Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

22 JANUARY 2018

REPORT OF THE FINANCE AND CORPORATE RESOURCES PORTFOLIO HOLDER

A.3 **LATEST FINANCIAL FORECAST / FINAL BUDGET PROPOSALS 2018/19**
(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To seek Cabinet's approval of:

- The latest financial forecast and final budget proposals 2018/19 (including Council Tax proposals) for recommendation to Council on 6 February 2018; and

- a Revised Budget for 2017/18

EXECUTIVE SUMMARY

- At the meeting on the 15 December 2017, Cabinet considered the Updated Financial Forecast / initial budget proposals 2018/19. The forecast at that time provided for a modest surplus of **£0.042m** that was to be contributed to the Forecast Risk Fund.

- The Updated Financial Forecast was subject to consultation with the Corporate Management Committee which met on the 18 December 2017 to consider it and their comments are set out in this report along with the response from the Finance and Corporate Resources Portfolio Holder.

- Since the Cabinet's meeting on 15 December 2017, additional changes have been required, primarily as a result of new or revised information becoming available which includes the Government's Financial Settlement announcements and early outcomes from on-going officer pay negotiations.

- The changes required result in a deficit for 2018/19 of **£0.144m**, a change of **£0.186m** compared to the figure presented to Cabinet in December 2017.

- The updated forecast has now been translated into detailed estimates which are set out in **Appendix B.**

- This figure may change as further adjustments could be required as part of finalising the budget for presenting to Council on 6 February 2018, with a delegation included in the recommendations to reflect this.

- The deficit of **£0.144m** in 2018/19 has been met by utilising the Forecast Risk Fund as planned. This has however been more than offset by a contribution to the same reserve of **£0.454m** from the revised budget process for 2017/18, with the various changes set out further on in this report.

- It is worth highlighting that the use of the Forecast Risk Fund in 2018/19 was significantly lower than originally forecast which provides a strong position against which the remaining years of the 10 year forecast can be considered.

- Taking all of the changes into account, the Council Tax requirement has been revised to **£7.602m,** which is based on a £5 increase for this Council's services in 2018/19 with a Band D council tax of **£162.64.**

- In line with legislative requirements the Section 151 Officer has confirmed the robustness of the estimates along with the adequacy of reserves.

- The Council's annual budget and the district and parish elements of the Council Tax will be considered by Full Council on 6 February 2018 with approval of the 'full' Council Tax levy for the year to be considered by the Council Tax Committee on the 21 February 2018.

- Although Prudential Indicators are set out in this report, the associated Treasury Strategy for 2018/19 has been delayed due to external guidance being received late in the budget setting process. A delegation to the Portfolio Holder for Finance and Corporate Resources has therefore been included in the recommendations below to enable the Treasury Strategy to be agreed for forwarding onto the Corporate Management Committee for their comments.

RECOMMENDATION(S)

Cabinet approves:

(a) The latest financial forecast set out in Appendix A;

(b) that if the financial position changes prior to Council considering the budget on 6 February 2018, delegation be given to the Corporate Director (Corporate Services) to adjust the forecast / budget, including the use of Reserves, in consultation with the Finance and Corporate Resources Portfolio Holder;

(c) that in consultation with the Leader and the Finance and Corporate Resources Portfolio Holder, the Corporate Director (Corporate Services) reports directly to Council in respect of the formal draft resolutions necessary to implement the Cabinet's budget proposals along with any late information or notifications received from Communities and Local Government etc. as may necessarily affect the budget;

(d) that the Corporate Management Committee be thanked for the work they have undertaken and continue to undertake in supporting the development of the forecast / budget and agrees the comments of the Finance and Corporate Resources Portfolio Holder in response to those of the Committee as set out in this report;

(e) that all future expenditure in 2017/18 be in line with the proposed revised budget 2017/18 set out in the Appendices, subject to final approval by Council on 6 February 2018, and that the corporate financial system be amended accordingly to reflect these changes along with any amendments arising from revisions to the code of practice relating to the presentation of the Council's Annual Statement of Accounts; and

(f) that in respect of the Treasury Strategy 2018/19, delegation be given to the Portfolio Holder for Finance and Corporate Resources to approve the Strategy for consultation with the Corporate Management Committee.

