CABINET

4 NOVEMBER 2022

REPORT OF THE PORTFOLIO HOLDER FOR CORPORATE FINANCE AND GOVERNANCE

A.5 FINANCIAL PERFORMANCE REPORT 2022/23 AND 2023/24 – GENERAL UPDATE AT THE END OF QUARTER 2

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To provide a general update and overview of the Council's financial position against the 2022/23 budget and looking ahead to 2023/24 and beyond.

EXECUTIVE SUMMARY

- As set out in the earlier report to Cabinet on 7 October 2022, this year has seen a number of emerging issues both nationally and globally that will have a significant impact on the Council's own financial position e.g. inflation, supply chain disruption, energy cost increases, commodity price increases along with associated secondary impacts. This is in addition to more local pressures on net costs such as the Crematorium remaining non-operational for the first half of 2022/23.

- Since the report above was presented to Cabinet, Officers have continued to work on updating the forecast along with exploring options to support the Council in meeting additional costs in 2022/23 along with setting a balanced budget in 2023/24.

- With the aim of setting out the various elements of the Council's financial performance as clearly as possible, this report has been split into the following key sections:

  Section 1 – Items for inclusion in the budget / forecast for both 2022/23 and 2023/24.

  In consultation with Services, forecasts have been made of potential variances that will remain at the end of 2022/23 along with their impact in 2023/24. For 2023/24, further items have been included as part of developing the longer term forecast.

  Although the budget remains subject to further updates as the forecast continues to be developed over the next few months, the current estimated net additional costs in 2022/23 total **£3.389m,** with a forecast budget 'gap' of **£4.079m** in 2023/24. Further details are set out in **Appendix 1A**.

  Section 3 of Appendix 1A sets out how these budget 'gaps' are proposed to be funded, which includes the refocusing of existing budgets / reserves.

  Section 2 – Detailed commentary on the in-year financial position 2022/23.

  The position to the end of September 2022, as set out in more detail within **Appendix 2**, shows that overall the General Fund Revenue Account is underspent against the profiled budget by **£10.960m.** As is the case at this time of the year, a key influence on the position to date is the timing of general expenditure and/or income budgets, although it is acknowledged that further variances may emerge over the second half of 2022/23. In terms of the timing against expenditure budgets, a significant level of the variance to date reflects the COVID 19 Business Grant Schemes, where a final reconciliation process remains in progress in consultation with the Department for Business, Energy and Industrial Strategy (BEIS).

As highlighted above, rather than reporting / adjusting the position at the end of Q2, Services have been asked to estimate if any variances to date are likely to remain at the end of the year rather than being due to timing issues. Although variances to date are set out within **Appendix 2**, the proposed budget adjustments for 2022/23 set out in **Appendix A1** aim to address the expected year end position.

As highlighted within earlier reports, the Chief Executive continues to chair the regular Budget, Performance and Delivery meeting of Senior Managers where any emerging issues are discussed.

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.

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 Officers may not be available over the Christmas break.

Section 3 – Detailed commentary on the updated long term forecast from 2023/24.

Appendix 3 sets out the detailed forecast for 2023/24 and beyond. For 2023/24, the current budget 'gap' is estimated to be **£4.079m,** with the main elements of this forecast position being translated into itemised figures within **Appendix 1A.**

The forecast / budget setting process remains a 'live' process and so work remains on-going in consultation with the various Services across the Council to identify further savings opportunities or other potential unavoidable cost pressures that may need to be considered as the detailed budgets are finalised for reporting to Cabinet in December / January.

As mentioned earlier in the year, the long term forecast can still provide an effective method of managing financial risks. The on-going impact from various financial challenges is still evolving and it is therefore important to highlight that the money set aside in the Forecast Risk fund reflects a balanced and realistic approach, and as set out in Section 3 of this report, this fund provides additional flexibility and time in considering how the Council can deliver the required savings from 2024/25 onwards.

