CABINET

21 OCTOBER 2024

REPORT OF THE PORTFOLIO HOLDER FOR CORPORATE FINANCE AND GOVERNANCE

A.2 FINANCIAL PERFORMANCE REPORT 2024/25 – GENERAL UPDATE AT THE END OF JULY 2024

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To provide a general update and overview of the Council's financial position against the 2024/25 budget as at the end of July 2024 and looking ahead to 2025/26 and beyond.

EXECUTIVE SUMMARY

- These regular finance reports present the overall financial position of the Council by bringing together in-year budget monitoring information and timely updates on the development of the long-term forecast. (*Due to the timing of this report, the position reported is from 1 April 2024 to the end of July 2024 rather than just the position at the end of the first quarter).*

- The report is therefore split over two distinct sections as follows:

  1) The Council's in-year financial position against the budget at the end of July 2024

  2) An updated long-term financial forecast

- It is worth highlighting that a number of adjustments were made to the 2024/25 budget as part of developing the detailed estimates that were agreed by Full Council in February. This was complemented by further 2024/25 budget amendments when the Q3 position was reported to Cabinet in April, and again when the Outturn Position for 2023/24 was reported to Cabinet in July.

- With the above in mind, the in-year position at the end of July 2024 therefore primarily reflects issues already acknowledged, rather than significant new issues emerging.

- However, it is timely to address a number of cost pressures that have been identified to date, which it is proposed to fund on an initial one-off basis in 2024/25. Any longer-term impact, including those items already funded as part of earlier reports highlighted above, will be considered as part of developing the long-term forecast, which is covered in more detail in Section 2 of this report.

SECTION 1 - In respect of the in-year financial position at the end of July 2024:

- The position to the end of July 2024, as set out in more detail within the appendices, shows that overall, the General Fund Revenue Account is overspent against the profiled budget by **£0.480m.** However, it is important to highlight that this is primarily due to the timing of the when the Government reimburse the Council for the of cost of meeting housing benefit claims and parliamentary election expenses incurred earlier in the year.

- As indicated above, no significant new issues have emerged to date in terms of the underlying budget, albeit a number of cost pressures have been identified as set out within **Appendix 1H**. These cost pressures are largely unavoidable, and it is both timely and prudent to respond to such issues as early as possible in the year. It is acknowledged that other expenditure or income trends may still emerge / develop over the remainder of the year, which will be included in future financial performance reports as necessary.

- In respect of other areas of the budget such as the Housing Revenue Account, capital programme, collection performance and treasury activity, apart from additional details set out later on in this report, there are no other major issues that have been identified to date.

- As highlighted in **Appendix 1H,** a total of **£0.250m** has been transferred to the Forecast Risk Fund. This is in effect the annual required contribution highlighted within the long-term forecast which is a 'banking for the future' adjustment and is therefore prudent to make at this time.

- In addition to the above, it is also proposed to continue to be a member of the Essex Business Rates Pool if it remains advantageous to do so in 2025/26.

In respect of the updated long-term financial forecast:

- The forecast has been reviewed and updated at the end of July 2024 and is set out in **Appendix 2A**. It continues to reflect the very challenging financial position faced by Local Authorities, which includes on-going inflationary pressures.

- As committed to within earlier reports, the forecast has been extended out to 2033/34 to support the Council in managing its budget sustainability and financial resilience over a longer term period. Although further information is set out in Section 2 of this report, there remains some potentially tough decisions that lie ahead. However, against this backdrop, it will be important that the development of the forecast is based on engagement with as many stakeholders as possible, including members and residents to support the Council in balancing the provision of services with the need to deliver long-term financial sustainability.

- The revised forecast also remains based on balancing optimism / pessimism bias that is inherent in any forecasting process and includes the on-going use of one-off funding such as the New Homes Bonus.

- Work remains ongoing within Departments and with Portfolio Holders to identify the longer-term impact of issues emerging to date along with remaining sighted on potential future cost pressures. With this in mind, it is important to highlight that the long-term forecast does not currently reflect the potential increase in costs expected from the retender of the Council's waste, recycling and street cleansing contract. This could place a significant level of additional financial burden on the financial forecast.

