

CABINET

15 NOVEMBER 2024

REPORT OF THE PORTFOLIO HOLDER FOR CORPORATE FINANCE AND GOVERNANCE

A.8 FINANCIAL PERFORMANCE REPORT 2024/25 – GENERAL UPDATE AT THE END OF SEPTEMBER 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 September 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.
- 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 September 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, and along with a number of adjustments included in the Financial Performance Report considered by Cabinet on 21 October, the in-year position at the end of September 2024 continues to primarily reflect issues already acknowledged, rather than significant new issues emerging.
- However, it is timely to address a number of further 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 September 2024:

- The position to the end of September 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 **£0.724m** (£0.480m at the end of July 2024). However, it is important to highlight that this position continues to primarily reflect the timing of when

the Government reimburse the Council for the cost of meeting housing benefit claims and parliamentary election expenses incurred earlier in the year.

- **Appendix 1H** sets out a number of unavoidable cost pressures or where a timely opportunity for investment / expenditure has arisen. The cost of responding to homelessness within the District continues to present a significant financial challenge with **£1.200m** proposed to be set aside to support the estimated additional costs for the year. It is also proposed to request a more detailed report on the associated challenges faced by the homelessness service for consideration at a future meeting of Cabinet.
- **Appendix 1H** also sets out a proposed sum of **£0.040m** to explore collaborative opportunities with the Council's partners with an associated recommendation included below.
- 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.
- The recommendations set out below also propose delegations to enable the flexible use of funding previously set aside to support the development of the Council's Project Delivery Unit along with a contribution to ECC for procurement support.

In respect of the updated long-term financial forecast:

- The forecast has been reviewed and updated at the end of September 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 along with the recently announced increase in employer's national insurance rates from April 2025.
- As highlighted in an earlier report, the forecast period has been extended out to 2033/34 to support the Council in managing its budget sustainability and to support financial resilience over a longer term period. Although further information is set out in Section 2 of this report, including the potential impact from the Government's recent Autumn Budget Statement, there remains some tough decisions ahead. It will therefore remain important that the on-going 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.
- 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. Significant on-going savings are still required, with the latest iteration of the Council's savings plan set out in **Appendix 2B**. There has only been one change from the plan reported to Cabinet in October, which reflects the Government's commitment to 'protect' the local government sector that was set out within their recent Autumn Budget Statement, which has resulted in additional grant income now being expected when compared to earlier forecasts.
- 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.
- A structural budget deficit is forecast to remain across the forecast period, 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 across later years of the forecast. 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 continues to show 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 have signalled its intention to reform the local government funding system after 2025/26 and will carry out a broader redistribution of funding to better reflect local need (previously known as Fair Funding) through a multi-year settlement from 2026/27.
- 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 alongside a review of the announcements included within the Government's recent Autumn Budget Statement that are set out later on in this report, 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 September 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) subject to b) above, in respect of the additional sum of £0.040m made available to support North Essex Councils collaborative activities and Joint Health Post with Health Partners that is set out in Appendix 1H, agrees a delegation to the Chief**

Executive, in consultation with the Portfolio Holder for Finance and Governance and the Portfolio Holder for Partnerships to utilise this funding to support any associated work;

(d) subject to b) above, in respect of the additional £1.200m set aside to support the cost of homelessness, requests Officers to present a report to a future meeting of Cabinet setting out further details relating to the current challenges faced by the Council along with potential actions / proposed activities to support the Council going forwards;

(e) in respect of the Project Delivery Unit budget:

(i) approves a delegation to the Director for Governance and the Director for Finance & IT in consultation with the Corporate Director, Place and Economy to enter into an agreement with Essex County Council to increase existing procurement capacity for Tendring District Council;

(ii) subject to (e)(i) above, agrees a sum of up to the value of £120,000 over two years from the associated approved budget to fund the additional procurement capacity from ECC;

(iii) approves a delegation to the Chief Executive in consultation with the Portfolio Holder for Economic Growth, Regeneration and Tourism to agree further expenditure where capacity is procured from external bodies / organisations / individuals as an alternative to recruitment.