That subject to the above, Cabinet recommends to Full Council:

(a) That following the consideration of the comments from the Corporate Management Committee the following final budget proposals be made (based on a £5 increase in a Band D Council Tax for district services):-

i) that the detailed budgets as per Appendix B of this report be approved which provide for a Council Tax Requirement for 2018/19 of £7.602m (£7.229m for 2017/18) (excluding parish precepts);

ii) that the Council agrees and formally approves:

a) the specific recommendations, calculations and other matters in respect of the Council's requirements – Appendix D; and

b) the Council Tax for this Council's services – Appendix G.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

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

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

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

Although the availability of financial resources is a key component in the delivery of services there will also need to be appropriate input of other resources such as staffing, assets, IT etc.

Risk

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

- Economic environment / instability;
- Emergence of cost pressures;
- Changes to the local authority funding mechanisms such as the Government's fairer funding review that is proposed;
- New legislation placing unfunded duties on the Council or reducing the level of the Council's core funding;
- Local or national emergency;
- Income is less than that budgeted for, including business rate income retained locally.

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

Another potentially more important action to manage and mitigate risk is the Council's ability to financially underwrite the forecast. As with any forecast, some elements of income and expenditure will be different to that forecasted. It is fair to say that many may offset each other over the longer term. However, there are two important aspects to how this will be managed.

1) As mentioned elsewhere, **£1.434m** has already been set aside within a Forecast Risk Fund to support the budget in future years. This money, along with any additional contributions, can be drawn down if the timings within the forecast differ in reality and the net position is unfavourable compared to the forecast in any one year.

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

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

It will also be important to deliver against the forecast in the early years to build confidence in the revised approach. This will, therefore, need robust input from members and officers where decisions may be required in the short term or on a cash flow basis. Although supported by one-off 'savings', the deficit for 2018/19 is below the figure initially forecasted which provides a good starting point for the remainder of the 10 year forecast.

Another aspect to the 10 year approach is the ability to 'flex' the delivery of services rather than cut services. As would be the case with our own personal finances, if we cannot afford something this year because of a change in our income, we can put it off until next year. There is a practical sense behind this approach as we could flex the delivery of a service by reducing it one year but increase it again when the forecast allows.

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

In addition to the above it is important to note that the Council has already prudently set aside money for significant risks in the forecast such as **£1.609m** (Business Rates Resilience Reserve) and **£1.100m** (Benefits Reserve). The Council also holds **£4.000m** in uncommitted reserves which supports its core financial position.

It is accepted that items such as the continuation of the £5 annual increase in council tax may not be permitted by the Government or Members may not wish to implement it locally each year, so the impact of potential deviations from the ten year forecast need to be determined in such circumstances.

LEGAL

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

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

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

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

Under Section 25 of the Local Government Act 2003, the Chief Finance Officer (S151 Officer) must report to Council as part of the budget process on the robustness of estimates and adequacy of reserves. The proposed approach can deliver this requirement if actively managed and will be an issue that remains 'live' over the course of the forecast period and will be revisited in future reports to members as the budget develops.

In respect of special expenses that form part of the budget setting process, expenditure is classed as a Special Expense if it satisfies the requirements of the Local Government Finance Act 1992, Section 35. The only category relevant to this Council is contained within Section 35(2)(d) relating to concurrent functions with Parish and Town Councils. Under the Local Government Finance Act 1992, the Council must identify as its Special Expense, proposed expenditure on those functions which the Council performs in part of the district but which Parish or Town Councils perform elsewhere in the District. If, in the Council's view, a special expense should properly be charged over the whole of the district's area, the Council may pass an express resolution to this effect (known as a ***contrary resolution***).