- However, the long-term approach alongside the Forecast Risk fund remains a key element of providing additional flexibility and time to make better-informed decisions. However, significant on-going savings are still required, with the first iteration of the Council's savings plan set out in **Appendix 2B**.

- The potential savings identified to date of just under **£2.500m** broadly meet the 'target' set out in the forecast covering the years 2025/26 and 2026/27. The savings proposed represent a credible financial plan and work will remain on-going to deliver the various items over the coming months. It is important to highlight that the savings do not necessarily have to accrue from the 1 April 2025, given the flexibility provided by the Forecast Risk Fund, but the earlier they can be delivered will be helpful in terms of supporting the later years of the plan.

- As previously highlighted, a structural budget deficit is forecast to remain at the end of 2026/27 even after the delivery of the savings mentioned earlier. This presents further significant challenges as this has to be addressed via the identification of additional on-going savings. As set out in the forecast, this remains the case until such time as the Council delivers an underlying annual balanced budget. In terms of this latter point, the forecast shows that the level of inflation, especially pay inflation, outstrips the estimated level of forecast increases in income from council tax and business rates, which is clearly not sustainable without significant 'corrections' to the budget in future years.

- The above remains subject to any intervention from the Government, who themselves have a very challenging financial question to resolve in the context of many Councils up and down the country potentially running out of money in the coming months and years.

- The challenges faced by the Housing Revenue Account are also significant and include increased expectations and requirements that continue to emerge from the Social Housing Regulation Act and associated enhanced powers of the Housing Regulator. The HRA 30 Year Business plan will be developed over the coming weeks with the aim of responding to such challenges set against the wider context of continuing to provide a financially sustainable position in the long term.

RECOMMENDATION(S)

It is recommended that Cabinet:

(a) notes the Council's in-year financial position at the end July 2024;

(b) approves the proposed adjustments to the 2024/25 budget, as set out in Appendix 1H, and requests Officers to review the potential on-going impact in 2025/26 and beyond where necessary as part of developing the forecast and detailed estimates for further consideration by Cabinet later in the year;

(c) agrees that the Council continues to be a member of the Essex Business Rates Pool in 2025/26 if it remains financially advantageous to do so;

(d) notes that £0.165m of unspent external funding previously received via the North Essex Health & Wellbeing Alliance, that has subsequently been carried forward into 2024/25, is being returned to them in accordance with the original agreement / MOU agreed by Cabinet on 17 September 2021;

(e) notes the payment of £0.092m to East Suffolk District Council in-line with the previously agreed Freeport East Local Growth and Investment Strategy;

(f) notes the updated financial forecast set out in this report and requests Officers, in consultation with Portfolio Holders to further develop the financial forecast proposals alongside the development of the Council's priorities; and

(g) invites the views of the Resources and Service Overview and Scrutiny Committee on the information set out in this report along with the Council's wider financial position as part of its work programme for the year.

REASON(S) FOR THE RECOMMENDATION(S)
To set out the latest financial position for the Council and to respond to emerging issues in 2024/25 and to develop the budget and long-term forecast from 2025/26.

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

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

A revised Corporate Plan and Vision was approved by Full Council at its meeting on 28 November 2023. One of the 6 included themes is Financial Sustainability and Openness, with a commitment to continue to deliver effective services and get things done whilst looking after the public purse; that means carefully planning what we do, managing capacity and prioritising what we focus our time, money and assets on. Tough decisions will not be shied away from, but will be taken transparently, be well-informed, and based upon engagement with our residents.

The forecasting and budget setting process will have direct implications for the Council's ability to deliver on its objectives and priorities. The current approach to the forecast seeks to establish a sound and sustainable budget year on year through maximising income, managing liabilities and cost pressures whilst limiting reductions in services provided to residents, business and visitors where possible.

Effective budgetary control is an important element underpinning the above to ensure the financial stability of the authority by drawing attention to issues of concern at an early stage so that appropriate action can be taken.