A detailed review of risks associated with the long term forecast is subject to on-going review and is separately reported within **Appendix 3B.**

As highlighted in the report considered by Cabinet on 7 October, given the scale of the financial challenges that the Council faces, it is proposed to engage all members as early as possible in this process to add resilience to the Council's financial position heading into 2023. At the time of finalising this report, invites were being prepared to send to all Group Leaders to enable meetings to be arranged with relevant Officer(s), who will be able to provide additional detail around the forecast and approach set out in this report.

As highlighted in earlier financial performance reports, the Corporate Investment Plan will continue to play an important role in supporting the response to the financial challenges ahead. Given the scale of the on-going financial challenge faced by the Council the Corporate Investment Plan remains under review in parallel with the work highlighted above, but it will be presented to Cabinet later in the year once the Council's underlying financial position has become clearer before further investment opportunities can be considered.

Notwithstanding the above, a number of largely unavoidable items have been identified via the Corporate Investment Plan process, which are included within **Appendix 1A**, some of which relate to both 2022/23 and 2023/24.

As set out within Section 3 and **Appendix 3A**, the on-going savings required to deliver financial sustainability going forward total £**1.150m** in 2024/25 rising to **£4.250m** in 2025/26 before falling back to the underlying longer term target of **£0.450m** in 2026/27. The scale of the savings are significant and will present a major challenge for the Council.

RECOMMENDATION(S)

It is recommended that Cabinet:

(a) notes the Council's in-year financial position at the end September 2022 along with the updated financial forecast for 2023/24 and beyond;

(b) approves the proposed adjustments to the 2022/23 budget as set out in Appendix 1A and agrees that the budget adjustments for 2023/24 as set out within the same appendix be included as part of developing the forecast and detailed estimates for further consideration by Cabinet at its December 2022 meeting;

(c) that the Resources and Service Overview and Scrutiny Committee be consulted on the latest financial position of the Council set out in this report; and

(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 over the Christmas break.

REASON(S) FOR THE RECOMMENDATION(S)

To set out the latest financial position for the Council and to respond to emerging issues in 2022/23 and to develop the budget and long term forecast from 2023/24.

ALTERNATIVE OPTIONS CONSIDERED

This is broadly covered in the main body of this report.

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. The current 10-year approach to the forecast seeks to establish a sound and sustainable budget year on year through maximising income whilst limiting reductions in services provided to residents, business and visitors. The approach set out in this report continues to be set against this wider context.

OUTCOME OF CONSULTATION AND ENGAGEMENT
Internal consultation is carried out via the Council's approach to developing the budget as set out within the Constitution. External consultation also forms part of developing the budget, and is carried out early in the year as part of finalising the position for reporting to Full Council in February.

LEGAL REQUIREMENTS (including legislation & constitutional powers)			
Is the recommendation a Key Decision (see the criteria stated here)	**Yes**	**If Yes, indicate which by which criteria it is a Key Decision**	☐ **Significant effect on two or more wards** X **Involves £100,000 expenditure/income** ☐ **Is otherwise significant for the service budget**
		And when was the proposed decision published in the Notice of forthcoming decisions for the Council (must be 28 days at the latest prior to the meeting date)	This item has been included within the Forward Plan for a period in excess of 28 days via the inclusion of the regular Financial Performance Update Reports item.

Yes	**The Monitoring Officer confirms they have been made aware of the above and any additional comments from them are below:**
Although there are no additional comments above those set out in this report, it is important to highlight that further decisions may be necessary to take a number of actions forward, such as those associated with the items set out in **Appendix 1A**.	

FINANCE AND OTHER RESOURCE IMPLICATIONS
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.

The approach set out in this report has been discussed with the Council's External Auditor, albeit informally. There were no major concerns raised and they will undertake a more detailed review as part of their usual commentary on the Council's use of resources.	
Yes	**The Section 151 Officer confirms they have been made aware of the above and any additional comments from them are below:**
The Section 151 Officer is the author of this report.	

