Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET
5 SEPTEMBER 2017

REPORT OF FINANCE AND CORPORATE RESOURCES PORTFOLIO HOLDER

A.3 LONG TERM FINANCIAL SUSTAINABLITY PLAN / 10 YEAR FORECAST

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
This report sets out an innovative and long term sustainable approach to budgeting, which sets the direction of travel to maximise savings opportunities alongside delivering growth in underlying income to deliver a balanced budget over a ten year forecast.

EXECUTIVE SUMMARY

- This report is set out in two distinct parts. The first part sets out a new way of thinking about the forecast and budget setting process with the primary aim of setting out a long term sustainability plan and to protect services, as far as is reasonably possible, that the Council provides to its residents, businesses and visitors in the wake of the on-going and significant reductions in government funding. The second part builds on the proposed new approach and covers the technical aspects of the financial forecasting process.

- Over recent years, the reductions in Government funding have been so significant in comparison to Council's net budget that it has been impossible to generate underlying growth in locally generated income to make up the shortfall at the same pace as the reductions in grant funding.

- However, the Council has always made it clear that it is committed to 'growing' its own income via regeneration and economic development initiatives for example.

- The pace of the reductions in Revenue Support Grant (RSG) from the Government has meant that local authorities have not had the space and time to become self-sufficient. This report, therefore, sets out a longer term view of the forecast and proposes the use of one-off money to support the budget until such time as growth in income exceeds expenditure forecasts.

- It is therefore projected that the revised approach will create the time for income to outperform reductions in RSG and net expenditure pressures with the Council emerging from the current difficult financial environment in good shape with only minimal reductions in service provision compared with the alternative of making significant and short term cuts to services.

- The longer term approach enables various actions to be developed to deliver the underlying income growth required to offset changes in expenditure with the eventual aim of delivering budget surpluses in the future and recognises that savings can be identified over a longer period of time.

- As highlighted, the approach relies upon utilising one-off money set aside to support budget deficits in the short term. The one-off money set aside as part of the Outturn for 2016/17 totalled **£1.434m,** which provides a strong foundation against which to build on going forward to support the budget.

- This report also highlights the various risks associated with taking a longer term approach and sets out how the Council can effectively respond to them over the life of the forecast.

- **Appendix A** sets out the initial long term forecast with the assumptions behind the various facts and figures set out in the second half of this report.

- Within the forecast, changes are proposed to the Local Council Tax Support Scheme Grant to Town and Parish Council's along with setting aside the full amount in one go to meet the estimated beach recharge costs along the new Clacton to Holland coast.

- The forecast will need to be closely managed with periodic adjustments over time. Should it not be possible to deliver the revised approach, the Council can revert back to the more traditional shorter term strategy.

- Within the proposed approach it is also worth highlighting that the Council may spend the same amount of money on a service as in previous years but the service may have to be redesigned to accommodate unavoidable cost pressures, a good example of which could be the waste and recycling contract which expires in 2019. The Council is committed to providing the same level of funding to deliver specific areas of the budget, but recognising that the same amount of money may not buy as much as it did in the past. Providing real term increases in alternative funding across the diverse range of services that the Council provides is unlikely to be possible given the reductions in Government funding.

- Although some elements of the forecast will occur through 'natural' growth, many of the lines included within the forecast will need to be actively managed. Input from Members and officers will be crucial in developing the associated delivery plan and it will always be worth reflecting on the fact that the alternative to taking a long term view is the more traditional approach of looking at the budget on an annual basis and making significant short term cuts, which the proposed approach seeks to avoid / minimise as far as possible.

RECOMMENDATION(S)

It is recommend that Cabinet:

(a) Agrees the revised long term financial sustainability approach and associated ten year forecast that is set out in this report;

(b) subject to (a) above, requests officers to continue their work in developing an associated delivery plan, in consultation with Portfolio Holders, to support the delivery of the ten year forecast and in particular the budget for 2018/19;

(c) consults the Corporate Management Committee on the revised approach being taken as set out in this report;

(d) that subject to (a) above, agrees that the Local Council Tax Support Scheme

grant to Town and Parish Council's be removed from the budget via the phased approach set out in the ten year forecast; and

(e) agrees to make an additional one-off contribution of £1.200m to the Beach Recharge Reserve in 2017/18, funded by £0.202m from the Fit for Purpose budget and £0.998m from the New Homes Bonus Budget.