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)

<table>
<tr><td rowspan="2">Is the recommendation a Key Decision (see the criteria stated here)</td><td rowspan="2">Yes</td><td>If Yes, indicate which by which criteria it is a Key Decision</td><td>□ Significant effect on two or more wards
X Involves £100,000 expenditure/income
□ Is otherwise significant for the service budget</td></tr>
<tr><td>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)</td><td>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 Report item.</td></tr>
</table>

The Best Value Duty relates to the statutory requirement for local authorities and other public bodies defined as best value authorities in Part 1 of the Local Government Act 1999 ("the 1999 Act") to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". In practice, this covers issues such as how authorities exercise their functions to deliver a balanced budget (Part 1 of the Local Government Finance Act 1992), provide statutory services and secure value for money in all spending decisions.

Best value authorities must demonstrate good governance, including a positive organisational culture, across all their functions and effective risk management. They are also required, pursuant to section 3 of the 1999 Act, to consult on the purpose of deciding how to fulfil the Best Value Duty.

The Government have recently published revised Statutory Guidance on the Best Value Duty of Local Authorities in England under section 26 of the 1999 Act, which best value authorities are required to have regard to. To provide greater clarity to the sector on how to fulfil the Best Value Duty, the statutory guidance sets out seven overlapping themes of good practice for running an authority that meets and delivers best value. These seven best value themes build on the lessons learned from past interventions and reflect what most local authorities already do or are striving to achieve. A detailed description of these themes, including characteristics of a well-functioning local authority and indicators used to identify challenges that could indicate failure, is set out within the revised guidance and financial management and sustainability is a reoccurring expectation throughout the themes and indicators. These reports along with how the Council responds to new or developing issues remains an important element of demonstrating these key requirements.

The Council is legally required to calculate a Council Tax requirement each financial year. Within this framework is the requirement to monitor and report accordingly on the financial position of the authority against this requirement.

The position set out in this report and the actions proposed are within the Council's powers and reflect the statutory requirements and responsibilities of the Council in the preparation of its accounts.

-	**The Monitoring Officer confirms they have been made aware of the above and any additional comments from them are below:**

The Monitoring Officer has not yet been provided the opportunity to review this report given reporting deadlines and the inclusion of additional information late on before publication. However, any comments will be provided ahead of Cabinet's meeting as necessary.

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 long-term approach to the forecast highlighted in this report has been discussed with the Council's new External Auditor, albeit informally. There were no major concerns raised but they will undertake their own independent and detailed review as part of their commentary on the Council's use of resources, which will be presented to the Council by the end of February 2025.

In terms of the Council's previous External Auditor, their work remains focused on the outstanding Statement of Accounts for 2020/21 to 2022/23. In accordance with the latest proposed 'backstop' dates, they are expected to provide their updated commentary on the Council's use of resources by the 13 December 2024.

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.

It is worth highlighting the issues that emerged earlier in the year relating to the Spendells House capital project, where Services had committed / incurred expenditure ahead of associated decisions being made. Although the outcome from the associated investigation is yet to be finalised, three key actions were proposed by the Chief Executive, that were also captured in the Council's Annual Governance Statement that is regularly reported to the Audit Committee. To date, two of these key actions have been completed / remain on-going with the third subject to the outcome of the investigation highlighted above.

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 report forms part of the Council's wider budget setting processes. Additional update reports will therefore be presented to Cabinet in November, December and January as part of developing the detailed estimates that will be presented to Full Council in February 2025.

