

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

12 NOVEMBER 2021

REPORT OF CORPORATE FINANCE AND GOVERNANCE PORTFOLIO HOLDER

A.8 FINANCIAL PERFORMANCE REPORT – IN-YEAR PERFORMANCE AGAINST THE BUDGET AT END OF THE SECOND QUARTER 2021/22 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 2021 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 2021*
 - 2) *An updated long term financial forecast*

In respect of the in-year financial position at the end of September 2021:

- The position to the end of September 2021, as set out in more detail within the appendices, shows that overall the General Fund Revenue Account is underspent against the profiled budget by **£8.483m** (after excluding variances against COVID 19 grant supported activities, such as business grants, this position is revised to a net overspend of **£4.372m**). 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 other 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 2021/22 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 a number of further changes to the budget that reflect the on-going impact of COVID 19, the costs of which will be met by using 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 **£40k**, 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 in 2022/23.
- It is also proposed to bring the Member's Small Covid grant scheme to a close by the end of 31 March 2022.

In respect of the updated long term financial forecast:

- The forecast has been reviewed and updated at the end of September 2021 and continues to reflect the ongoing impact of COVID 19 as necessary. The updated forecast is set out in **Appendix I**.
- Work remains on-going in consultation with the various Services across the Council to identify savings within a zero based approach along with unavoidable cost pressures, that remain subject to review for inclusion or otherwise in the detailed budget report that will be presented to Cabinet in December.
- Overall, the long term forecast can still provide an effective method of managing financial risks but the annual deficit or surplus position for each year of the forecast has been revised. The on-going impact from the COVID 19 pandemic is still evolving 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 depleted 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 2022/23.
- In terms of delivering against the forecast for 2022/23 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 2021, 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) *in respect of the Council's Treasury Management Practices, the aggregate amount of money that can be placed overnight with the Council's bankers be increased temporarily from £1.000m to £1.500m for each day the offices are closed over the Christmas break;*
- (d) *the Council continues to be a member of the Essex Business Rates Pool in 2022/23 if it remains financially advantageous to do so; and*
- (e) *the closing date for Members to submit claims under the Members' Small COVID grant scheme be agreed as 31 March 2022.*

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 2021, 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 accommodated within the overall budget with direct management action. 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 continues to have an on-going impact on the Council's financial position, which cuts across many of the specific issues highlighted above. The underlying forecast remains based on relatively conservative estimates with no optimistic bias included. **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) **£3.753m** 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 was '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. These arrangements mean that there are 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 2021/22

The Council's financial position against the approved budget has been prepared for the period ending 30 September 2021. This builds on the report presented to Cabinet back in September where a more general update was provided at the end of the first quarter of 2021/22.

Although some expenditure or income trends may still be emerging, 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

GENERAL FUND REVENUE

The position to the end of September 2021, as set out in more detail in the Executive Summary attached, shows that there is an overall net underspend of **£8.483m** (after excluding variances against COVID 19 grant supported activities, such as business grants, this position is revised to a net overspend of **£4.372m**).

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.

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

Expenditure Budgets

- **Increase in Insurance Premiums** – An adjustment is included in **Appendix H** to reflect the outcome of a recent retender exercise. Although the overall cost has increased in 2021/22 by **£0.076m**, this was significantly less than the expected outcome given the very challenging insurance market at the present time.
- **Potential Increase in Homelessness Costs** – At the end of September, net expenditure was ahead of the profile by **£0.066m** due to the continuing demand for temporary accommodation. No budget adjustment has been included within **Appendix H** at the present time but the issue will be kept under review during Q3 to identify if there remains a need to increase this budget, which could be supported from the general COVID 19 grant received from the Government. Additional comments are set out below relating to the use of the COVID 19 funding.
- **Planning Agency Staff** – The necessary use of agency staff continues within Planning with an associated adjustment set out within **Appendix H**. A restructuring process is now underway within the service, which aims to limit the use of agency staff going forwards.