USE OF RESOURCES AND VALUE FOR MONEY	
The following are submitted in respect of the indicated use of resources and value for money indicators:	
A) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;	This is addressed in the body of the report.
B) Governance: how the body ensures that it makes informed decisions and properly manages its risks, including; and	
C) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.	

MILESTONES AND DELIVERY

This reports forms part of the Council's wider budget setting processes. Additional update reports will therefore be presented to Cabinet in December and January as part of developing the detailed estimates that will be presented to Full Council in February 2023.

ASSOCIATED RISKS AND MITIGATION

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. The Council's initial / short term response is set out in the body of this report and will continue to be addressed as part of the future financial updates reports highlighted earlier.

As discussed elsewhere in this report, further cost pressures may emerge over the remainder of the year, which may need to be considered for inclusion in the budget. The approach of refocusing existing budgets and reserves also adds additional risks as it reduces the ability of the Council to access such funding to underwrite further risks etc. going forward.

As set out in **Appendix 3A**, the Forecast Risk Fund may be depleted over the next two years, which adds further financial risk to later years of the forecast.

However, it is important to note that the Council still prudently maintains reserves to respond to significant / specific 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 reflects a best practice / risk based approach to support its core financial position.

EQUALITY IMPLICATIONS

There are no direct implications that significantly impact on the financial forecast at this stage. 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 savings.
SOCIAL VALUE CONSIDERATIONS
There are no direct implications that significantly impact on the financial forecast at this stage. However, such issue will be considered as part of separate elements of developing the budget as necessary.
IMPLICATIONS FOR THE COUNCIL'S AIM TO BE NET ZERO BY 2030
There are no direct implications that significantly impact on the financial forecast at this stage. However, such issue will be considered as part of separate elements of developing the budget as necessary.
OTHER RELEVANT CONSIDERATIONS OR 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	Please see comments above
Health Inequalities	
Area or Ward affected	

PART 3 – SUPPORTING INFORMATION

SECTION 1 - COST INCREASES / CORPORATE INVESTMENT PLAN ITEMS 2022/23 AND 2023/24
Work has remained on-going following the general financial update presented to Cabinet on 7 October 2022. In consultation with Services and as part of the Corporate Investment Plan process and the Chief Executive's Budget Performance and Delivery meetings, a number of items have been identified for inclusion in the budgets for 2022/23 and 2023/24, which are set out in **Appendix 1A**. The above items may be newly emerging items or follow on from the issues identified as part of finalising the outturn position for 2021/22. Some of the items may also be on-going in nature whilst some are one-off. In respect of some of the items relating to 2023/24, they also include 'corporate items' identified as part of the wider development of the forecast, with more detailed commentary set out in Section 3 of this report below. As highlighted above and in the report to Cabinet on 7 October, funding the budget 'gaps' in 2022/23 and 2023/24 is primarily based on refocusing existing budgets and reserves with further details set out below.

Appendix 1A is split into the following Sections:

- **Section 1** – This sets out 'corporate' items such as inflation, which total - **£1.193m** and **£2.844m** in 2022/23 and 2023/24 respectively.

- **Section 2** – This sets out general operational items identified in consultation with Services, which total - **£2.196m** and **£1.235m** in 2022/23 and 2023/24 respectively. A number of items only include adjustments for 2022/23 at this stage as Officers are currently reviewing potential options / alternatives with the aim of 'avoiding' similar costs in 2023/24 and beyond where possible.

  For 2022/23, this section effectively replaces **Appendix H** that is usually included as part of these quarterly reports, with the aim of responding to estimated outturn variances rather than potentially just the in-year position as at the end of September 2022.

- **Section 3** – This set out the proposals to fund the items identified in Sections 1 and 2 above, which total - **£3.389m** and **£4.079m** in 2022/23 and 2023/24 respectively.

  As set out within the appendix, the funding proposals include a mix of refocusing a number of existing budgets and reserves, along with increases in income in a limited number of areas of the budget.