(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)

Is the recommendation a Key Decision (see the criteria stated here)	Yes	If Yes, indicate which by which criteria it is a Key Decision	<input type="checkbox"/> Significant effect on two or more wards <input checked="" type="checkbox"/> Involves £100,000 expenditure/income <input type="checkbox"/> Is otherwise significant for the service budget
		And when was the proposed decision published in the Notice of forthcoming decisions for the Council (must be 28 days at the latest prior to the meeting date)	<p>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.</p> <p>Published on 19/07/24.</p>

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, including the preparation of its annual accounts.

Yes	The Monitoring Officer confirms they have been made aware of the above and any additional comments from them are below:
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Attention is drawn to the on-going reference to the Council's Best Value Statutory Duty and recently published guidance, as set out within the legal requirements section above, along with highlighting that additional decision making will need to be considered as necessary in respect of items proposed to be added to the budget.

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:
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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:

<p>A) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;</p>	<p>This is addressed in the body of the report.</p>
<p>B) Governance: how the body ensures that it makes informed decisions and properly manages its risks, including; and</p>	
<p>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.</p>	

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 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. As mentioned earlier in the year, 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.

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

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 SEPTEMBER 2024

The Council's financial position against the approved budget has been prepared for the period ending 30 September 2024.

The variances set out within **Appendix 1B** primarily reflect updates against issues highlighted in the earlier report considered by Cabinet in October that covered the period ending the 31 July 2024.

The on-going review of cost pressures has continued 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, along with items where a timely opportunity has arisen e.g. collaborative working with partners. The two most significant items included within **Appendix 1H** relate to homelessness costs and treasury income, with further details set out below.

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 September

2024 is set out within **Appendix 1**, with some additional comments included below against the six key areas of the budget where necessary:

GENERAL FUND REVENUE

The position to the end of September 2024, as set out in more detail in the Executive Summary attached, shows that there is an overall net overspend of **£0.724m** (£0.0480m at the of July 2024).

Apart from any associated impact of the proposed adjustments set out within **Appendix 1H**, the most significant variances continue to be 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:

Homelessness net costs – the significant demand for homeless accommodation continues and it remains one of the most significant financial challenges faced by Councils across the Country. The Government have recognised the increased pressures being faced by Councils and announced additional national funding of **£233m** as part of the Chancellors recent Autumn Statement, although it is always difficult to translate what this means at an individual Local Authority level until figures are confirmed as part of the Local Government Finance Settlement later in the year. It is however positive news and it is hoped that it will help bridge the historic gap between the actual costs incurred by the Council and the associated grant funding provided by the Government.

As highlighted in previous reports, the service remains committed to exploring options to respond to this demand in the most advantageous way and a separate report is planned to be presented to a future meeting of Cabinet that will aim to set out further details relating to current and future challenges. It is important to highlight that Spendells House remains a key element of supporting the Council in meeting such challenges.

Notwithstanding the above and in recognition of the financial pressures being faced in the immediate term, a sum of **£1.200m** is proposed to be set aside to meet associated costs, which is included within **Appendix 1H**.

Treasury Investment Income – given that interest rates remain relatively high, investment income continues to be significantly ahead of the budget. In continuing the approach adopted at the end of July 2024, the ‘surplus’ income is proposed to be ‘banked’ at the end of each period, with this adjustment therefore set out within **Appendix 1H** that reflects the most up to date position. This will be subject to on-going review in later quarters and as part of developing the forecast for 2025/26 and beyond.

Parking income – as highlighted earlier in the year, parking income continues to remain ahead of the budget. As at the end of September 2024, the income achieved to date is almost equal to the full budget for the year. However, similarly to previous periods, no adjustment to the budget is proposed at the present time, with the position being kept under review across the next two quarters and as part of developing the forecast, as budget adjustments are likely to be required to recognise this additional income along with its potential reinvestment in the service.