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 response is set out in the body of this report and will continue to be addressed as part of the future financial update reports highlighted earlier. It is also worth highlighting emerging risks associated with the establishment of the Office for Local Government (OFLOG) and the enhanced role of the Housing Regulator via the Social Housing Regulation Act. These will undoubtedly have significant financial consequences for Local Authorities, either directly or where increased capacity may be required to respond to any emerging requirements. This will be considered on an on-going basis as part of developing the forecast over the coming months. At the time of finalising this report, the Government had 'paused' part of the work of OFLOG. Updates will be provided within future reports as further information is announced by the Government. As highlighted later on in this report, the Forecast Risk Fund remains available to support the longer-term approach, with the required contribution proposed to be made to the reserve in 2024/25. This therefore continues to provide a *'banking for the future'* approach to support the Council's long term financial planning process. It is also 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. Reserves are subject to an annual review as part of developing the forecast, with updates planned to be presented to Cabinet later in the year.
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 – IN YEAR FINANCIAL PERFORMANCE AGAINST THE BUDGET AT THE END OF JULY 2024

The Council's financial position against the approved budget has been prepared for the period ending 31 July 2024.

As highlighted earlier, as part of developing the 'base' budget for 2024/25 earlier in the year, a number of adjustments were made to reflect emerging and/or on-going issues. This was complemented by further identified adjustments made as part of the Q3 Financial Performance Report and the Outturn report for 2023/24 that were presented to Cabinet in April and July respectively. With the above in mind there are only a limited number of variances developing to date, which are primarily in respect of known issues rather than any significant new matters arising.

The on-going review of cost pressures continues on a 'live' basis with a number of items included within **Appendix 1H**. These broadly reflect unavoidable items or where it is felt prudent to respond to matters as early as possible, such as those associated with keeping buildings operational or responding to statutory responsibilities etc.

Although proposed budget adjustments are highlighted within **Appendix 1H** in response to issues identified to date, the Council's wider and more detailed position at the end of July 2024 is set out within **Appendix 1**, with some additional comments included below against the six key areas of the budget where necessary:

<u>GENERAL FUND REVENUE</u>

The position to the end of July 2024, as set out in more detail in the Executive Summary attached, shows that there is an overall net overspend of **£0.480m.**

Apart from any associated impact of the proposed adjustments set out within **Appendix 1H**, the variance is primarily due to the timing of expenditure and income, with examples being the timing of when housing benefit payments are made and when the money is reimbursed by the Government via the associated subsidy system and the full reimbursement of costs associated with the parliamentary elections earlier in the year.

Notwithstanding the above, it is important to highlight the following:

Treasury Investment Income – given that interest rates continue to remain relatively high, investment income is significantly ahead of the budget. An initial favourable budget adjustment is therefore set out within **Appendix 1H** to reflect the most up to date position, which will be subject to on-going review in later quarters.

Parking income – as highlighted within **Appendix 1**, parking income is currently ahead of the budget. Similarly to previous periods, no adjustment to the budget is proposed at the present time, but the position will be kept under review across the next two quarters to identify if this favourable position is likely to remain until the end of the year.

As discussed in previous reports, financial risks of being a member of the North Essex parking Partnership are inherent, with a sum of **£0.100m** set aside to enable the Council to respond to such risks if they arise. Work remains on-going with the partners to gain the level of assurance required to limit such financial risk exposure as far as reasonably practical. Although recent estimates indicate an improving position, this will remain under on-going review with further updates presented later in the year.

Homelessness net costs – the significant demand for homeless accommodation continues. As highlighted in previous reports, the service remains committed to exploring options to respond to this demand in the most advantageous way. A further update is planned to be presented to Cabinet as part of the Q2 Financial Performance Report in November, where it is likely that additional funding will need to be made available to meet this on-going / rising cost. This remains one of the most significant financial challenges faced by Councils up and down the country, where historically the associated funding made available by the Government never matches the actual costs incurred. It is hoped that such issues will be taken into consideration as part of the Government's spending review discussed in more detail in Section 2 below.

As highlighted within the **Appendix 1**, the importance of Spendells House remains as a key element to support the Council in responding to this on-going issue.

Planning and Building Control Income – Although to a lesser extent to last year, income remains behind the budget for these two service areas. This will remain under review as part of the Q2 Financial Performance Report as it may be a position that could start to recover over the remainder of the year, especially as the budget position was supported by fee increases in 2024/25.