  In terms of increases to income, the most significant item relates to investment income, which reflects the forecast increases in interest rates. Another key item to mention is the use of the Corporate Investment Plan Reserve of **£1.433m** in 2023/24 - this adjustment reduces this 'reserve' to nil, so there is currently no money available to invest in future projects from this 'reserve' at this stage.

  One of the elements also set out within this section are carry forwards. Following a review highlighted as part of the outturn for 2021/22, a number of items were either withdrawn by Services, or were subsequently not agreed, resulting in **£0.337m** being 'released' to support the financial position in 2022/23. The approval of the carry forwards were delegated to the Portfolio Holder for Corporate Finance and Governance and therefore subject to a separate decision.

- **Section 4** – This section sets out a number of items that can be funded from associated and specific budgets and / or income from fees and charges. In terms of fees and charges income, this is forecast to be from underlying increases rather than increases in the actual fee charged, which are separate decisions undertaken later on in the budget setting process.

  This section also recognises the increase in capital projects given the volatility in the market at the present time. After the two adjustments proposed, **£1.192m** of unused capital receipts would remain available to support potential increases in other capital projects that the Council is currently delivering.

  A significant level of volatility also remains within the energy markets. It is therefore proposed to underwrite this risk in 2022/23 by using the existing Contingency Budget of **£0.574m**. For 2023/24, a separate item of **£0.600m** is included within Section 2 of **Appendix 1A**.

It is acknowledged that by refocusing existing budgets / reserves there is an opportunity cost in terms of projects that could otherwise have been undertaken. However, the Council is faced with significant financial challenges in the short term, which it has to respond to, but in turn, it will provide resilience and flexibility to look ahead to 2024/25 and beyond with the aim of protecting as many front lines services as possible.

Commentary from the Government indicates that they will not necessarily be supporting Local Councils through these difficult times as they expect them to turn to existing reserves to manage their way through the short term financial challenges. The approach set out above therefore broadly reflects this expected response.

In terms of 2022/23, the recommendations set out above are seeking agreement to the budget adjustments set out within **Appendix 1A**. In respect of 2023/24, the recommendations are seeking initial approval for the inclusion of the proposed budget adjustments within the forecast that will remain 'live', with the next key milestone being the finalisation of the detailed estimates that will be presented to Cabinet in December 2022.

SECTION 2 – IN YEAR FINANCIAL PERFORMANCE AGAINST THE BUDGET AT THE END OF THE SECOND QUARTER OF 2022/23

The Council's financial position against the approved budget has been prepared for the period ending 30 September 2022.

Although proposed budget adjustments are highlighted within the section above to respond to emerging issues, the detailed position at the end of September 2022 is set out within **Appendix 2**, with some additional comments included below against the six key areas of the budget where necessary:

1. GENERAL FUND REVENUE

The position to the end of September 2022, as set out in more detail in the Executive Summary attached.

Apart from the proposed adjustments set out within **Appendix 1A** (which effectively replaces the adjustments that are usually set out in Appendix H of these quarterly reports), the remaining variance is primarily due to the timing of expenditure and income, one example being COVID related funding that is returnable to the Government once the associated reconciliation process has been completed. The position will remain under review and where necessary, further budget adjustments may be required at the end of Q3.

One of the key parts of the budget that remains under on-going review is the financial performance of the Council's Careline Service. As reported earlier in the year, although the future financial sustainability of the Service is likely to involve a mix of fees and charges and increased demand, there is a short term risk of delivering the service within budget. This risk is being 'underwritten' by the use of an existing reserve of **£0.221m.**

Although the Service remains committed to delivering the Service within budget, supported by this reserve in the short term, they are exploring potential sources of external income to support the overall net position. A further update will be provided as part of future financial performance reports.

2. COLLECTION PERFORMANCE

A detailed analysis of the current position is shown in **Appendix 2E**.