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 approach being proposed 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 but still make investments where possible.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The financial implications are fully considered in the body of the report.

Risk

This is discussed further on in this report against the context of the new approach to the forecast proposed.

LEGAL

The arrangements for setting and agreeing a budget and for the setting and collection of council tax are defined in the Local Government Finance Act 1992. The previous legislation defining the arrangements for charging, collecting and pooling of Business Rates was contained within the Local Government Finance Act 1988. These have both been amended as appropriate to reflect the introduction of the Local Government Finance Act 2012.

The Local Government Finance Act 2012 provided the legislative framework for the introduction of the Rates Retention Scheme and the Localisation of Council Tax Support.

The Calculation of Council Tax Base Regulations 2012 set out arrangements for calculation of the council tax base following implementation of the Local Council Tax Support Scheme. The new arrangements mean that there are now lower tax bases for the district council, major preceptors and town and parish councils.

The Localism Act 2012 introduced legislation providing the right of veto for residents on excessive council tax increases.

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 baseline. 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

LONG TERM FINANCIAL STABILITY PLAN - A REVISED APPROACH TO THE FORECAST AND BUDGET SETTING PROCESS

One of the biggest impacts on the financial position of Local Authorities in recent years has been the speed at which the Government has reduced the RSG.

By way of a summary, the reductions to the RSG experienced by this Council since 2013/14 have been as follows:

Year	RSG Receivable	Reduction Compared to prior year
2013/14	£6.644m	-
2014/15	£5.104m	£1.540m
2015/16	£3.561m	£1.543m
2016/17	£2.564m	£0.997m
2017/18	£1.650m	£0.914m
2018/19	£1.070m	£0.580m
2019/20	£0.422m	£0.648m
2020/21	nil	£0.422m

The reductions in funding, as set out above, are very significant in comparison to the scale of the Council's net budget. The Council's net budget was **£17.570m** in 2013/14, with the RSG making up nearly 40% of the Council's funding. Responding to this level of funding being eroded over what is a relatively short period of time has been a significant challenge.

As has been mentioned in the past, the Council is committed to 'growing' its own income via maximising its assets, regeneration and economic development initiatives. However, such income will not be able to grow at the same pace as the reductions in RSG.

It would have made a significant difference if the reductions had been spread over a longer period of time. If, for example, they had been spread over a further 10 years, this would have resulted in average reductions in RSG of **£0.390m** per annum rather than the average of **£0.950m** that has been the case since 2013/14. Such a change would have aligned the reductions in funding to the Council's practical ability to 'grow' its own income.

Analysis of the high level positon does present an opportunity to the Council if it is prepared to think differently about its financial forecast and budget setting processes.

The Council has already demonstrated its commitment to protecting, wherever possible, reductions in services it provides to residents, business and visitors. Savings of over **£13.000m** have been delivered over recent years with only a limited impact on service provision.

With this context firmly in mind, the Council can counter-act the rate of reduction in RSG by creating its own space for long term growth and therefore take a ten year view of the forecast rather than a short term view that revolves around reductions in RSG.

Before discussing how the Council can achieve this, it is worth revisiting the short term view of the forecast that has traditionally been the case for this Council and many others around the Country. Based on a short term view, the estimated budget gap required to be met by this Council is **£3.400m** and the identification of the matching savings would need to be agreed by December 2018. Although the Council is still actively engaged in identifying further efficiencies, many have already been built into the base budget along with other savings that have been identified. Continuing this short term approach would, therefore, put the Council at a difficult ‘crossroads’ where the only option would be to make swift and significant reductions to services including those on the front line.