As discussed in previous reports, it remains helpful to highlight the financial risks of being a member of the North Essex Parking Partnership, 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.

Other Significant Income Streams – Crematorium and Planning – Income remains behind profile by **£0.076m** and **£0.125m** respectively. In terms of crematorium income, to date this is being offset by a reduction in expenditure which is unlikely to be the position that can be maintained over the whole year.

These budgets will remain under review over the second half of the year as it may be a position that could start to recover, especially as the planning income budget was supported by fee increases in 2024/25.

Vacancy savings - when viewed corporately, employee costs remain behind the budget. As set out in the earlier Financial Performance Report, only a cautious adjustment was made to the budgets given the national pay negotiations for 2024/25 remained on-going at the time and there was the likelihood that any further underspends against employee costs would be required to meet the cost of the final agreed pay offer.

The pay award has subsequently been agreed and work remains underway to confirm the total overall cost to the Council over and above the original amounts budgeted. It is currently expected that the total additional cost will be in the order of **£0.200m** to **£0.300m**, which will be reflected in the budgets over the second half of the year and reported as part of the Q3 position in February 2025.

Careline Net Costs – as reported earlier, a sum of **£0.296m** was included in the 2024/25 budget to meet expected on-going additional costs whilst a wider review of the service was undertaken. A separate report is set out elsewhere on the agenda that provides the most up to date position in respect of this wider review along with further associated financial information.

Notwithstanding the above, in terms of the position to date, there is a net underspend against the budget (which includes the additional sum of **£0.296m** mentioned above) due to increased external income and underspends against employee costs given the on-going recruitment and retention challenges. The separate report referred to above brings together a number of discussion points relating to this underlying position against the budget, which are therefore not repeated here. Any potential changes / impact on the budget are therefore set out within that report, although it is worth highlighting that there are no plans at this stage to increase the budget over and above the money that has already been set aside to support the Service during the review period and in support of the subsequent outcomes.

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 the on-going development of 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** has already been contributed to the fund, which was a decision made as part of the earlier Financial Performance Report presented to Cabinet in October 2024.

Taking all of the above into account, **Appendix 1H** sets out the requirement to draw down **£0.839m** from the Corporate Investment Fund to support the net cost of the various cost pressures and adjustments. This leaves a balance of **£0.924m** 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**.

Income from Council Tax and Business rates show improvement against the same periods last year. This is primarily due to the continuation of 'building back' from the impact of COVID 19 on collection performance, although the on-going cost of living challenges faced by residents and businesses is acknowledged. 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 terms of housing rents, the performance to date matches the performance at the same time last year, which went on to record an end of year collection rate of 96.28%.

In respect of general debt, the performance is broadly on par with the position at the same time last year.

HRA REVENUE

An overall position is set out in the Executive Summary with further details included in **Appendix 1C**. At the end of September 2024, the HRA is showing a net underspend of **£0.436m** (£0.348m at the end of July 2024), which continues to reflect a number of variances across various HRA budgets, the most significant of which relates to the favourable position emerging against the rental income budget – to date additional income compared to the budget of **£0.191m** is being achieved against a total budget of **£15.389m**.

One of the other most significant revenue budgets within the HRA relates to repairs and maintenance of the housing stock, which to date is being effectively managed within the overall budget for the year.

It is worth highlighting the proposed budget adjustment set out within **Appendix 1H**, where a sum of **£0.030m** has been identified to support a 'pilot' approach within Spendells House relating to premises security. This initial approach will enable information to be captured in terms of the future management of the building.

CAPITAL PROGRAMME – GENERAL FUND

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

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

To support the timely reporting of overall performance against the various schemes, relevant information continues to be provided by Services that provides financial and non-financial updates as necessary.

CAPITAL PROGRAMME – HOUSING REVENUE ACCOUNT

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

As at the end of September 2024, the programme is behind profile by **£0.417m** (£0.487m at the end of July 2024).

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.

Work remains on-going to finalise the position against the capital budget relating to the flexible workspaces in Jaywick, with the outcome planned to be reflected in future reports.