Income Budgets

- **Crematorium Income** – Operational issues continue at the Crematorium with net income behind profile by nearly **£0.300m** at the end of September. Although the associated procurement process to purchase and install new cremators is underway, this adverse position is likely to worsen over the second half of the year which could result in an overall reduction in income in excess of **£0.600m**. Given the scale of the impact on the budget, the Portfolio Holder for Corporate Finance and Governance along with Management Team have requested that Departments review their existing budgets to identify if there are any opportunities to cease / reduce spending elsewhere in the Council's overall operational budgets to partially or fully offset this loss of income. It is recognised that this will need to be done on a proportionate basis given the potential consequences of this approach, but it does provide an alternative to the other option of refocusing existing budgets set aside to deliver specific projects or initiatives. A further update will be presented to members later in the year.
- **Parking Income** – Income is currently ahead of the budget by **£0.141m** at the end of September. This will be kept under review during the second half of the year before consideration is given to including a favourable budget adjustment or not, especially in light of the position set out above in respect of crematorium income.
- **Leisure Facilities Income** – Based on current estimates, it is expected that leisure income will be behind profile by **£1.000m** by the end of the financial year due to the on-going impact from COVID 19, which includes the reduction in memberships fees by 25% given the reopening restrictions in place during the year. However, it is estimated that this will be offset by **£0.250m**, following the Government's commitment to extend the sales, fees and charges compensation scheme into the first quarter of 2021/22. It is proposed to meet the balance of **£0.750m** by applying the general COVID 19 grant received from the Government with some additional commentary set out further on in this report relating to wider use of this COVID 19 funding. The proposed adjustment is included within **Appendix H**.

OTHER EMERGING ISSUES / USE OF COVID FUNDING

Appendix H sets out a number of proposed budget adjustments that respond to the items highlighted above where necessary, along with other emerging issues as at the end of September 2021.

The overall position set out in **Appendix H** results in a net contribution to the Forecast Risk Fund of **£40k**, 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 issues such as those highlighted above, opportunities to contribute further money to the fund will be explored over the second half of the year.

In addition to the above, there are a number of COVID 19 grants received from the Government / ECC, which are ring-fenced in-line with the associated funding agreements e.g. track and trace support payments and community ambassadors, which will continue to be progressed as necessary in the second half of the year.

There are however the following two unringenced COVID funding 'pots':

- 1) General New Burdens COVID 19 Grant – this was payable to the Council to help respond to on-going COVID 19 issues.

Including money brought forward from last year, the total budget in 2021/22 totals **£2.276m**.

Allocations from this budget so far to date include:

- **£0.277m** allocated as part of the 2021/22 Outturn Report, which included the summertime plan and additional bins, bin emptying and grounds maintenance activities.
- **£0.083m** agreed by Cabinet on 8 October to 'extend' the waiving of rents as part of the CAROS scheme until the end of March 2022.
- **£0.046m** agreed by the Portfolio Holder for Corporate Finance and Governance to support the repairs to the treadmill crane in Harwich, which 'levered' in a significant contribution from Historic England.
- **£0.765m** as set out in **Appendix H**, which primarily reflects reduction in income from leisure centres this year as highlighted earlier in this report.

After taking the above into consideration, **£1.105m** would remain available for further consideration. With the above in mind, there are a number of emerging issues related to the on-going impact from the COVID 19 pandemic that may need to be supported by this remaining funding and include the following:

- Reduction in income of potentially **£0.300m** to **£0.400m** from the Council Tax Sharing Agreement with the major preceptors given the recovery of amounts due are likely to extend into 2022 and beyond.
- The reduction in court cost income associated with the recovery of council tax highlighted above, especially as we are now only seeing the court system slowly returning to business as usual following the pandemic. The reduction in income could be as high as **£0.300m** by the end of the year.
- Additional homeless costs as highlighted above, which could be in excess of **£0.100m**

Based on the risks identified above, it would be prudent to retain the unspent COVID 19 'pot' of **£1.105m** to support such unavoidable and on-going impacts from pandemic over the second half of the year. The position will be kept under review with the intention to reflect any necessary adjustments in the Q3 report.

- 2) As the Council had spent its full allocation of grant funding relating to the Additional Restrictions Business Grants Scheme by the deadline of July 2021, a 'top up' amount of **£0.804m** was paid by the Government.

To date, **£0.293m** has been allocated from this 'pot' via separate decisions, with **£0.511m** therefore remaining to be allocated. Options to allocate this funding as part of the Council's Back to Business Plan are currently being explored.

As part of the Council's response to the COVID 19 pandemic, the Leader made £2,000 available to each Member to support local groups / causes. To date, **£0.060m** has been spent from the overall 'pot' of **£0.096m**. A recommendation is included above to bring this scheme to a close by the end of March 2022. Members are therefore urged to allocate any remaining funds from their £2,000 'allowance' by this deadline.