Collection performance continues to return to pre-Covid levels across the main income streams, with any necessary recovery action continuing going forward.

3. HRA REVENUE

An overall position is set out in the Executive Summary with further details included in **Appendix 2C**. At the end of September 2022.

As previously reported, the Service remains committed to returning void performance to the historic level of 2%, which builds on the success from 2021/22. This will also have a positive knock on impact on the council tax payable on empty properties.

Work remains in progress on updating the HRA 30 year Business Plan, with further updates therefore planned to be reported to Cabinet later in the year.

4. CAPITAL PROGRAMME – GENERAL FUND

The overall position is set out in **Appendix 2D.**

As at the end of September 2022, the programme is broadly on target against the profiled position.

A key risk that was highlighted earlier in this report relates to the potential increases in project costs given the on-going volatility in the market. It is therefore proposed to underwrite this risk via the use of uncommitted capital receipts, which currently total **£1.192m** as set out in **Appendix 1A**. If additional costs arise and there is a need to use capital receipts, this would be subject to further decisions / separate reports as necessary.

5. CAPITAL PROGRAMME – HOUSING REVENUE ACCOUNT

The overall position is set out in **Appendix 2D.**

As at the end of September 2022 the programme is broadly on target against the profiled position.

This budget relates primarily to the on-going major repairs and improvements to the Council's own dwellings along with the project to construct flexible workspaces in Jaywick Sands. 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.

6. TREASURY ACTIVITY

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

The Annual Capital and Treasury Strategy for 2022/23 (including the Prudential and Treasury Indicators) was approved at full Council on 29 March 2022. 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, which also reflects additional commentary from the Council's treasury advisors.

Given recent and continuing volatility, both political and economic, it is difficult to forecast / reflect on possible changes looking ahead to the second half of 2022/23 and beyond.

However, in terms of investments, higher interest rates are likely to continue, which is common across most of the major global economies. As highlighted within **Appendix 2F**, investment income is therefore ahead of the profile by **£0.391m** at the end of September. Based on current forecasts and an on-going environment of higher interest rates, increased investment income is expected to continue, with additional amounts therefore reflected in **Appendix 1A** for both 2022/23 and 2023/24.

Inflation continues at levels well in excess of the Bank of England's target rate of 2%, with forecasts indicating that this position will gradually 'unwind' over the next few years. This will therefore have a major impact on the Council's financial position for 2022/23 and ongoing into 2023/24 beyond, which have been reflected in the forecast set out in the next Section of this report and the figures included in **Appendix 1A**.

Unfortunately, during 2022/23 there have been two occasions where levels set out within treasury management practices where exceeded and both in relation to the balances held overnight with our bankers Lloyds. The first occasion was on 24 June, when the balance was £1,073,576.54 against a £1.000m limit. This arose because we were told to expect a payment of just over £130,000 that would arrive into the account on 27 June, but instead it arrived late in the day on 24 June, so there was no time to make the necessary transfer to an alternative account / investment. This was therefore contrary to the information provided and so could not have been predicted by the treasury team.

The second occasion was on 2 August, when the balance was £1,006,563.15 against the £1.000m limit. This arose due to the unexpected receipt late in the day of a payment from a developer for Section 106 monies of £176,644.21. Although Planning inform Finance of when they bill section 106 payments, in practice they are rarely received on the day expected, which was the case in this instance.

To resolve both of the above issues, additional 'headroom' will be provided against the relevant current accounts held with Lloyds Bank to enable money to be received into the accounts without the risk of exceeding the treasury limit of £1m.

Additionally, due to human error, when two Money Market Funds were set up in December 2020, because they were both AAA rated the limit on each was taken to be £4 million, so a total of £8 million. However, it has now been established that the Council's treasury management policies have a separate category for Money Market Funds with the limit set at £2 million per Fund, so a total of £4 million. As soon as this was established in August, the amount held in each Fund was reduced to not more than £2 million. The Money Market Funds were set up initially to allow for greater liquidity due to the uncertainties around the Covid pandemic, grant payments received and the need to repay overpaid sums at unknown times. The Council's cash flow is now more certain and predictable.