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.

In accordance with Financial Procedure Rules the above strategy and associated activity have been subject to a half yearly review with the outcomes set out below, which also reflects commentary from the Council's treasury advisors.

No borrowing has been undertaken and the advice from the Council's treasury management advisers remains to borrow internally, which has been the approach by the Council where necessary, until such time as interest rates reduce.

The first half of 2024/25 has seen interest rates remain relatively steady with only a modest reduction of 0.25% in August from 5.25% to 5.00%. With CPI inflation heading below target to 1.7% in September 2024 it is likely that further interest rate reductions will occur between October and the end of the financial year.

The continuing elevated interest rate environment to date has led to ongoing increases in interest earned on short-term investments placed by the Council. **Appendix 1F** highlights that as at 30 September 2024 accrued interest earned to date in 2024/25 is **£2.396m** compared to an annual budget of **£2.885m**.

There is also the following update on the risk of investing with authorities which have issued a section 114 notice. As noted in previous updates this is not an underlying credit risk, as all local authorities are assessed as having the same risk as the UK government. However, it is accepted that reputationally it can draw adverse attention to such investments which in turn often leads to resources being unnecessarily diverted to answer Freedom of Information requests and other related queries.

Reflecting on the above, the Council does not invest with authorities that have issued a section 114 notice or where a risk of them potentially doing so has been identified. This is supported by utilising as much evidence as possible within the markets and if there are any overly adverse issues raised about a Local Authority, the Council will seek alternative investment opportunities where possible.

To support the information set out within **Appendix 1F** and to help Members continue to have oversight of the Council's treasury management activities along with complementing information already included within the Annual Capital and Treasury Strategy, a number of forward-looking prudential indicators are currently being developed. It is proposed to finalise this approach with the aim of including such indicators in future Financial Performance Reports.

Other Matters

Project Delivery Unit – As highlighted in the previous Financial Performance report earlier in the year, 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. The report referenced the need for additional capacity within key areas such as:

- Project management
- Capital delivery
- Programme governance
- Procurement
- Finance
- Contract and property law.

In terms of establishing the additional capacity within the above areas, the focus of the earlier report in July highlighted above was on recruitment, with a delegation to the Chief Executive to undertake the necessary activities as Head of the Paid Service. However, as part of the on-going mobilisation of the Project Delivery Unit, it has become clear that in the shorter term it may be necessary to increase capacity via the use of agency staff and / or through procuring it via outside organisations e.g. legal advice from legal firms. These both present reasonable alternatives to direct recruitment, which continues to be subject to challenges such as recruitment and retention issues.

With the above in mind, and for clarity given the earlier delegation referred to above, a complementary recommendation is included within this report to provide a delegation to the Chief Executive in consultation with other senior officers to establish the right balance of capacity through recruitment, agency staff and/or via procurement activities as necessary.

One particular area of capacity highlighted within the bullet points above that has arisen early in the mobilisation of the delivery unit is procurement. Given the Council's own use of Essex County Council as its primary source of procurement support via an associated SLA, it would be both timely and reasonable to also use ECC in terms of securing this additional capacity where necessary. A further recommendation is therefore set out above that proposes to use up to **£0.120m** from the existing Project Delivery Unit Budget of **£1.176m**, to 'buy-in' the necessary capacity for a period 2 years that corresponds with the initial Project Delivery Unit timescales.

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 most recent financial

forecast was reported to Cabinet on 21 October 2024 and extended the forecast period out to 2033/34.