In response to recent freedom of information requests, details on how individual members have allocated their funding will start to be published on the Council's website on a monthly basis from November 2021 until the end of scheme in March 2022.

COLLECTION PERFORMANCE

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

There is undoubtedly an on-going impact from COVID 19 on collection performance. However, throughout the first half of 2021/22 there is on-going improvement compared to last year. Any necessary recovery action will continue over the second half of the year, with the aim of maximising the level of collection performance wherever possible.

HRA REVENUE

An overall position is set out in the Executive Summary with further details included in **Appendix C**. At the end of September 2021, the HRA is showing a net overspend of **£0.081m**, which primarily reflects a void rate of 6% compared with the budgeted rate of 4% with rental income currently behind profile by **£0.100m**.

However as previously mentioned, a number of activities have been on-going with the aim of reducing the overall void rate closer to the historic level of 2%.

With the above in mind, a more detailed analysis of the overall void position as at the end of September 2021 is set out below:

	Weeks Void	Void Rate	Comments
Sheltered Accommodation	1,248	18%	
Long Term Voids (more than 180 days)	2,157	4% (of total stock rather than an absolute void rate)	118 properties were void as at the 1 April 2021, which has reduced to 57 at the end of September 2021.
All other properties	1,195	2%	In-line with the historic rate of 2%
Totals	4,600	6%	

As an on-going response to the overall void rate of 6%, there is now an emphasis on reducing the void rate within sheltered blocks along with bringing more long term empty properties back into use. With the latter point in mind, an additional **£0.100m** is proposed to be added to the general repairs and maintenance budget within **Appendix H**, to continue to support the reduction in void rates.

In addition to the actual reduction in income due to voids, the cost of paying council tax whilst the properties are empty has also increased. Expenditure is currently ahead of the profile by **£0.074m**. This will be kept under review during Q3, with the aim of looking to accommodate the increase within the overall HRA budget for the year.

CAPITAL PROGRAMME – GENERAL FUND

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

As at the end of September 2021, 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 2021 the programme is behind profile by **£0.220m**.

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.

TREASURY ACTIVITY

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

The Annual Capital and Treasury Strategy for 2021/22 (including the Prudential and Treasury Indicators) was approved full Council on 13 July 2021. 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 with highlights set out as follows:

The Bank of England continues to maintain the base rate at 0.10%, although there were some indications in September 2021 that the bank may tighten monetary policy and increase rates given the faster and higher inflation expectations, especially with the increases in energy prices in October 2021 and further increases expected in April 2022. As a result, the Council's treasury advisors have brought forward their expectation of an increase in the base rate to 0.25% to the first quarter of the 2022-23 financial year.

World growth was in recession in 2020 but recovered during 2021, until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these are expected to subside during 2022. The pandemic and extreme weather events have been highly disruptive of worldwide supply chains. There are major queues of ships waiting to unload their goods at ports worldwide, which has resulted in shipping containers being in the wrong place, which has contributed to a huge increase in the cost of shipping. Combined with a worldwide shortage of semi-conductors this has had a disruptive impact on production in many countries. Many western countries are also finding it difficult to fill job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves globally.

Investments

Investment returns are behind the revised forecast, despite a considerable reduction in the budget, at the end of September 2021. Many local authorities are not looking to borrow money at present, which has led to ultra low interest rates and a reduction in investments with local authorities, with the investments switching to banks instead.

The on-going impact will be considered as part of developing the 2022/23 budget and long term forecast.

Similarly, to previous years, the closure of Council Offices between Christmas and New Year 2021 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, therefore the proposed approach set out above continues to be considered as a reasonable action to take.

Borrowing

The borrowing rates that the Council can access remain relatively low. However, 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 2021/22.

SECTION 2 – UPDATED LONG TERM FORECAST

As highlighted in previous reports, 2021/22 is seen as a transitional year as the wider economy recovers / stabilises following the COVID 19 pandemic. This sets the task of forecasting against an evolving economic position very challenging, with uncertainty therefore still remaining when considering the forecast for 2022/23 and beyond.