In terms of the issues set out above, at no time was the Council's money at any greater risk given the relatively low risk tolerance taken to treasury management activities that is reflected within the treasury management practices.

In addition to the above and similarly to previous years, the closure / availability of Officers over the Christmas and New Year 2023 period, means that daily treasury management actions will not be able to be undertaken for a short period. Despite planning to maintain additional headroom across the Council's current accounts as highlighted above, 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.

SECTION 3 – UPDATED LONG TERM FORECAST

As highlighted earlier and as set out in Appendix 1A, the currently estimated budget 'gap' for 2023/24 is **£4.079m.**

Given the current global / national challenges, the forecast is significantly different to the position reported as part of developing the budget for 2022/23.

Appendix 3A sets out the revised forecast covering the period 2023/24 to 2026/27 with commentary set out below against each line of the forecast. **Appendix 3B** sets out further details relating to the RAG rating for each line of the forecast.

Line of the Forecast	RAG Rating	Figure Included for 2023/24	Comments
Line 1 - Council Tax Increase 1.99%		(£0.181m)	Additional income generated from a 1.99% increase on the current Band D amount – from £182.64 to £186.27 per annum.
Line 2 - Council Tax Increased by £5 (over and above the 1.99% increase above)		(£0.068m)	Additional income generated from increasing the Band D council tax to £187.64 (additional income over and above the increase to £186.27 above).
Line 3 - Growth In Business Rates – Inflation		(£0.134m)	The CPI percentage in September is usually used to inform the increase in Business Rates for the following year. However given the current level of CPI is in excess of 10%, it is assumed that the Government will 'cap' a lower increase –

			at the present time this has been estimated at 3%.
Line 4 - Growth in the Council Tax Base		(£0.217m)	Although a number of factors influence this calculation, a primary factor is the general increase in property numbers. The estimated housing growth as set out in the Local Plan is usually used as the starting point, with additional calculations undertaken during later stages of developing the budget. However, these more detailed calculations have now been finalised which set out an increase in the 'property' base of 1,158, which has enabled additional income to be included within the forecast.
Line 5 - Growth in the Business Rates Base		(£0.031m)	Work remains in progress to finalise the estimate for this line of the forecast. At the present time, only modest growth has been included which is based on the Council keeping 20% of any additional income generated over a 'baseline' amount that reflects the current business rates retention 'rules'.
Lines 6 and 7 - Collection Fund Surpluses b/fwd (Council Tax and Business Rates)		(£0.100m)	Similarly to Line 5 above, work remains in progress to finalise the respective collection fund balances for Council Tax and Business Rates. At the resent time the usual assumption of achieving a surplus of £0.100m remains in place, which will be updated as the budget progresses over the coming weeks.
Line 8 - Reduction in RSG		£1.020m	Based on comments emerging from the Government over recent weeks, a favourable financial settlement from the Government is not expected. Although the Government will make final announcements in December, at this stage no general Government support has been included in the forecast.
Line 9 - Remove one-off items from prior year		(£0.352m)	A number of posts were funded on a one-off basis in 2022/23, which have now been removed from the budget.
Line 10 - Remove one-off items from prior year		(£3.192m)	This relates to a 'technical' adjustment in respect of the removal of the net collection fund deficit in 2022/23, which