Work on developing the forecast has remained on-going with a small number of amendments required since Cabinet's meeting on 21 October referred to above, which are set out in **Appendix 2A** and summarised in the following table:

Relevant Line of the Forecast (Appendix 2A)*	Change / Comment
Line 3 – Growth in Business Rates – Inflation	<p>A small reduction in income has been included to reflect the lower actual inflationary uplift that the Government apply when determining rates for the following financial year. (September's CPI, which was 1.7%).</p> <p>However, as part of the Government's Autumn Budget Statement, they confirmed a 'freeze' to the small business rate multiplier which therefore remains at 49.9p. The Government confirmed that Councils will be fully compensated for the 'cost' of this. This will therefore likely result in income being accounted for under a different line of the forecast, which will be reflected in future reports once further details are received from the Government.</p>
Line 18 – Employee Cost Inflation	<p>This line of the forecast already reflects the rebased position that takes account of the recently agreed pay award for 2024/25.</p> <p>It now also reflects the impact of the increase in Employer's National Insurance Contributions that were announced in the Government's recent Autumn Budget Statement. The Government did state that the Public Sector would be 'exempt' from this increase, but at the time of finalising this report, further clarity was still awaited. Until further information is received from the Government, it is prudent to adjust the forecast based on the worst-case scenario of the Council having to meet this additional cost, which will be subject to review as part of developing the detailed budget for 2025/26 later in the year.</p> <p>The increase in the minimum living wage that was also recently announced by the Government has not had a direct impact on the forecast as the Council already pays above this rate.</p>
Line 19 – Inflation – Other	<p>Conversely to the comment set out within Line 3 of the forecast above, there has been a small reduction made to reflect the lower inflationary uplift to business rates payable on the Council's own properties. Further</p>

	adjustments will be made to reflect the freeze in the small business rate multiplier as necessary when finalising the budget for 2025/26 later in the year.
Line 23 – Savings Required	The figure for 2025/26 has been adjusted to reflect the expected change in Government funding as set out below.

**Other lines of the forecast remain unchanged compared to the position reported to Cabinet on 21 October 2024.*

Appendix 2B sets out an updated savings plan that aims to meet the first phase of savings previously reported. There has only been one change to the plan since it was considered by Cabinet at its 21 October 2024 meeting, which relates to the Government’s Revenue Support Grant / Financial Settlement. A strong commitment to ‘protect’ the local government sector was set out within the Government’s recent Autumn Budget Statement. Based on this commitment, no anticipated reduction is now included within the forecast, with at least the same level of funding in 2024/25 expected to be received in 2025/26, which totals **£2.239m**.

Although the Government’s commitment is welcomed, which included an increase in funding for the sector as a whole, it is not yet clear how this will be distributed and whether it will mean District Council spending power rises in real terms. This will become clearer as part of the more detailed Provisional Local Government Financial Settlement that will be announced by the Government later in the year.

The above adjustment brings the total identified savings to **£3.079m** (from £2.340m). 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.

Taking the above into account, the table below sets out a summary of the high-level changes to the forecast since the meeting of Full Council on 13 February 2024 (with the most up to date forecast set out in **Appendix 2A**):

	Position Reported to Full Council – 13 February 2024		Position Reported to Cabinet - 21 October 2024		Latest / Revised Position Appendix 2A	
Year	Net Budget Position*	Forecast Risk Fund - Estimated Surplus / Notional Deficit Balance at the end of the year	Net Budget Position*	Forecast Risk Fund - Estimated Surplus / Notional Deficit Balance at the end of the year	Net Budget Position*	Forecast Risk Fund – Estimated Surplus / Notional Deficit Balance at the end of the year
2025/26	£2.027m deficit	£4.166m surplus	£2.298m deficit	£4.367m surplus	£2.477m deficit	£4.188m surplus

2026/27	£2.297m deficit	£2.118m surplus	£2.504m deficit	£2.113m surplus	£2.275m deficit	£2.163m surplus
2027/28			£3.217m deficit	£0.854m deficit	£2.999m deficit	£0.586m deficit
2028/29			£3.918m deficit	£4.522m deficit	£3.711m deficit	£4.047m deficit
2029/30			£4.632m deficit	£8.904m deficit	£4.435m deficit	£8.232m deficit
2030/31			£5.349m deficit	£14.003m deficit	£5.164m deficit	£13.146m deficit
2031/32			£6.073m deficit	£19.827m deficit	£5.900m deficit	£18.798m deficit
2032/33			£6.802m deficit	£26.379m deficit	£6.640m deficit	£25.186m deficit
2033/34			£7.538m deficit	£33.667m deficit	£7.388m deficit	£32.324m deficit

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

The figures set out within the table are inclusive of the savings plan items set out in **Appendix 2B**.