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

1. Expenditure is estimated to be incurred by the District Council in the whole or part of its area on the provision of a function;

2. Expenditure on the provision of the same function is to be incurred by at least one parish/town council elsewhere in the district.

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

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.
Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

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

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

PART 3 – SUPPORTING INFORMATION

BACKGROUND

On the 5 September 2017, Cabinet considered the Long Term Financial Sustainability Plan / 10 Year Forecast. Based on the position at that time, it was expected that there would be a budget deficit of **£0.536m** which was in-line with the 10 year plan.

On 15 December 2017 Cabinet considered the Updated Financial Forecast / initial budget proposals 2018/19 for consultation with the Corporate Management Committee. This report set out a revised position for 2018/19 of a small surplus of **£0.042m** (a change of **£0.578m** when compared to the position reported in September 2017.

The development of the forecast / budget has continued since Cabinet's meeting on 15 December 2017, primarily to reflect the latest information such as the outcome of the Local Government Finance Settlement and employee pay negotiations. The most up to date position is set out in **Appendix A** which highlights the changes required over the complete forecast / budget setting process. The changes required since 15 December 2017 position are set out in detail further on in this report.

Subject to the recommendations set out in this report, Cabinet's final council tax and budget recommendations along with the parish element of the council tax will be presented to Full Council on 6 February 2018. The formal approval of the 'full' council tax levy for the year including the district amount approved by Full Council in February along with the Essex County Council and Police / Fire precepts will be considered by the Council Tax Committee on 21 February 2018.

CORPORATE MANAGEMENT COMMITTEE COMMENTS

In accordance with the Constitution, Cabinet has consulted with the Corporate Management Committee on the Updated Financial Forecast / initial budget proposals 2018/19.

The Corporate Management Committee met on 18 December 2017 and their comments back to Cabinet are set out as follows:

Table 1

Comment from CMC	Finance and Corporate Resources Portfolio Holder Response
The Committee notes the potential adverse financial implications of the National Joint Council pay award for 2018/2019 but welcomes the fact that this is an early 'stress test' for the new ten year financial sustainability plan approach.	The impact of the current pay award position has now been included in the forecast with further details set out later on in this report. A revised long term forecast from 2019/20 onwards will shortly be produced and will reflect the necessary adjustments required. The revised longer term approach to the forecast is still expected to be able to respond to such changes.
The Committee suggests that the proposed contribution of £150,000 to the Business Rates resilience reserve be put instead towards funding the 2018/2019 Pay Award	At this stage of the 10 year forecast, it is prudent to 'repay' the amount of funding that was drawn down from this reserve in 2017/18. However it is acknowledged that the flexibility that the new 10 year approach gives us will enable the impact of the pay award to be considered over a longer period of time which could include an adjustment to the Business Rates Resilience Reserve in future years.
The Committee supports including within the forecast the cost pressures for the cost of cleaning the new beaches between Clacton-on-Sea and Holland-on-Sea and the additional summer cleaning of town centres and seafront areas	These two cost pressures remain in the forecast but have been subject to further review to see if they can be reduced without significantly impacting on the quality of the additional cleaning proposed. Further details are set out further on in this report.

The Committee welcomes the income from the purchase of a retail property in Clacton town centre.	Although it is disappointing to hear that the Government intends to restrict the purchase of Commercial property by Local Authorities in the future, the income from the property acquired in 2017 will make a significant contribution to forecast position, with any associated risks being managed within the processes set out in the Council's Commercial property acquisition Policy.

LATEST FINANCIAL FORECAST AND FINAL BUDGET PROPOSALS 2018/19

As highlighted earlier in this report, the forecast considered by Cabinet at its 15 December 2017 meeting provided for a small surplus of **£0.042m**.

This has subsequently been revised to deficit of **£0.144m**, a change of **£0.186m** as set out in **Appendix A**.