This Council is not prepared to accept this inevitability following the reductions in RSG. A ten year forecast has, therefore, been prepared which is set out in **Appendix A.** For this to work it needs to demonstrate genuine sustainability in the longer term rather than it just potentially putting off savings. The long term forecast does this through demonstrating the potential for underlying income in council tax and the council tax and business rates property bases to grow faster than net expenditure. Underlying income will increase in part from natural growth, but also from where the Council is taking an active role in influencing associated outcomes locally, such as the delivery of significant housing numbers.

By 2021/22 of the forecast and after excluding prior year use of one-off money to balance the budget, it is anticipated that underlying income will ‘out-grow’ annual increases in expenditure. This would then present the opportunity to deliver budget surpluses for re-investment and demonstrate sustainability once the need to use of one-off money from previous years has been eliminated from the forecast.

The identification of on-going savings will still play a crucial role in delivering the forecast, but at a much more modest annual rate, with the forecast currently highlighting a figure of **£0.300m** of savings being required each year. Therefore, although savings of **£2.700m** are included in the forecast, they can be delivered over a longer period of time rather than the same figure having to be delivered within 18 months which would be the default position based on the current short term financial strategy approach as previously highlighted.

A longer term approach also provides the ability for income growth to exceed expectations or expenditure forecasts to be more favourable than expected which would have the knock on effect of reducing the savings requirement. Potential savings may also be able to be delivered in the later years of the forecast where, for example, current agreements / contracts end and the Council can, therefore, review the financial position at a more beneficial point in time rather than have to consider giving notice early which could require significant termination payments to be made to relevant third parties.

Although the risks to the revised approach are set out in more detail below, it is acknowledged that a more pessimistic view could mean that income grows slower or expenditure increases quicker than the forecast, but it could be argued that the Council would not be in a worse position to the default position of finding **£3.400m** of savings over 18 months. Although part of mitigating risks, it is worth highlighting that relatively conservative estimates have been included within the forecast, which should outperform over the ten year ‘space’ that is being created via the proposed new approach.

By taking a ten year view, it is accepted that the budget gap will not be closed each year in the early years of the forecast. It, therefore, relies on the use of one-off money to balance the annual budget each year until such time as underlying income growth exceeds expenditure growth, after adjusting for the use of one-off money from previous years, which is currently anticipated to be by year 2025/26 of the forecast. The relevant part of the 'jig saw' has already partly been put in place to underwrite this risk - **£1.434m** was set aside from the favourable outturn position for 2016/17.

Appendix A sets out the necessary draw down from this set aside funding to enable a balanced budget to be set each year in the early years of the forecast. It is also accepted that favourable variances are likely to emerge each year from the Corporate Budget Monitoring and outturn processes, as has historically been the case. Although management action will be required to deliver this requirement, **£0.500m** has been included within the forecast as the amount achievable from in-year savings each year to 'build' the funding to underwrite the associated risks.

The ten year forecast set out in **Appendix A** therefore demonstrates that, notwithstanding a number of risks and accepting the need to think differently about how the Council delivers its annual budget, it shows that it is possible / viable to take a ten year view of the forecast. This will be underwritten by the use of one-off money that has already been set aside or will be delivered on a year on year basis.

It is, however, also acknowledged that the proposed new approach to the forecast will not be delivered 'naturally' and will, therefore, need a significant level of effort and focus from officers and members each year in its development. In setting out a delivery plan, five key strands have been identified, all of which seek to make the necessary contributions to the proposed new approach.

<u>5 Key Strands to Deliver the Long Term Forecast</u>

- **Increases to Underlying Income**
  This strand concentrates on delivering growth in council tax and business rates. The technical part of this element of the forecast is set out further on in this report but will include year on year increases in the council tax levy, increasing collection performance, on-going compliance work to ensure that people / businesses are paying what they are liable to pay along with general housing and business growth in the district.