The previous forecast was considered by Full Council back in February 2021, which set out the high level position for each year of the remaining forecast period. The development of the forecast has continued during 2021/22, with the latest position set out in **Appendix I**, with an accompanying risk assessment in **Appendix J**. A high level summary of the updated / current forecast compared with the position reported back in February 2021 is set out below:

Annual Forecast Surplus or Deficit

YEAR	Forecast in February 2021 Deficit / (Surplus)	Current Forecast Deficit / (Surplus)
2022/23	£1.098m (Deficit)	£1.642m (Deficit)
2023/24	£0.866m (Deficit)	£1.123m (Deficit)
2024/25	£0.630m (Deficit)	£1.006m (Deficit)
2025/26	£0.388m (Deficit)	£0.894m (Deficit)
2026/27	£0.142m (Deficit)	£0.785m (Deficit)

Associated Forecast Balance on the Forecast Risk Fund

YEAR	Forecast in February 2021 Surplus Balance	Current Forecast Surplus Balance
2022/23	£2.607m	£2.062m
2023/24	£2.241m	£1.439m
2024/25	£2.111m	£0.933m
2025/26	£2.223m	£0.539m
2026/27	£2.581m	£0.254m

As discussed previously, the figures above are greatly influenced by the 'telescopic' effect of changes made to the forecast over time. Further comments on this are included later on in the report.

Additional details relating to the changes to the forecast since it was presented to Members in February is set out in the table below along with its associated RAG rating:

Line of the Forecast	RAG	Figure Included in February for 2022/23	Current Position for 2022/23	Comments where there has been a significant change
Underlying Funding Growth in the Budget				
Council Tax Increase 1.99%		(£0.168m)	(£0.168m)	No change
Council Tax Increased by £5 (over and above 1.99% increase above)		(£0.074m)	(£0.074m)	No change
Growth In Business Rates – Inflation		(£0.137m)	(£0.139m)	Although CPI was 2.9% in September the forecast retains a 2% assumption. This is on the basis that the Government may ‘cap’ the increase without any reimbursement to Local Authorities for the ‘lost’ income.
Growth in Business Rates / Council Tax – General Property Growth		(£0.198m)	(£0.100m)	A slightly more cautionary approach has been taken that reflects the continuing uncertainty around the economic recovery from COVID 19, which includes the ‘cost’ of the LCTS scheme.
Collection Fund Surpluses b/fwd		(£0.100m)	£0.323m	This reflects the £0.423m adjustment required to the treatment of the collection fund deficit from 2020/21, which in turn relates to the timing of the associated grant income from the government in respect of COVID 19 business rate reliefs. This deficit will be met by calling money down from the associated reserve – see reserves adjustment below. The underlying assumption of achieving a surplus of £0.100m against council tax income remains in place and therefore reduces the figure to £0.323m as shown within the column on the left.

Net Cost of Services and Other Adjustments				
Reduction in RSG		£0.431m	£0.431m	No change, as the earlier one-off RSG amount received in 2021/22 has been removed from the forecast. No RSG amount has been included in 2022/23 as it is unclear whether the Government will continue such support.
Remove one-off items from prior year		£0.000m	£0.000m	No Change
Remove one-off items from prior year – collection fund surplus		(£6.018m)	(£6.018m)	No Change - this relates to removal of the business rates collection fund deficit in 2021/22 funded from reserves – see reserves adjustment below.
Inflation – Employee Costs		£0.386m	£0.598m	A 1.5% pay award in 2021/22 was reflected in the earlier forecast. This has been rejected as part of the associated national negotiations. The forecast has been revised to include a cautionary 2% increase for 2021/22, which would result in an increased / rebased position for 2022/23 onwards. For all other later years of the forecast, a 1.5% pay award has been factored in. The 2022/23 figures also reflect the 1.25% increase (£0.116m) in NI contributions recently announced by the Government.
Inflation – Other		£0.163m	£0.221m	This reflects revised inflationary assumptions – see further on in this report for a more detailed commentary on inflation assumptions.
Impact of PFH WP Savings		(£0.045m)	(£0.045m)	No change
LCTS Grant to Parish Councils		(£0.037m)	(£0.037m)	No change
Revenue Contrib. to the Capital Programme		£0.000m	£0.008m	This small change reflects the timing of two schemes within the capital programme.