This change is made up of the following adjustments:

- **Pay Award Negotiations – an additional £0.307m added to the forecast.**

  Although yet to be accepted by the employee's side, an offer of 2% has been made by the National Joint Council for two years along with fixed amount increases for those officers on lower pay scales.

  An additional 0.5% has therefore been added to the initial forecasted increase of 1.5%, along with the impact of the fixed amount increases for officers on the relevant lower pay scales.

- **Cost Pressures – an overall reduction of £0.058m to the forecast**
  The following changes to cost pressures has been included in the latest forecast:

  i) An additional **£0.044m** has been included to reflect lower Housing Benefit Administration Grant payments from the Government. The Government is reducing grant payments each year to reflect the notional reduction in Local Authority workloads as claimants move away from Housing Benefit and onto Universal Credit. Local Authorities are however experiencing increased workloads in the short term as claimants need the necessary local support as they move across to Universal Credit. It is proposed to review the longer term impact of Universal Credit on the Council over the course of 2018/19 which will need to be reflected in future forecasts.

  ii) **£0.072m** was included as a cost pressure in the updated forecast presented to Cabinet in December to reflect the potential for an additional 0.5% pay award over and above the 1% allowance in the initial forecast. However, as an offer has now been made by the employer's side as set out above, this cost pressure has now been moved to the detailed salary line of the forecast as part of the salary changes rather than an amount set aside as a 'general' cost pressure.

iii) **Beach and Town Centre Cleaning – £0.100m** was included in the updated forecast considered by Cabinet in December 2017 (**£0.040m** for cleaning Clacton to Holland Beach and **£0.060m** for summer cleaning of town centres. Following a review of these cost pressures, set against increases in costs elsewhere in the forecast, they have been reduced by **£0.030m** in total (revised to **£0.035m** for cleaning of Clacton to Holland Beach and **£0.035m** for summer cleaning of town centres). The lower amounts included seek to strike a balance between affordability and a level of cleaning that promotes the area as a place to visit, live and work.

The above adjustments result in a total of **£0.114m** being included in the forecast for general cost pressure, a reduction of **£0.058m** compared with the figure of **£0.172m** included in the position reported to Cabinet in December 2017.

- **Other Changes – reduction in net expenditure of £0.063m**
  This figure includes a number of smaller adjustments, with the most significant amount **(£0.045m**) relating to charges made by Careline to the HRA to better reflect the cost of providing the service. A small saving of **£0.008m** has also been made that reflects the most up to position for changes to recharges between the General Fund and the HRA.

Changes from the Local Government Finance Settlement, Council Tax and Business Rates
Although not impacting on the overall net position, income of **£1.333m** from the New Homes Bonus was announced as part of the Local Government Finance Settlement, which has now been included in the budget along with a corresponding expenditure line, against which commitments can be made during the year.

Council Tax Income
As part of the Provisional Local Government Finance Settlement, the Government confirmed the Council Tax 'capping' criteria for 2018/19. District Councils can increase their Council tax by 2.99% or £5, whichever is the greater. An increase of £5 had already been included in the forecast so subject to agreement by Cabinet / Council, no further changes are required.

A £5 increase results in a Council Tax for a Band D property of **£162.64** in 2018/19, with a Council Tax Requirement of **£7.602m.**

National Non-Domestic Rates Income
No changes are required to the forecast. It is however worth highlighting that the bid made by Essex Authorities to become a business rate pilot in 2018/19 was unsuccessful. The Essex business rates pool will however continue in 2018/19. At present the forecast does not reflect any financial benefit from being a member of the pool, which will be revisited as part of developing the forecast in future years.

Capital Programme
No further changes have been included within the budget.

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

The review of fees and charges has been set against the following key principles:

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

Appendix B includes the full schedule of fees and charges proposed in 2018/19 set against the principles highlighted above.

All of the above changes along with those set out in the earlier forecast considered by Cabinet in December 2017 have now been translated into detailed budget proposals as set out in **Appendix B,** where additional comments have also been provided.