– collection fund surplus			was largely funded from an associated reserve – see reserves adjustment below.
Line 11 - Impact of PFH WP Savings		(£0.000m)	There are no longer any associated changes to this historic initiative so this line of the forecast will be removed in future years.
Line 12 - LCTS Grant to Parish Councils		(£0.037m)	This reflects the knock on impact from the adjustment set out in Line 8 above where no revenue support can be 'passported' onto Town and Parish where the Council's is not in receipt of such support itself.
Line 13 - Revenue Contrib. to the Capital Programme		(£0.012m)	This small change reflects the removal from the Capital Programme of a one-off scheme in 2022/23.
Line 14 - Specific Change in Use of Reserves		£3.233m	This primarily relates to the business rates collection fund issue mentioned above where a Government grant was carried forward via reserves to meet the timing of when the collection fund deficit is recognised in the accounts. This adjustment also reflects the removal of the pension fund deficit contribution that was previously funded from the Building for the Future Reserve, as it is no longer required following the most recent pension triennial review.
Line 15 - On-going Savings Required		(£0.450m)	This reflects the savings 'allowance' that is included within the 'base' position. This amount has already been exceeded following the adjustment set out within **Appendix 1A.**
Line 16 - Other Adjustments		£0.000m	No necessary adjustments are included at the present time.
Line 17 - Inflation – Employee Costs		£2.031m	The figure included within the forecast reflects not only the expected 'rebased' position in 2022/23 that is emerging from current pay negotiations (approx. 5%), but also a further inflationary increase of 4% for 2023/24.
Line 18 - Inflation – Other		£0.903m	Similarly to employees costs above, the figure currently included in the forecast

			reflects a rebased position for 2022/23 along with a further inflationary increases in 2023/24. Contracts linked to RPI such as the waste and recycling contract could see increase in excess of 10% based on the current rate of inflation.
Line 19 - Unavoidable Cost Pressures / Corporate Investment Plan Items		£1.235m	These adjustments are itemised in Section 2 of **Appendix 1A**.
Add back the one-off use of the Forecast Risk Fund from last year		£0.431m	
Total of all of the above items		**£4.079m**	The proposed approach to funding this budget 'gap' is set out in Section 4 of Appendix 1A, which is primarily based on refocusing existing budgets / reserves on a one-off basis.

Although the above position reflects a reasonable estimate across the various lines of the forecast, some figures will be subject to change as part of the development of the budget over the coming weeks. Some elements are likely to be more favourable, such as income from business rates and the collection fund surplus, but others may offset any financial benefits from these increases if additional costs emerge in 2023/24.

As discussed previously, the figures in future years are greatly influenced by the 'telescopic' effect of changes made to the forecast over time.

The forward projection of inflation remains very challenging given the volatility in the economy, but based upon current projections, the level of inflation should start to 'unwind' over the next two to three years, which is reflected in the later years of the forecast where necessary.

As set out in the report to Cabinet on 7 October 2022, zero based budgeting was planned to be further developed during 2022/23. The key principles behind zero based budgeting will play a key role going forward and will form part of developing the forecast. However, it is recognised that the immediacy of the financial challenge the Council faces will influence the impact this approach will have in the short term.

Appendix 3A also sets out the estimated use of the Forecast Risk Fund. By refocusing existing budgets / reserves in 2023/24, a balance would remain within the forecast risk fund to support the position in 2024/25 (but with only very limited balances in 2025/26 and 2026/27).

As previously discussed, it is recognised that the use of reserves to balance the budget is not sustainable in the long term. However, by balancing the use of existing budgets /

reserves along with the use of available Forecast Risk Fund, it provides the necessary time to explore options to deliver the required on-going savings from 2024/25, which was part of the flexibility that the longer term approach to the forecast was intended to deliver.

In terms of the on-going savings required to deliver financial sustainability going forward, these are set out within Line 15 of Appendix 3A and total **£1.150m** in 2024/25, rising to **£4.250m** in 2025/26 before falling back to the underlying longer term target of **£0.450m** in 2026/27. The scale of the savings are significant and will present a major challenge for the Council. It is important to highlight that the savings need to be broadly secured before the start of the relevant year, which means that a framework to explore and identify potential options will need to be underway as early as possible in 2023. Work will therefore need to commence on this major piece of work shortly.