- **Controlling Net Expenditure Inflationary Pressure**
  It would be useful if the Council could hold future costs to 2017/18 prices, which would enable income growth to quickly outstrip the cost of growth in net expenditure. Although it is accepted that this will not be possible in the purest sense, it is a good base to work from e.g. reducing energy usage, redesigning / alternative service delivery, reducing printing and paper usage, office rationalisation, working with Town and Parish Councils and renegotiating contracts. The above set out only a few examples where the Council can look to limit net increases in its overall budget which will be developed as part of the overall delivery plan and will also include maximising its assets and generating money from capital investment.

- **Savings and Efficiencies**
  As previously highlighted, savings still feature within the forecast, albeit at a much more modest annual rate than would otherwise have been the case and provide opportunities to maximise savings over a longer period.

- **Delivering a favourable Outturn Position**
  Although favourable outturn positions have been delivered historically, primarily through one-off items or the aggregate of a number of smaller items, actions to influence the likelihood of a favourable position can be put in place such as holding vacancies for a longer period of time where there would be no adverse impact on service delivery, reviewing carry forward requests each year, 'banking' fortuitous savings as they emerge such as unringfenced government grants and favourable increases in fees and charges income.

- **Cost Pressure Mitigation**
  Each year there are a number of cost pressures that emerge and are usually formed of a mix of where there is no option such as reductions in external funding and the living wage along with items where there is a choice whether to fund or not. The proposed new approach to the forecast does highlight the need to compromise to some extent in terms of the speed at which the Council can spend money on items where it has a choice to do so or not. This may involve areas where the additional expenditure may support income growth or the Council's reputation. A hard but fair line will need to be taken to how much additional expenditure by way of cost pressures can be accommodated within the ten year forecast.

  Where a need for a cost pressure is identified, the following questions need to be asked:
  1) Can the expenditure be delayed until such time as there is a surplus in the forecast?
  2) Can mitigating action be put in place or an alternative option implemented?
  3) Can the cost pressure be supported by one-off money in the short term?
  4) Can the cost pressure be mitigated via corresponding budget reductions within departmental budgets? Although this may be difficult for larger items, it may be possible for more modest amounts.

  The forecast currently includes an allowance of **£0.150m** each year to reflect largely unavoidable cost pressures.

The Council is already delivering against many of the above strands e.g. office rationalisation, investment in commercial property, a reduction in the number of members, staff restructuring along with looking to renegotiate revised terms relating to the Council's insurance premium portfolio.

Although taking a different perspective to savings, the Council continues to have a significant number of longer term projects that have already been identified along with associated funding being set aside within existing budgets. Why this is an important point to make is that it isolates the longer term forecast from specific investment decisions. Therefore there is no expectation of the longer term forecast having to generate additional funding for significant investments. Projects identified to date along with associated funding decisions include:

Project	Budget Already Agreed
Garden Communities	£2.000m
Harwich Public realm	£1.000m
Housing in Jaywick Sands	£0.500m
Public Convenience Refurbishment	£0.070m
Channel Shift	£0.350m
Office Rationalisation	£1.160m

There is still scope to make further investment decisions from existing one-off funding without adversely impacting on the ten year forecast which provides a strong foundation to work from. With this in mind it is important that where such future investment is made, it would be beneficial if it demonstrated a positive impact on one of the 5 key strands above as part of a joined up financial approach to the challenge that lies ahead.

Clearly taking the revised approach that is proposed presents a number of risks which are inherent in any type of forecasting and which are magnified when taken over a longer period of time. The Council's approach to risk within the new approach being proposed is set out below.

MANAGEMENT OF 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 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 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.

Before discussing further actions proposed, it is worth repeating a point previously made as it underpins the forecast and that is the fact that the forecast is based on relatively conservative estimates with no optimistic bias included. Each element of the forecast and how it has been derived is set out within the technical aspects of the report later on. It is also worth highlighting that the risks identified do not specifically apply to the approach being proposed as they would equally apply to the existing short term approach historically taken.

Another potentially more important action to manage and mitigate risk is the Council's ability to financially underwrite the forecast. 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) As previously mentioned **£1.434m** as already been set aside to support the budget in future years. This money can, therefore, 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.