Specific Change in Use of Reserves		£6.045m	£5.794m	This primarily relates to the business rates collection fund issue mentioned above where Government grant was carried forward via reserves to meet the timing of when the collection fund deficit is recognised in the accounts. This also includes the removal of the use of reserves to fund the reduction in treasury income that emerged as a cost pressure last year (£0.270m) along with the use of COVID 19 Government funding to back-fill the delay in delivering the savings from the closure of Weeley.
On-going Savings Required		(£0.450m)	(£0.450m)	No change – see comment further on in this report.
Unmitigated Cost Pressures		£0.250m	£0.250m	No change – see comment further on in this report.
Other Adjustments		£0.000m	£0.000m	No Change

In terms of the inflation assumption used within the forecast, these are based on the following CPI projections:

2022/23 - 3%
2023/24 – 2.4%
2024/25 onwards – 2%

For RPI based assumptions, 1% has been added to the CPI figures above.

The forward projection of inflation remains very challenging given the volatility in the economy as it starts to stabilise from the COVID 19 pandemic. However, the above rates are based on the Treasury's own economic forecasts, which indicate that it will take at least two years for the effect of COVID 19 to 'unwind' before falling back to the Bank of England long term forecast of 2%.

In terms of the savings target required, as reported earlier in the year, it is proposed to introduce a 'zero based' framework against which savings will be identified. Although such an approach will generate outcomes over more than one year, work is underway to identify savings that can be included within the 2022/23 budget when it is updated and presented to Cabinet in December.

In terms of cost pressures, the **£0.250m** 'allowance' within the forecast remains modest with work underway to identify unmitigated items for inclusion in the next iteration of the forecast in December. There are a range of potential issues that are being discussed with Services and include:

- On-going reductions in income in respect of the Council Tax sharing agreement with the major preceptors
- Loss of rental income from Carnarvon House, which has now been vacated and the decision made to demolish it.
- General increases in energy and gas costs, which could be even greater if based on renewables
- On-going impact of insurance premium increases
- Increases in External Audit Fees following current and proposed changes to the regulatory framework etc.
- Potential continuation of low investment returns

All of the assumptions set out above will remain 'live' and will be updated in December. It is important to highlight that there is likely to more favourable outcomes against items such as property growth in council tax / business rates and collection fund surpluses, which will help to offset cost pressures within the budget. If not fully offset, there will likely be a need to increase the savings target in later years of the forecast.

It is also important to highlight that the more detailed outcome from the Government's comprehensive spending review will become clearer over the coming weeks, which will need to be reflected in the forecast from 2022/23 and beyond where necessary.

A review of reserves is also planned to be undertaken before December, to support the on-going position where a proportionate level of reserves are maintained that match the financial risks faced by the Council and can demonstrate a favourable outcome in terms of the use of resources.

In-line with previous years, the benefit from remaining a member of the Essex Business Rates Pool has not been reflected in the forecast at this stage. However, in consultation with other Essex Authorities, it is proposed to continue with the pool in 2022/23. A recommendation is therefore included above to reflect this position.

The benefit and risks associated with being a pool member are being kept under review by the pool members, as a decision to withdraw from the pool can be made between now and for a limited period after the Local Government Financial Settlement is announced in January 2022. If risks increase, such as those associated with any reduction in business rate reliefs that are currently funded by the Government, then a collective decision across Essex will be made and included within future financial performance / budget reports.

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 rating 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 position each year

The long term forecast is based on achieving in-year savings of **£500k**. A contribution of **£0.040m** 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 2022.

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 that may be 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 I** 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.

'Table 2' within **Appendix I** 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 from earlier reports, 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. This is especially true given the 'telescopic' effect of potential changes to the forecast over time.

The forecast will therefore need to continue to remain alert and reflect the most up to date position in terms of the on-going 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.

If a number of issues came together at the same time then it is possible that the forecast becomes unsustainable in the longer term. This will be monitored as the forecast continues to be developed as it has always been recognised that the Council can revert back to the historic short term approach to setting the budget which would require significant savings early in that process.

Forecast Risk Fund

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

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

Housing Revenue Account

As indicated in Q1, it is proposed to review the HRA Business Plan during the second half of the year.

This review will reflect the on-going issues regarding repairs and void periods along with other emerging pressures such as the costs related to potential changes to 'decent homes' standards that are expected to emerge from the Government, especially in light of the

Grenfell Tower tragedy. This will also need to be set against the context of delivering against the Council's key priority of continuing to build / develop new homes in the district.

Pressures such as inflation and other costs will also need to be reflected within the business plan review, which will need to balance the priorities and aspirations of being a landlord for 3,000 plus homes, whilst responding to the challenging financial position going forwards.

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