In terms of future cost pressures, the **£0.250m** 'allowance' within later years of the forecast remains modest and will be kept under review as part of developing Corporate Investment Plan in 2023.

The forecast does not reflect the Governments intended comprehensive spending review, as it is not clear when this will be undertaken. However, the forecast will be updated as necessary once additional information is announced by the Government.

As highlighted in the report to Cabinet on 7 October 2022, the Council planned to review the long term financial plan in 2023, but given the issues highlighted above, this will now need to be considered against a very different financial background to that originally expected during the earlier years of the forecast.

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 2023/24.

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 3B**.

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

Delivering a positive outturn positon each year
The long term forecast has to date been based on achieving in-year savings of **£500k.** Thus has been revised down to **£250k** to reflect the revised approach where savings are identified and applied during the year that in principle should therefore reduce the availability of any favourable variance at the end of the year. This will inevitably have a knock on impact on the level of savings required each year, which will in effect need to be higher to 'bridge' the 'gap' that this change results in.

In previous years the Council has refrained from using one-off money and reserves to support the on-going budget. Given the scale of the financial challenge faced by the Council, this principle can no longer be applied. As highlighted earlier, the long term approach to the forecast does enable the flexibility and time to consider the longer term planned and savings that will be required in a more informed way rather than having to potentially taking quick / short term decisions.

Sensitivity Testing
Work remains in progress to update the usual sensitivity testing approach, with the outcome planned to be presented in reports later in the year as part of the development of the budget for consideration by Full Council in February 2023.

Housing Revenue Account
Some of the challenges set out above that relate to the General Fund will have an equally challenging impact on the HRA - one such example being inflation.

Following guidance from the Social Housing Regulator, rent increases are usually based on CPI plus 1%. However, due to the high level of CPI at the moment, the Government are consulting on 'capping' the increase at a lower level than the current CPI rate of just over 10%. Although delivering lower levels of rent increases is understandable given the current cost of living challenges faced by tenants, the Council's own costs will still be increasing at a much higher rate, which will need to be considered in the longer term as part of the HRA business plan.

The development of the HRA 30 year business plan remains in progress and will be reported to Cabinet in December where issues such as those set out above will be addressed. The business plan will also need to consider the use of HRA balances in the short term along with the potential use of capital receipts for projects such as the redevelopment of Honeycroft, which would be instead of obtaining loan financing that has previously been discussed. Any use of capital receipts will have a knock on impact in terms of future opportunity costs but this can be revisited as part of the development of the forecast and the 30 year HRA Business Plan looking ahead.

As part of developing the HRA Business Plan, the use of borrowing will also be revisited along with the potential to use internal borrowing to 'replace' existing HRA loans given the higher cost of external borrowing at the moment.

PREVIOUS RELEVANT DECISIONS
Outturn Report 2021/22 – Item A.6 Cabinet 15 July 2022 Corporate Investment Plan Report – Item A.3 Cabinet 25 March 2022 Finance Update Report – General Update 2022/23 and 2023/24 – Item A.2 Cabinet 7 October 2022
BACKGROUND PAPERS AND PUBLISHED REFERENCE MATERIAL
None

APPENDICES
RELATING TO SECTION 1 OF THE REPORT Appendix 1A – Cost Increases / Corporate Investment Plan Items 2022/23 and 2023/24 **RELATING TO SECTION 2 OF THE REPORT**

Appendix 2 - Front Cover and Executive Summary
Appendix 2A – Summary by Portfolio / Committee
Appendix 2B – General Fund Budget Position by Department
Appendix 2C – Housing Revenue Account Budget Position
Appendix 2D – Capital Programme
Appendix 2E – Collection Performance – Council Tax, Business Rates, Housing Rent and General Debts
Appendix 2F – Treasury Activity
Appendix 2G – Income from S106 Agreements

RELATING TO SECTION 3 OF THE REPORT

Appendix 3A – Updated Long Term Financial Forecast
Appendix 3B – Risk Analysis of Each Line of the Forecast

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