Leisure Centre Income from Fees and Charges – The favourable position reported to Cabinet in July as part of the Outturn for 2023/24 continues in 2024/25. It is proposed to reflect this increased income within the 2024/25 budget with an associated adjustment set out within **Appendix 1H**. Some of the additional income raised is proposed to be used for unavoidable costs being experienced within the leisure facilities, which are also set out within **Appendix 1H**. Any longer-term impact will be considered alongside the development of the forecast over the remainder of the year.

It is also worth highlighting the associated favourable position relating to the VAT treatment of some leisure income. This issue was reported last year where it was indicated that additional work remained outstanding in order to clarify the position following the earlier court ruling that determined that Local Authorities who provide in-house leisure services to the public are doing so under a statutory framework and therefore the charges made should be treated as non-business instead of being standard rated as has historically been the case. Given additional clarity emerging around this issue, this item has now been included within the savings plan set out within **Appendix 2B**.

Vacancy savings - when viewed corporately, employee costs remain behind the budget. A favourable budget adjustment is usually undertaken at the end of each quarter to utilise the accrued savings. It is only proposed to make a cautious adjustment at the present time given that the national pay negotiations for 2024/25 remain on-going, the outcome of which could result in the finally agreed pay award being higher than the amount currently forecast, which in turn will likely need to rely on accrued vacancy savings to date.

Careline Net Costs – a sum of **£0.296m** was included in the 2024/25 budget as part of enabling a wider review of the service to be undertaken. The associated report to Cabinet in July set out the position in detail, with a further report planned to be presented to Cabinet in November following a period of consultation. There are no adjustments required to the budget at this stage, which will be subject to further review as part of the report to Cabinet in November.

Energy Costs – these costs remain relatively volatile, although are supported by a contingency budget that was previously set aside. Further updates will be provided as part of developing the forecast over the coming months.

The impact of the various issues set out above, along with potential other emerging issues during the year will be kept under review as part of future financial performance reports, which will include identifying if there are any longer-term impacts in 2025/26 and beyond.

In terms of the Forecast Risk Fund, the full year 'target' amount of **£0.250m** is proposed to be contributed to the fund now, which is felt to be a prudent approach at this stage, although it can be reviewed later in the year as necessary. This adjustment is set out within **Appendix 1H.**

Taking the above into account, **Appendix 1H** sets out the requirement to draw down **£0.602m** from the Corporate Investment Fund to support the net cost of the various cost pressures and adjustments. This leaves a balance of **£1.763m** within the fund to support the Council's budget and further spending decisions over the coming months.

COLLECTION PERFORMANCE

A detailed analysis of the current position is shown in **Appendix 1E**.

As highlighted in previous reports, there undoubtedly remains an on-going impact from COVID 19 on collection performance along with the cost of living challenges currently faced by residents and businesses. Any necessary recovery action will continue over the remainder of the year, with the aim of maximising the level of collection performance wherever possible.

In respect of general debt, the performance this year is running slightly ahead of the position at the same time last year.

The Council remains a member of the Essex Business Rate's Pool in 2024/25 along with benefiting from the Council Tax Sharing Agreement with Essex County Council. These two schemes have continued to provide a financial benefit to the Council over recent years and it is proposed to continue the same approach in 2025/26. An associated recommendation is therefore set out above to support the Council's continued involvement in the Essex Business Rates Pool whilst it remains financially advantageous to do so. The Current Council Tax Sharing Agreement agreed last year covered two financial years and is therefore not due to expire until the end of March 2026, so there are no additional decisions required at the present time.

HRA REVENUE

An overall position is set out in the Executive Summary with further details included in **Appendix 1C**. At the end of July 2024, the HRA is showing a net underspend of **£0.348m,** which reflects a number of variances across various HRA budgets as highlighted.

It is worth highlighting a number of changes to the Right to Buy regime recently introduced by the new Government which included the following increased flexibilities in 2024/25 and 2025/26:

- The maximum permitted contribution from RTB receipts to replacement affordable housing has increased from 50% to 100%.
- RTB receipts will be permitted to be used alongside section 106 contributions which was previously prohibited.
- The cap on the percentage of replacements delivered as acquisitions each year (currently 50%) has been lifted.

