

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

15 DECEMBER 2017

### REPORT OF FINANCE AND CORPORATE RESOURCE PORTFOLIO HOLDER

#### A.1 UPDATED FINANCIAL FORECAST / BUDGET 2018/19

(Report prepared by Richard Barrett)

#### PART 1 – KEY INFORMATION

##### PURPOSE OF THE REPORT

To enable Cabinet to consider the updated financial forecast for 2018/19 for consultation with the Corporate Management Committee.

##### EXECUTIVE SUMMARY

- An updated financial forecast for 2018/19 has been prepared which reflects changes since Cabinet considered the initial forecast back in September 2017.
- As set out in the initial forecast considered by Cabinet in September, the approach to the forecast / setting of the budget is significantly different to previous years with estimates now being undertaken across a 10 year financial sustainability plan period. As mentioned earlier on in the year, confidence needs to be built in the early years of the 10 year period through delivering against the forecast.
- The new approach brings the opportunity to review how the budget is developed, including input from the Corporate Management Committee. This report therefore focuses on the 2018/19 budget and the changes required compared to the initial forecast along with the broad principles behind figures such as special expenses and fees and charges. Comments on each updated line of the forecast are therefore requested from the Corporate Management Committee, which will then form the basis of the 2018/19 budget.
- At this stage of the budget process, there is a net surplus of **£0.042m** forecast in 2018/19, an overall change of **£0.578m** compared with the **£0.536m** deficit included in the initial forecast in September 2017, with each individual change included in more detail later on in this report.
- It is important to highlight that the increased collection fund balance for 2018/19 accounts for **£0.552m** of the **£0.578m** change mentioned above. Although this is an on-going item in the budget it is reviewed each year based on in-year collection performance and can therefore only be deemed a one-off 'saving' in 2018/19. Although the amount is available to support the 2018/19 budget, if this was excluded from the forecast, there would be a budget deficit of **£0.510m** for 2018/19, which is broadly in-line with the initial forecast amount of **£0.536m**.
- As set out in the initial forecast, **£1.434m** has been set aside from the outturn position for 2016/17 to underwrite the risks associated with the 10 year approach to the forecast. It is proposed to set this aside in a specific reserve named the Forecast Risk Fund.

- Although subject to potential changes to the forecast over the remaining budget setting period, the current forecasted surplus of **£0.042m** will be paid into the Forecast Risk Fund.
- Any necessary changes emerging from the detailed Local Government Finance Settlement will be reported directly at the meeting if received in-time, otherwise they will be included in the figures that will be presented to Cabinet in January 2018 when it considers the final budget proposals after consultation with the Corporate Management Committee.
- Once the final position for 2018/19 is determined, the remaining years of the 10 year forecast will be revised, set against the revised 2018/19 position and will be reported to members later in the budget setting process.
- As mentioned earlier, this report concentrates on the position for 2018/19 as part of the new approach to the forecast. The revised budget for 2017/18 is therefore not included within this report but remains under review for reporting to Cabinet in January 2018 as part of the more detailed / technical budget setting processes.
- Given the on-going favourable position against parking income, there is now the opportunity to build the cost of this scheme into the base budget on an ongoing basis and therefore remove the need to fund it on a temporary basis from the associated reserve.

#### **RECOMMENDATION(S)**

**It is recommended that Cabinet:**

- Agrees the updated Financial Forecast 2018/19 as set out in this report and Appendix;**
- agrees that the residents free parking scheme be included within the base revenue budget on an on-going basis each year; and**
- requests the Corporate Management Committee's comments on the updated financial forecast 2018/19.**

## **PART 2 – IMPLICATIONS OF THE DECISION**

#### **DELIVERING PRIORITIES**

The forecasting and budget setting process will have direct implications for the Council's ability to deliver on its objectives and priorities. At its heart, the 10 year approach to the forecast seeks to establish a sound and sustainable budget year on year through maximising income whilst limiting reductions in services provided to residents, business and visitors but still make investments where possible.

#### **FINANCE, OTHER RESOURCES AND RISK**

##### **Finance and other resources**

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

Although the availability of financial resources is a key component in the delivery of

services there will also need to be appropriate input of other resources such as staffing, assets and IT.

### **Risk**

There are significant risks associated with forecasting such as cost pressures, inflation and changes to other assumptions that form part of the financial planning process. There are a number of areas that could lead to additional expenditure being incurred, such as: -

- Economic environment / instability;
- Emergence of 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.

As set out as part of the initial forecast, the forecast is based on relatively conservative estimates with no optimistic bias included. It is also worth highlighting that the risks identified do not uniquely apply to the 10 year approach being taken as they would equally apply to the short term approach to the budget setting process that has historically been 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 mentioned elsewhere in the report, **£1.434m** has 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.