2) The forecast will remain ‘live’ and be responsive to changing circumstances and it will be revised on an on-going basis. If unfavourable issues arise that cannot be mitigated via other changes within the forecast then the forecast will be adjusted and mitigating actions taken. Actions to respond will, therefore, need to be considered but can be taken over a longer time period where possible. In such circumstance the Council may need to consider ‘topping’ up the funding mentioned in 1) above if required in the early years of the forecast. This may impact on the ability to invest money elsewhere but will need to demonstrate that its use is sustainable in the context of the ten year forecast and supports the thinking behind the new approach of protecting Council services wherever possible.

Set against the above foundations, the forecast includes the need to identify on-going savings of **£0.300m** each year. This figure will need to remain flexible and react as a counterbalance to other emerging issues as it is accepted that this figure may need to be revised up or down over the life of the forecast.

It will also be important to deliver against the forecast in the early years to build confidence in the revised approach. This will, therefore, 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 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.

Building on the point above about the forecast remaining ‘live’, it is proposed to report an updated forecast on a regular basis. Not only will this allow adjustments to be made, it will also set out a transparent approach against which we can measure its performance to support further decision making processes. Such decisions could include reverting back to the more traditional shorter term approach if the revised approach does not achieve its objectives.

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 **£1.459m** (NDR Resilience Reserve) and **£1.100m** (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.

To support the forecast, sensitivity testing has been undertaken which is set out in more detail in the next section of the report. It is accepted that items such as the continuation of the £5 annual increase in council tax may not be permitted by the Government or may not wish to be implemented locally, so the impact of potential deviations from the ten year initial ‘base’ forecast are shown.

TEN YEAR FINANCIAL FORECAST TO 2026/27

The detailed ten year forecast is set out in **Appendix A.** 2017/18 is year 1 of the forecast with the last year being 2026/27.

A number of adjustments are included in the forecast that specifically relate to 2018/19 as they reflect the adjustments required from 2017/18, such as removing one-off items.

As a high level view of the principles behind the longer term forecast have already been set out in the first section of this report, this section provides the details behind each line of the forecast as follows:

Underlying Funding Growth In the Budget

Item	Adjustment included from 2018/19	Comments
Council tax increases	Increase of 1.99% per annum. (**£0.144m** included in 2018/19 rising to **£0.168m** in 2026/27)	As set out last year, annual increases in council tax will play a vital role in a long term self-sufficiency approach to help back-fill the significant reductions in the RSG. Although the level at which council tax increases are 'capped' are confirmed on an annual basis, it is assumed that as a 'base' position, the Government will continue with allowing increases of at least 1.99% as has been the case in previous years.
Council tax increase of £5	£5 increase in the levy included (**£0.085m** included in 2018/19 reducing to **£0.061m** in 2026/27)	This builds on the increase above and similarly the ability to increase by £5 will be confirmed by the Government on an annual basis. The Government acknowledge that the level of locally raised income is important in terms of Local Authorities long term financial future, so it is expected that the Government will continue to allow increases over and above 1.99% in future years. Based on this approach, the council tax levy would rise to **£202.64** per annum by 2026/27. This would still be lower than the rate charged by 4 Essex Authorities in 2017/18
Business rates Inflation	The effect of 2% inflation has been included in the forecast being the Bank of England's long term target. (**£0.087m** included in 2018/19 increasing to **£0.102m** in 2026/27)	This area remains a complex part of the Council's budget and it remains difficult to predict the long term impact of the Government's reforms of business rates, such as the move to 100% retention of business rates at the local level. However the increases included are relatively modest and reflect the historic trend in seeing business rates inflation year on year.
Council tax and business rates property growth	Housing growth in the Draft Local Plan has been used to inform the figures included within	The property bases include assumptions on items such as changes to valuation lists, new dwellings, dwelling brought back into use, the level of discounts etc.