The impact and flexibilities that the above introduces remain under review and will be set out in future reports as necessary.

CAPITAL PROGRAMME – GENERAL FUND

The overall position is set out in **Appendix 1D.**

As at the end of July 2024, the programme is broadly on target against the profiled position.

Appendix 1H sets out a 'technical' adjustment relating to an earlier Carnarvon Road demolition scheme where it is proposed to 'transfer' this money to support the associated and wider Levelling Up Scheme on the same site.

CAPITAL PROGRAMME – HOUSING REVENUE ACCOUNT

The overall position is set out in **Appendix 1D.**

As at the end of July 2024, the programme is behind profile by **£0.487m.**

This budget relates primarily to the on-going major repairs and improvements to the Council's own dwellings along with the timing associated with various works and activities.

The Spendells House project also forms part of the wider HRA capital programme, with works on-going within the revised budget position agreed by Cabinet at its 24 May 2024 meeting.

TREASURY ACTIVITY

A detailed analysis of the current position is shown in **Appendix 1F.** As highlighted earlier, additional income is being achieved to date which has been reflected within **Appendix 1H**.

The Annual Capital and Treasury Strategy for 2024/25 (including the Prudential and Treasury Indicators) was approved by Full Council in March 2024, with all activity to date therefore undertaken in accordance with this strategy and associated treasury management practices.

Other Matters

Freeports – As part of its decision at its meeting on 24 May 2024, Cabinet agreed the Freeport East Local Growth and Investment Strategy. This in effect formalised the process relating to the required contributions from qualifying business rate income generated from the Harwich Tax Site, that are in turn payable to East Suffolk District Council as the accountable body, for disbursement in line with the strategy and associated governance arrangements.

Although East Suffolk District Council have yet to finalise an inter-authority agreement setting out the processes relating to the payment to them of retained rates, they have recently approached the Council to seek an interim payment to support the cash flow requirements of Freeport East Ltd. Such payments have in effect been agreed as part of approving the Local Growth and Investment Strategy mentioned earlier and the money requested is in-line with those arrangements. As at the end of 2023/24, **£0.092m** of additional business rates has been generated from the Harwich Tax site through underlying ‘technical’ growth rather from new business growth. This money has been set aside in reserves pending it being transferred to East Suffolk District Council.

Health Funding – At its meeting on 17 September 2021 Cabinet accepted external funding of **£0.165m** for health and housing from the North East Essex Clinical Commissioning Group, which was a contribution to support a number of health related projects as set out in the associated MOU with the North Essex Health & Wellbeing Alliance. This was additional funding over and above previous health and housing funding which had been used to provide mental health support from the local Mental Health Trust, to sustain tenancies and prevent homelessness when identified by interventions from Council officers. As agreed by the Alliance partners, this funding has remained unspent and has subsequently been carried forward into 2024/25 to ensure the original health and housing work to provide health support could be extended. Subsequently, the Council have been approached by its Alliance Partners requesting the return of this funding via the associated Alliance’s governance arrangements and MOU as they now propose to make an associated contribution directly to Mental Health Trust to continue this work. An associated recommendation is set out above.

Project Delivery Team – following Cabinet’s decision in July, work remains on-going to recruit the necessary capacity to support the delivery of the various activities/ projects across the Council. Further updates will be provided as part of future reports.

SECTION 2 – UPDATED LONG TERM FORECAST

The detailed budget for 2024/25, which was based on the most up to date financial forecast, was considered and agreed by Full Council on 13 February 2024. The report considered by Full Council also included a summary of the forecast up until 2026/27.

For completeness, a summary of the position presented to Full Council on 13 February 2024 is set out in the following table:

Table 1

Year	Net Budget Position*	Forecast Risk Fund - Estimated Surplus Balance at the end of the year
2025/26	£2.027m deficit	£4.166m

2026/27	£2.297m deficit	£2.118m

**includes removal of the prior year use of reserves etc. to balance the budget.*

The figures set out within the table were inclusive of delivering on-going savings of **£1.000m** and **£1.500m** for 2025/26 and 2026/27 respectively.