There may be further changes to the budget before a final position is presented to Full Council. A delegation is therefore included in the recommendations earlier on in this report to enable further changes to be reflected in the budget, including the use of reserves that will then be reported to Council on 6 February 2018.

REVISED BUDGET 2017/18

The Updated Financial Forecast presented to Cabinet on 15 December 2017 concentrated on the position for 2018/19 as part of the new approach to the forecast. The revised budget for 2017/18 was therefore not included but it was acknowledged that it was under review for reporting to Cabinet in January 2018 as part of the more detailed / technical budget setting processes.

The review referred to has now been completed and the 2017/18 budget has been amended accordingly with the most significant items set out below. *(Some of the changes required relate to the impact in the current financial year of the changes already set out for 2018/19. This is highlighted below where necessary)*

- **Employee Costs – reduction of £0.754m**
  As set out in Corporate Budget Monitoring reports earlier in the year, departments continue to challenge how they deliver their services so opportunities are taken to review staffing levels, such as when vacancies emerge, rather than automatically recruit on a like for like basis. Although the above change to the budget will not necessarily translate into on-going budget reductions, it does reflect the one-off savings from vacancies over the course of the year.

- **Income from Commercial Property – additional income of £0.101m**
  As included in the 2018/19 forecast, additional income is being generated following the purchase of a property in 2017.

- **Income from Garden Waste – additional income of £0.105m**
  As included in the 2018/19 forecast, additional income is being achieved via the delivery of this service to residents across the district.

- **Income from Street Naming and Numbering – additional income of £0.029m**
  As included in the 2018/19 forecast, additional income is being achieved from this activity.

- **Careline charge to the HRA – additional income of £0.045m**
  As included in the 2018/19 forecast, additional income is being generated by charging the HRA the actual cost of delivery this service to housing tenants.

- **General Careline Income – additional net income of £0.032m**
  Running the service on a commercial principle has enabled additional net income to be generated.

- **Planning Income – additional income of £0.096m**
  As reported within the Corporate Budget Monitoring Reports during the year, additional income is anticipated to be generated, with the above figure reflecting a conservative view of the position over the remainder of the year.

- **Council Tax Sharing Agreement with the Major Preceptors – reduced income of £0.049m**
  Based on the latest estimates, it is anticipated that income from this arrangement will be slightly behind the annual budget of **£0.890m** at the end of the year.

- **Overclaimed VAT on Election Expenses – Additional expenditure of £0.061m**
  Following a review during the year, it has emerged that VAT has been previously overclaimed. Although a final figure has yet to be determined, an estimate has been included within the revised budget for 2017/18.

- **Brightlingsea Pool – net cost of £0.021m**
  This reflects the net cost of operating the pool for the 2017 summer season after taking into account an agreed contribution of 50% from Brightlingsea Town Council.

- **2017 Air Show – additional net cost of £0.024m**
  This reflects the cost of running the air show in 2017 with an overall net direct cost of **£0.056m** compared to the original budget of **£0.032m.**

- **General Government Grants - additional income of £0.114m**
  A number of grants are receivable each year which are not necessarily offset by incurring additional costs. This therefore provides an overall favourable position for the year.

Taking the above into account along with a number of smaller changes to the budget results in an overall favourable position for 2017/18 of **£1.131m**. Although the long term forecast is based on setting aside additional funding to offset annual deficits in the early years of the 10 year forecast, this position does enable the consideration of cost pressures that could be funded now rather than at a later date, which will reduce the pressure on future year's forecasts.

With this in mind it is proposed to include the following one-off costs in 2017/18:

- **Major Repairs to Milton Road Car Park - £0.250m**
  The condition of the car park has continued to deteriorate over recent years and major works are now required.

- **Repairs to Clacton Multi-Storey Car Park - £0.180m**
  Similarly to the above, the condition of the car park has seen a level of deterioration over recent years and significant repairs works are now required.