The on-going forecast includes the need to identify on-going savings of **£0.300m** each year. This figure will need to remain flexible and act 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 the 10 year 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 by reducing it 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 **£1.609m** (NDR Resilience Reserve, which includes a contribution to the reserve of **£0.150m** as set out in this report) and **£1.100m** (Benefits Reserve). The Council also holds **£4.000m** in uncommitted reserves which supports its core financial position.

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 Members may not wish to implement it locally each year, so the impact of potential deviations from the ten year forecast need to be determined in such circumstances.

## **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.

In respect of special expenses that form part of the budget setting process, expenditure is classed as a Special Expense if it satisfies the requirements of the Local Government Finance Act 1992, Section 35. The only category relevant to this Council is contained within Section 35(2)(d) relating to concurrent functions with Parish and Town Councils.

Under the Local Government Finance Act 1992, the Council must identify as its Special Expense, proposed expenditure on those functions which the Council performs in part of the district but which Parish or Town Councils perform elsewhere in the District. If, in the Council's view, a special expense should properly be charged over the whole of the district's area, the Council may pass an express resolution to this effect (known as a **contrary resolution**).

In order for expenditure to be a Special Expense, there are two conditions that must be fulfilled:

1. Expenditure is estimated to be incurred by the District Council in the whole or part of its area on the provision of a function;
2. Expenditure on the provision of the same function is to be incurred by at least one parish/town council elsewhere in the district.

The proposals set out in this report are in accordance with the Council's budget and policy framework.

#### **OTHER IMPLICATIONS**

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

**Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.**

These implications have no impact on the Financial Strategy itself. However, they are taken account of in the delivery of individual services and projects.

Special expenses are based on the principle of ensuring there is equality across the district in levying Council Tax to residents based on services and facilities provided by Town and Parish Councils in specific areas that are also provided by the District Council.

### **PART 3 – SUPPORTING INFORMATION**

#### **BACKGROUND**

Cabinet considered the Long Term Financial Sustainability Plan / 10 Year Forecast at its 5 September 2017 meeting and it was resolved that Cabinet:

- (a) Agrees the revised long term financial sustainability approach and associated ten year forecast that is set out in the 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.*

The Corporate Management Committee considered the report referred to above at its meeting on 25 September 2017, following which its comments relating to the use of the proposed Beach Recharge Reserve were presented back to Cabinet at its 10 November 2017 meeting.

## REVISED FINANCIAL FORECAST 2018/19

**Appendix A** sets out an updated forecast for 2018/19.

The initial forecast set out a deficit for the year of **£0.536m**, which has been revised to a net surplus of **£0.042m** at this stage of the budget process. Work remains on-going in developing the budget which will need to react to a number of issues such as any announcements from the Government as part of the annual local government financial settlement process. Any changes will be reported to members as they arise throughout the remainder of the budget setting process and will be included in the final budget proposals to be considered by Cabinet in January before recommendations are made to Council.

The following table provides a commentary on the changes to the initial forecast (excludes items where there has been no change compared to the relevant line of the initial forecast):

Item in the Forecast	Change since initial forecast £	Comments
<b><i>Underlying Funding Growth</i></b>		
Council tax Increase by 1.99%	Increase in Income of <b>£0.003m</b>	A small increase due to the most up to date tax base being used in the calculations
Council tax Increase by £5	Increase in Income of <b>£0.001m</b>	
Growth in business rates - Inflation	Increase in Income of <b>£0.044m</b>	This reflects the updated inflation forecast and also reflects the move to CPI from RPI as announced by the Government in the Autumn Budget
Growth in business rates / council tax - general property growth	Increase in Income of <b>£0.132m</b>	Reflects the latest property base estimates for 2018/19
Collection Fund Surpluses b/fwd	Increase in Income of <b>£0.552m</b>	This reflects the latest collection fund position for the year. This is however a one-off increase as the collection fund surplus or deficit is updated each year based on actual collection performance etc.