It was also highlighted that even after the achievement of these savings totalling **£2.500m**, a structural budget deficit of over **£2.000m** remained at the start of 2027/28.

As committed to in earlier reports, the forecast has now been extended out to 2033/34 to give a longer-term view of the potential future financial position of the Council, with some highlights as follows:

- Income from council tax and business rates increased by inflationary uplifts each year of the forecast. (lines 1 to 7 of the forecast)
- The expectation that the council tax referendum principle of allowable increases of up to £5 continues in 2025/26 and beyond.
- A potential 'clawback' by the Government of the gain from the business rates national revaluation exercise from 2023 is still expected. (deficit figure is included within line 5 of the forecast in 2025/26)
- A reduction of just over **£1.000m** in the revenue support grant / financial settlement receivable from the Government over 2025/26 and 2026/27 - line 8 of the forecast. (current total grant receivable in 2024/25 is just over **£2.200m**).
- The removal of a number of one-off items in 2024/25 – line 9 of the forecast.
- The reduction in additional income achievable from treasury activities over 2025/26 and 2026/27 as interest rates start to fall back from the relatively high rates being achieved at the moment. (line 14 of the forecast)
- The inclusion of inflationary increases for employee costs and major contract costs – lines 18 and 19 of the forecast. It is important to highlight that the figure currently included in the forecast for the increase in employee costs is based on the current offer made to the Unions. This offer has not yet been accepted and there remains the real risk that this could increase as part of the on-going negotiations.
- The inclusion of a general cost pressure allowance of **£0.500m** each year of the forecast – line 20 of the forecast. It is important to highlight that this does not include any additional allowance for the potential increase in the waste, recycling and street cleansing contract that will be retendered shortly.
- The on-going impact from adjustments already made in 2024/25 along with those set out in **Appendix 1H** remain subject for review for potential inclusion in later iterations of the forecast.

In terms of the later years of the forecast, it is important to highlight the significant challenges arising from inflationary increases expected to exceed to ability to raise income from council tax and business rates. Therefore, at some reasonable point in the future, the Council must be able to put itself in the position of balancing its annual budget, otherwise the position is not sustainable as it would require on-going use of reserves. Based on the current forecast position, the expected annual imbalance between expenditure and income is approximately **£0.700m**. This would therefore require corresponding annual on-going savings to be realised over the full forecast period to enable a balance budget to be set each year.

Appendix 2B sets out the first iteration of the savings plan that aims to meet the first **£2.500m** of savings previously reported. As previously discussed in earlier reports, S114 reports issued by some Local Authorities have highlighted the major issue faced by Councils is not having the necessary practical, pragmatic and credible plans in place to identify the savings required to balance their budgets. The proposed estimated savings set out with **Appendix 2B** are felt to be prudent, deliverable and credible with work on-going to secure them as soon as practicable. As previously mentioned, although the savings do not have to be accrued from 1 April 2025, given the flexibility afforded by the Forecast Risk Fund, it is acknowledged that securing them as early as possible will provide further flexibility and support in later years of the forecast.

The challenging work of identifying additional savings over the later years of the forecast will be considered as part of developing key actions and activities during 2025/26 and beyond.

Based on the current forecast, the Forecast Risk fund would be fully depleted during 2027/28, which is only three years into the current forecast period.

However, it is important to acknowledge that the long-term approach to the forecast therefore still enables the flexibility and time to consider the longer-term plan and the further savings that will be required in a more informed way.

Notwithstanding the above, it is important to continue to seek support from the Government not only in real terms through potential increases in the Revenue Support Grant / Funding Settlement but also through longer term deals. It is encouraging that the Government recognise this latter point and their commitment to providing this certainty where it can.