	the forecast. In respect of business rate, modest increases in rateable value of **£0.050m** have been included year on year. (**£0.161m** included in 2018/19 increasing to **£0.238m** in 2026/27)	so is relatively volatile in terms of the number of influencing factors. However recent years have shown steady growth which is expected to continue supported by the local plan process. In respect of business rates, the recent 2017 valuation process has introduced yet further complications and therefore only very modest growth is included in the forecast at this stage.
Collection Fund Surplus – council tax and business rates	**£0.100m** per year is currently included within the forecast up to and including 2026/27.	Looking back to 2013/14, the collection fund surplus has averaged over **£0.200m** at the end of each year. There are no plans to significantly change the methodology used in calculating the property bases which could have an impact on the end of year collection fund position so the figures included are a modest estimate of the likely year end position from 2017/18 onwards.

Taking the above into account the annual growth in income is forecasted to total **£0.577m** in 2018/19 rising to **£0.669m** by 2026/27.

Net Cost of Services and Other Budget Adjustments

- **Reduction in Revenue Support Grant –** the forecast includes the provisional figures previously announced by the Government.

- **Remove One-off Items from Prior Year –** this primarily effects 2018/19 with the following technical adjustments included in the forecast, which were all agreed as one-off amounts in 2017/18:

Item	**Amount removed from the 2018/19 Base Budget**
Sea and Beach Festival	£0.020m
Air Show Night Flight	£0.010m
TV Advert Promoting the District	£0.025m
Remedial Works to cliff retaining wall (Marine Parade West, Clacton)	£0.220m
Noise Monitoring Equipment	£0.010m
Theatre Toilets (net position after taking into account corresponding fees and charges adjustment)	£0.010m
Open Space Tools and Equipment (supporting the delivery of savings)	£0.020m
Total	**£0.315m**

In addition to the above, a further **£0.025m** is removed from the 2019/20 base budget to reflect one-off consultancy costs associated with the office rationalisation project.

It is important to highlight that although the above items are being removed from the base budget at this stage of the process, they will be considered alongside other emerging costs pressures in 2018/19 and beyond in accordance with the general approach being taken to cost pressures as set out elsewhere in this report.

- **Remove One-off Items from Prior Year (Collection Fund Surplus) –** As included in the table above, assumptions about the level of collection fund surpluses have been included in the forecast. Although reasonable forecasts can be made each year, they are not confirmed until the outturn position is calculated at the end of the preceding year. Therefore they are included in the budget as effectively one-off amounts until confirmed, which provides a prudent position to work from. **£0.100m** is therefore being removed on a year on year basis from 2018/19 onwards.

- **Inflation –** As in previous years, general inflation is expected to be managed by services with their overall budget position. The exception to this is for significant items such as employee costs, major contracts and business rates payable on the Council's own buildings. The following adjustments have therefore been included within the forecast:

Item	Inflation Assumption
Employee Costs	Annual increases of 1% have been included for 2018/19 and 2019/20 in line with current Government announcements setting out this level of public sector pay restraint. Increases of 1.5% per year have been included from 2020/21 to reflect marginally higher increases in later years.
Major Contracts	Annual increases of 2% have been included to reflect the Bank of England's current long term inflation target.
Business Rates	Similarly to the above, annual increases of 2% have been included to reflect the Bank of England's current long term inflation target.

When taken together, total inflationary increases of **£4.025m** have been included over the forecast period, with **£0.367m** included in 2018/19, increasing to **£0.488m** by 2026/27.

- **Portfolio Holder Working Party Savings –** a number of savings were identified in 2017/18, with the forecast including the level of anticipated savings in later years.

- **Local Council Tax Support Scheme (LSTSS) Grant to Town and Parish Council's - £0.140m** remains in the budget which reflects grant payments to 'compensate' Town and Parish Councils for the reduction in their council tax income following the introduction of the LCTSS. The Council has previously subsidised the reduction in grant funding paid to Town and Parish Council's by not 'passporting' on the same level of reduction in its own RSG.