<b>Net Cost of Services and Other Adjustments</b>		
Inflation - Employee Costs (including annual review adjustments)	Reduction in forecasted expenditure of <b>£0.057m</b>	This reflects the latest salary forecasts which include restructures implemented so far to date.
Inflation - Other	Reduction in forecasted expenditure of <b>£0.015m</b>	Similarly to the associated income position, this reflects the updated inflation forecast and also reflects the move to CPI from RPI as announced by the Governments in the Autumn Budget
LCTS Grant to Town and Parish Councils	Increase in forecasted Costs – <b>£0.041m</b>	This corrects an error in the initial forecast where it was agreed to reduce the grant at the same pace as the Council's RSG – the actual grant payable in 2018/19 was included in the initial forecast rather the change between years.
Specific Changes in Use of Reserves	Increase in forecasted Costs – <b>£0.224m</b>	<p>This reflects two issues not included in the initial forecast:</p> <ul style="list-style-type: none"> <li>• A contribution to the business rates resilience reserve of <b>£0.150m</b> given the strong position within the associated income lines above, which in effect pays back the <b>£0.150m</b> that was drawn down from this reserve in 2017/18.</li> <li>• Given the on-going favourable position against parking income, it is now possible to meet the cost of this scheme within the underlying base budget with no need to call on the associated reserve to fund it. An adjustment to the use of reserves of <b>£0.074m</b> has therefore been made in 2018/19. A recommendation is included earlier on in this report to reflect this proposed change in the forecast.</li> </ul> <p>So there is no overall net impact on the budget, the parking income budget has been increased by the same amount as set out below.</p>
On-going savings / increased income	Achieved savings / increases in income <b>£0.290m</b> <b>(£0.010m</b> lower than	<p>The following savings / increases to income have been included in the budget:</p> <ul style="list-style-type: none"> <li>• Commercial property rental income following the purchase of a property in Clacton earlier in the year - <b>£0.155m</b></li> <li>• Garden Waste Scheme - <b>£0.105m</b> (break-even position now being exceeded)</li> </ul>

	the allowance of <b>£0.300m</b> included in the initial forecast)	<ul style="list-style-type: none"> <li>• Review of all Council owned property rent income budgets - <b>£0.010m</b></li> <li>• Increased income from Street Naming and Numbering - <b>£0.020m</b></li> </ul>
Unmitigated Cost Pressures	Total cost pressures of <b>£0.172m</b>  (the total amount included in the budget is <b>£0.022m</b> more than the allowance of <b>£0.150m</b> included in the initial forecast)	The following cost pressures have been included within the updated forecast: <ul style="list-style-type: none"> <li>• <b>£0.072m</b> – this has been included in the revised forecast to respond to the risk that the final pay award agreed for 2018/19 could potentially be higher than the 1% included in the initial forecast. This amount would enable a total pay award of 1.5% to be accommodated within the budget.</li> <li>• <b>£0.040m</b> – to reflect the cost of cleaning the new beaches between Clacton and Holland on sea.</li> <li>• <b>£0.060m</b> - Additional summer cleaning of town centres and seafront areas</li> </ul>
Other Adjustments	Reduction in forecasted net expenditure of <b>£0.071m</b>	This is a new line in the forecast to recognise other changes that do not necessarily fit within other lines of the forecast.  Along with some minor budget amendments, the figure primarily reflects the necessary increase in parking income ( <b>£0.074m</b> ) to enable the scheme to be accommodated within the base budget on an on-going basis.

*The above position excludes changes to indirect costs such as internal recharges and technical accounting adjustments that do not have an overall net impact on the budget. However there is likely to be a change in the recharge made to the Housing Revenue Account which will be reflected in the final budget proposal that will be presented to Cabinet in January 2018.*

As set out in **Appendix A**, taking the above adjustments into account in the forecast results in an estimated surplus for 2018/19 of **£0.042m**, compared with the initial forecasted deficit of **£0.536m**. It is important to repeat the point made earlier in this report that this is primarily due to the one-off position against the collection fund. An updated 10 year forecast based on the above adjustments will be made available to members as part of the detailed estimates that will be presented to Full Council in February 2018.

Although the budget is likely to change over the next few weeks before being finalised for reporting to Full Council in February 2018, the current surplus of **£0.042m** will be added to the **£1.434m** that was set aside from the 2016/17 outturn position giving a new total of **£1.476m**. It is proposed to isolate this money from other Council reserves, so a new reserve has been set up and named the Forecast Risk Fund.

Reserves will be adjusted in line with the above changes to the initial forecast and will be included on this basis within the final budget proposals that will be presented to Full

Council in February 2018.

## **ADDITIONAL INFORMATION**

### **Council Tax Levy 2018/19**

Based on a proposed £5 increase, the Council Tax for a band D property would be **£162.64** in 2018/19. The updated property base is **46,739.5**, an increase of **880** over the 2017/18 figure of **45,859.5**.

The ability to increase Council Tax by £5 remains subject to confirmation from the Government. This is expected to be confirmed within the Local Government Financial Settlement which is expected shortly.

If such an increase is not permissible and it is necessary to revert back to an increase of 1.99%, income would be reduced by **£0.086m**, which would need corresponding savings to be identified over the life of the forecast.

### **Locally Retained Business Rates**

As set out above, an increase in income is forecast due to an inflationary uplift and an increased property base.