The increase in expected Government support via the financial settlement that was discussed earlier, is largely offset by the increase in national insurance, hence the figures in the table above are not too dissimilar across the forecast period compared with the earlier forecast.

As highlighted within the Financial Performance Report presented to Cabinet on 21 October 2024, in terms of the later years of the forecast, it is important to highlight the significant challenges arising from inflationary increases, which are expected to exceed our 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. 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 balanced budget to be set each year.

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.

Although a number of items from the Government's Autumn Budget Statement have been discussed above, further announcements were also made that will have an impact on the Council's financial position and forecast. Although these will be subject to review for inclusion in later iterations of the forecast, some highlights are as follows:

- The Government signalled it will reform the local government funding system after 2025/26 and will carry out a broader redistribution of funding to better reflect local need (previously known as Fair Funding) through a multi-year settlement from 2026/27.
- The Government is expected to publish a finance policy statement in mid/late November to set out the key decisions and principles for the provisional Local Government Finance Settlement.

- The provisional Local Government Finance Settlement is still anticipated in mid-December. This will set out the detail of funding allocations for individual councils.
- Income received from the Extended Producer Responsibility will be treated as 'new money' for 2025/26 but it may be netted off in the finance settlement in future years.
- In terms of business rates, the small business multiplier in England will be frozen for a fifth consecutive year at 49.9p, while the standard multiplier will be updated by CPI in March 2025. A lower 40% relief for Retail, Hospitality and Leisure properties will be in place in 2025/26. Permanently lower multipliers will be implemented for these properties from 2026/27. A higher multiplier will be in place for any properties with a rateable value of £500k or more, targeted at raising more tax from large distribution warehouses. Councils will be fully compensated for the impact of these measures and the cost of administering the changes. A consultation has been launched on priority areas for reform to the system.

Forecast Risk Fund

As highlighted earlier, the planned contribution of **£0.250m** to the Forecast Risk Fund was agreed as part of the Financial Performance Report that was presented to Cabinet on 21 October 2024.

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. Although it was planned to be presented as part of this report, it remains under review in light of the updated forecast set out above. It is therefore now planned to provide an updated position later in the year as part of developing the budget for 2025/26.

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 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.

As highlighted in earlier reports, 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.

Within the Financial Performance Report that was considered by Cabinet on 21 October 2024, a number of changes relating to the Right to Buy regime were set out, 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.

As part of its recent Autumn Budget Statement, the Government made further announcements on a number of key HRA issues, which included the following:

- The Government will make 100% retention of Right to Buy (RTB) receipts permanent from 1 November 2024.
- RTB discounts will return to their pre-2012 levels from 21 November 2024.
- The Government will consult on a five-year rent settlement of CPI+1% for social landlords, with potential for this to be extended to 10 years.
- Preferential Public Works Loan Board borrowing rates for local authorities to build social housing will be extended to March 2026.

The impact and flexibilities that all of the above may bring to Local Authorities will be reviewed and considered as part of developing the HRA Business Plan, Capital Programme and strategies / policies over the coming weeks and months.

PREVIOUS RELEVANT DECISIONS

Executive's Proposals – General Fund Budget and Council Tax 2024/25 – Item A.1 Full Council 13 February 2024.

Executive's Proposals – Housing Revenue Account Budget 2024/25 – Item A.2 Full Council 13 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 Holder for Finance and Governance - 17 July 2024 (LINK: [Decision - Financial Outturn 2023/24 \(tendringdc.gov.uk\)](https://tendringdc.gov.uk/decision-financial-outturn-2023-24))

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

Financial Performance Report 2024/25 – General Update at the end of July 2024 - Item A.2 Cabinet 21 October 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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