As part of last year's budget setting process, Corporate Management Committee made the following comment:

'to enable Parish and Town Councils to plan their budgets accordingly this Council should inform them that the Parish and Town Councils grant from this Council will be phased out in line with the reduction in this Council's RSG'.

The forecast therefore includes the phasing out of the LCTSS grant in-line with the reduction in the Council's own RSG, with reductions of **£0.090m**, **£0.035m** and **£0.015m** included in the forecast in 2018/19, 2019/20 and 2020/21 respectively.

There is the pragmatic argument of removing the grant completely in 2018/19, as some local authorities have already done, with the reason being that the Government have started to 'cap' the council tax charged by Town and Parish Council's. It may therefore be financially prudent for Town and Parish Council's to react to the reduction in the LCTSS in one single year via a corresponding increase within their own precepts. This may be something to consider later on in the budget setting process.

To put the scale of the potential reductions in LCTSS grant into context, the largest grant paid to a Town and Parish Council is **£0.041m** in 2017/18 with the average grant being **£0.005m.**

- **Beach Recharge Reserve Contribution -** The current base budget includes an annual contribution of **£0.150m** into an earmarked reserve to fund the estimated cost of **£1.500m** to recharge the new beaches along the Clacton to Holland coastline, which is estimated to be required within ten years of the scheme being completed.

  It is proposed to remove this annual contribution to the relevant reserve by taking advantage of available one-off funding currently held by the Council. This therefore not only 'releases' **£0.150m** from the on-going forecast but also secures the necessary funding now which will be held until such time as it is required.

  Including 2017/18, **£0.300m** has already been set aside in the relevant reserve. This therefore leaves **£1.200m** to be funded. It is proposed to utilise **£0.998m** from the New Homes Bonus that was set aside to fund seafront projects, along with **£0.202m** from the Fit for Purpose budget in 2017/18.

  This would leave **£0.414m** uncommitted in the New Homes Bonus Budget and **£0.642m** uncommitted within the Fit for Purpose budget.

- **Specific Changes to Use of Reserves - £0.150m** was called down from the NDR Resilience Reserve in 2017/18 to fund the associated deficit on the collection fund. This was a one-off adjustment so has been removed in 2018/19.

- **On-Going Savings Required -** As mentioned in the first part of this report, on-going savings of **£0.300m** have been included in the forecast. The monitoring and delivery of this element of the forecast will be critical to ensure that the forecast is achievable. It is however recognised that although the timing of when savings can be taken into account in the budget may be different to the figures set out in the forecast, they are expected to be achieved over the life of the forecast.

However, if the forecast is more favourable than initially anticipated, then the level of required savings may reduce which is a key element of the approach being taken. However in balancing the argument, it may be that the forecast is less favourable and the savings target may increase. In this scenario there is the practical benefit of having more time to identify and deliver the savings when compared with the alternative / short term approach of identifying savings of **£3.400m** in just 18 months as previously discussed.

- **Mitigation of Expenditure / Inflationary Increases –** no amounts have been included at this stage of the forecast but various activities will be undertaken to deliver a favourable position against this line of the budget as the forecast develops.

- **Unmitigated Cost Pressures –** Although the approach taken to cost pressures has been discussed in the first part of this report, **£0.150m** has been included in the forecast to reflect unavoidable cost pressures that cannot be accommodated within the Council's overall base budget position.

- **Prior Year Use of Reserves –** As has been the case in the last two years, money has been drawn down from reserves to balance the budget. This is removed in superseding years, which is reflected in the forecast, not only in 2018/19 but also going forward as the use of reserves / one-off money is anticipated to be required in the early years of the forecast.

  The forecast however indicates that the use of one-off money to balance the budget could end as early as 2025/26 if underlying income growth out paces the growth in expenditure during the intervening years.

