2021/22
Appendix D	Care Leaver's Council Tax Discount Policy