The next significant fiscal event is the Government's Autumn Budget scheduled for 30 October 2024. Although it is unlikely that Councils will have clarity around how much funding they are likely to receive, it is hoped that it provides some level of detail to support the Council's financial planning processes. Such detail could include early indications of the direction of travel in terms of Local Government Financial Settlements. As highlighted earlier, a cautions reduction in Government Support has been reflected in the forecast. Any favourable changes to this would likely have a significant impact on the forecast such as extending the availability of the Forecast Risk fund beyond 2027/28.

With the above in mind, it is understood that the Local Government Association (LGA) has submitted a proposal to HM Treasury ahead of the Autumn Budget on 30 October, urging the Government to stabilise council finances and protect services. They go onto highlight that Councils are facing a funding gap of over £2 billion in 2025/26. The LGA warns that further cuts could push more councils towards financial ruin, with potentially disastrous outcomes for communities.

Although some clarity is hopefully expected to emerge from Government announcements over the coming months, it is unlikely that a more detailed long-term view will become clear until the wider Comprehensive Spending Review is concluded. As part of a recent statement by the Chancellor of the Exchequer, the launch of the next Spending Review was announced that will inform future settlements, with its conclusion scheduled for Spring 2025.

Forecast Risk Fund

As highlighted earlier it is proposed to contribute **£0.250m** to the Forecast Risk Fund which meets the in-year contribution 'target' that in turn supports the overall balance in the reserve that underwrites the various risks to the forecast.

Based on the current forecast, the Forecast Risk Fund is estimated to total **£6.415m** at the end of 2024/25, which is therefore available to support the development of the forecast from 2025/26 and beyond.

Risk Assessment

Given the inherent risks to the forecast, a risk assessment of each line of the forecast is maintained. This is currently being reviewed in light of the updated forecast set out above with the aim of providing an updated position when the Q2 Financial Performance Report is presented to Cabinet in November 2024.

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 2025.

Given the changes and potential impacts discussed above, it is proposed to hold an All-Member briefing later in the calendar year to keep members as up to date as possible on the development of the forecast and associated challenges etc.

Housing Revenue Account

Similarly to previous years, some of the challenges relating to the General Fund will have an equally challenging impact on the HRA, e.g. inflation.

The HRA faces some significant financial pressures looking ahead, such as the telescopic impact of the rent ‘cap’ in 2023/24, along with increased expectations that are emerging from the Social Housing Regulation Act and associated enhanced role of the Housing Regulator.

In light of the above, work remains in progress on revising the HRA 30 year Business Plan, with further updates planned to be reported to Cabinet later in the year.

PREVIOUS RELEVANT DECISIONS

Executive’s Proposals – General Fund Budget and Council Tax 2024/25 – Item A.1 Full Council 14 February 2024.

Executive’s Proposals – Housing Revenue Account Budget 2024/25 – Item A.2 Full Council 14 February 2024.

Financial Performance Report 2023/24 and 2024/25 – General Update at the end of Q3 – Item A.3 Cabinet April 2024.

Financial Outturn 2023/24 Report – Agreed by the Portfolio for Finance and Governance 17 July 2024 (LINK: Decision - Financial Outturn 2023/24 (tendringdc.gov.uk))

Financial Outturn 2023/24 Report – Item A.9 Cabinet 26 July 2024

BACKGROUND PAPERS AND PUBLISHED REFERENCE MATERIAL

None

APPENDICES
RELATING TO SECTION 1 OF THE REPORT Appendix 1 - Front Cover and Executive Summary Appendix 1A – Summary by Portfolio / Committee Appendix 1B – General Fund Budget Position by Department Appendix 1C – Housing Revenue Account Budget Position Appendix 1D – Capital Programme Appendix 1E – Collection Performance – Council Tax, Business Rates, Housing Rent and General Debts Appendix 1F – Treasury Activity Appendix 1G – Income from S106 Agreements Appendix 1H – Proposed Adjustments to the Budget 2024/25 **RELATING TO SECTION 2 OF THE REPORT** Appendix 2A – Updated Long Term Financial Forecast Appendix 2B – Savings Plan

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