Taking all of the above into account, the forecast annual deficit or surplus as set out in **Appendix A** is summarised as follows:

Year	Net Budget Position (including adjusting for prior use of reserves to balance the budget)
2017/18	£0.558m (Deficit)
2018/19	£0.536m (Deficit)
2019/20	£0.650m (Deficit)
2020/21	£0.857m (Deficit)
2021/22	£0.652m (Deficit)
2022/23	£0.441m (Deficit)
2023/24	£0.225m (Deficit)
2024/25	£0.004m (Deficit)
2025/26	£0.223m (Surplus)
2026/27	£0.454m (Surplus)

By taking the **£1.434m** set aside from the 2016/17 outturn position along with estimated additional annual contributions of **£0.500m,** the above short term deficits can be funded by drawing on this one-off money until such time as the budget moves into the position where annual surpluses can be delivered. The table towards the bottom of **Appendix A** sets this out in more detail.

As discussed earlier on, there are numerous risks inherent in forecasting. The forecast has, therefore, been exposed to various sensitivities as set out in **Appendix A.** Although there are various permutations, all sensitivities tested, apart from council tax increases being lower by 1% and savings identified being 20% less than anticipated compared to the base position, all return an expected surplus over the ten year forecast.

The sensitivity test that would have one of the greatest impacts on the forecast is if council tax rises were 1% less than the base position. In aggregate, the annual deficits would be **£6.390m** compared with base position of **£2.688m**

Although many of the permutations tested could be offset by the use of the **£1.434m** set aside form the 2016/17 outturn position, if increased with further contributions of **£0.500m** each year, the forecast may not be sustainable in the longer term. This will be monitored as the forecast develops as it may be that the level of savings required needs to be increased to ensure the long term sustainability of the Council's financial position.

Other Changes

For completeness, there are a number of other budget changes that do not have an overall net impact on the budget. These include the removal of one-off capital items where they are funded from reserves, along with other one-off budgets where reserves have also been used such as the three year pension deficit contribution.

In the above cases the expenditure will be removed along with the associated call on reserves with no overall impact on the forecast. These will be set out in more detail later on in the year when the detailed budget for 2018/19 is presented to members.

CONCLUSIONS

Based on the ten year forecast, the initial 2018/19 budget is set out as follows:

Initial General Fund Budget 2018/19

	2017/18 Original £m	**2018/19 Initial Forecast £m**
Net Cost of Services	16.086	12.271
Revenue support for capital investment	1.940	0.100
Financing items	0.534	0.534
Net Expenditure	**18.560**	**12.905**
Contribution to /(from) Reserves	(4.864)	0.571
Total Net Budget	**13.696**	**13.476**
Business Rates *(excl. S31 Govt. Grant for rate reliefs and 2% 'Cap')*	(4.599)	(4.691)
Revenue Support Grant	(1.650)	(1.070)
Collection Fund Surplus	(0.218)	(0.100)
Council Tax Requirement (for Tendring District Council)	**7.229**	**7.615**

Although this will be subject to revisions and updates as the year / forecast progresses, it does set out the estimated position for 2018/19 which highlights that **£0.536m** will be required to be drawn down from reserves to balance the budget in accordance with the ten year forecast.

The council tax requirement figure is **£7.615m** based on the forecast increase of £5 along with the property base assumptions as set out in the initial forecast. This represents an increase of **£0.386m** compared to 2017/18 and would result in an average Band D council tax of **£162.54** compared to **£157.64** in 2017/18.

To deliver various elements of the forecast and to react to any changes as the forecast develops, it will require significant member and office effort and focus. However the approach being proposed presents a credible alternative to the more traditional approach of taking a shorter term view, which would require significant savings to be identified in both 2018/19 and 2019/20.

Although repeating something that has already been mentioned, it is important to keep coming back to the principle behind the revised approach and that is it seeks to create the 'space' necessary to allow underlying income to grow as a pragmatic response to the rate of reductions in Government funding.

A delivery plan is currently being developed to capture the various strands of the forecast. This will be form part of further reports presented to Members in the second half of the year and will be managed via Management Team over the course of developing the detailed budget.

BACKGROUND PAPERS FOR THE DECISION
None

APPENDICES
Appendix A – Financial Forecast to 2026/27