The Council has agreed to join a revised Essex Business Rates Pool in 2018/19, which has also bid to become a pilot area for 100% retention of business rates. No income is currently included in the forecast for either being a pool member or being successful in the bid for pilot status. It is expected that the Government will announce pool / pilots for 2018/19 shortly and once received the necessary adjustments to the forecast will be made.

### **Fees and Charges**

Similarly to previous years, Departments have been asked to review their fees and charges on an individual basis as changes may need to be made to meet specific aims or strategic objectives or in some cases in response to external factors such as market forces.

Detailed fees and charges will form part of the final budget proposals to Cabinet in January and Full Council in February, with proposed fees and charges set against the following key principles:

- inflationary increases or lower where appropriate
- amounts rounded for ease of application, which may result in a slightly above inflation increase.
- on a cost recovery basis as necessary
- reflect statutory requirements.

## **GENERAL FUND CAPITAL PROGRAMME**

Similarly to the General Fund revenue budget set out earlier on in this report, the revised budget for 2017/18 will be set out in a report to Cabinet in January 2018, with this report therefore concentrating on the 2018/19 forecast for consultation with the Corporate Management Committee.

Only 2 schemes are included in the base budget on a recurring basis each year and these relate to the on-going cost of replacing the Council's core IT infrastructure along with disabled facilities grants. **£0.100m** and **£0.757m** has therefore been included within the

2018/19 Capital Programme respectively.

The **£0.100m** investment in IT core infrastructure is funded by a direct revenue contribution, with disabled facilities grants funded by estimated external grant funding of **£0.690m** and capital receipts of **£0.067m**.

### **SPECIAL EXPENSES 2018/19**

Final special expenses amounts cannot be finalised until the budget for the year has been completed and the associated technical adjustments reflected in the budget. Therefore at this stage of the budget process it is more practical to review the principles against which the special expenses will be calculated rather than the specific amounts themselves, which are subject to change as the budget develops.

It is not proposed to make any changes to the principles behind the calculation of special expenses with the key principles remaining the same as in 2017/18 as set out below:

- A de minimus amount of **£0.025m** is applied to determine which expenses are excluded from the special expenses calculations;
- Any allocation to specific areas less than **£0.001m** is excluded for the purposes of determining special expenses.

Although subject to the final budget calculations, expenses to be allocated as special expenses are likely to remain as in 2017/18 and apply to open space and recreation area costs.

For completeness, the underlying technical background to the calculation of special expenses is set out below:

*Certain expenditure referred to as 'Special Expenses' is regarded as being chargeable to only certain parts of the district. The rest of the Council's expenditure is regarded as being chargeable over the whole district and is referred to as 'General Expenses'. Local authorities have the power to pass a resolution in respect of any particular Special Expense to the effect that the amount of that expense should be charged across the whole district. This is referred to as the contrary resolution.*

*In exercising this power the Council also has to consider how the burden of Special Expenses will be charged to the taxpayers of the district.*

#### **Information from parish/town councils**

*Each year parish councils complete a return to identify changes to the services they undertake*

#### **Consideration of Determining the Contrary Resolution**

*In judging whether the contrary resolution should be passed in respect of any special expenses, the following matters are relevant:*

- Whether in respect of this Council's expenditure the function is to be provided generally for the whole district or is to be restricted to a part or parts of the district?*
- To what extent, if any, are restrictions placed on any part of the district as to the accessibility of the function?*

iii) *The use of the facility/activity to which the Special Expense relates.*

*These matters must each be considered and a view taken as to whether it would be appropriate to pass the contrary resolution in respect of some of the budgeted expenditure on Special Expenses.*

*In determining how the burden of special items should be charged to the taxpayer of the district, the following matters need to be considered.*

i) *Where is the facility situated?*

ii) *Who uses it?*

iii) *How much expenditure is to be spent in the various parts of the district?*

*Wherever possible the Council aims to charge the cost incurred in performing a function in a part of the district, to the taxpayers of that part. In assessing the area of benefit to which a function identified as a special expense relates, parish boundaries have been treated as the appropriate areas.*

*The tax base for apportioning Special Expenses to each parish and the unparished area is that used to determine the Council's overall Council Tax base.*

#### **ANNUAL MINIMUM REVENUE PROVISION POLICY STATEMENT**

Where relevant, figures included in the 2018/19 budget are based on the Policy Statement agreed by Council at their 21 November 2017 meeting which is as follows:

**In accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, the Council's policy for the calculation of MRP for 2018/19 shall be the Capital Financing Requirement Method for supported borrowing and the Asset Life (equal instalment) Method for prudential borrowing.**

#### **BACKGROUND PAPERS FOR THE DECISION**

Working papers held in Accountancy

#### **APPENDICES**

**Appendix A** Updated Financial Forecast 2018/19