- **Clacton Town Centre Fountain - £0.160m**
  A review of this facility is currently underway and the opportunity has been taken to set aside the above amount to support potential outcomes from the review.

The following additional one-off costs are also proposed to be set aside in 2017/18 to support the continuation of the activity in 2018/19:

- **Mental Health Hub Contribution - £0.023m**
- **Air Show Night Flight - £0.010m**
- **Sea and Beach festival - £0.020m**
- **TV Advert Promoting the District - £0.025m**
- **Investors in People Reassessment - £0.009m**

After taking into account the above commitments, the surplus for the 2017/18 is reduced to **£0.454m.** It is proposed to contribute this surplus to the Forecast Risk Fund to support future years budgets as previously agreed.

In addition to the above, the revised budget also reflects separate decisions made as the year has progressed, such as those made in response to the Corporate Budget Monitoring process, although these have been within the overall net budget / Council Tax Requirement.

Capital Programme
In addition to changes agreed as part of separate decisions during the year, the following adjustments to the Capital Programme have been made as part of the revised budget process for 2017/18 as reflected in **Appendix B.**

- Reallocating **£0.150m** set aside for works to the crematorium flower court to crematorium and cemetery road works to reflect the most up to date priority of work required to these facilities.
- Inclusion of the proposed works to Milton Road Car Park, Clacton Multi-Storey Car Park and the Clacton Town Centre Fountain as set out above.
- The inclusion of addition expenditure of **£0.147m** on Disabled facilities Grants to reflect the increase in external grant funding receivable to support this scheme.

BUDGET SUMMARIES

Based on all of the adjustments set out elsewhere in this report, the proposed budgets for 2017/18 (Revised) and 2018/19 (Original) are summarised below.

General Fund Revenue Budget - 2017/18 Revised and 2018/19 Original
Table 2

	2017/18 Original	2017/18 Revised*	2018/19 Original
	£m	£m	£m
Net Cost of Services	16.131	23.636	17.303
Revenue Support for Capital Investment	1.940	8.337	0.100
Financing Items	0.489	(0.787)	(4.632)
Net Expenditure			
Contribution to /(from) Uncommitted Reserve	0	0	0
Net Use of Earmarked Reserves	(4.864)	(17.699)	1.131
Total Net Budget	**13.696**	**13.487**	**13.902**

Less Funding			
Business Rates *(excl. S31 Govt. Grant funding)*	(4.599)	(4.390)	(4.578)
Revenue Support Grant	(1.650)	(1.650)	(1.070)
Collection Fund (Surplus) / Deficit	(0.218)	(0.218)	(0.652)
Council Tax Requirement (for Tendring District Council) (Excludes Parish Precepts)	**7.229**	**7.229**	**7.602**

**The increase between the original budget 2017/18 and the revised budget 2017/18 includes carryforwards from 2016/17.*

The council tax requirement for 2018/19 is based on a Band D council tax of **£162.64**, an increase of **£5** (**3.17%)** over the 2017/18 amount of **£157.64**.

General Fund Capital Programme - 2017/18 Revised and 2018/19 Original
Table 3

	2017/18 Original Budget	**2017/18 Revised Budget***	**2018/19 Original Budget**
	£m	**£m**	**£m**
EXPENDITURE	2.730	18.523	0.857
FINANCING			
External Contributions	0	0.340	0
S106	0	0.087	0
Government Grants	0.690	8.029	0.690
Capital Receipts	0.100	1.730	0.067
Direct Revenue Contributions	0.360	3.716	0.100
Earmarked Reserves	1.580	4.621	0
Total Financing	**2.730**	**18.523**	**0.857**

**The increase between the original budget 2017/18 and the revised budget 2017/18 includes carryforwards from 2016/17.*

In previous years, the Treasury Strategy is also presented alongside the detailed budgets as a separate item on the same Cabinet agenda. As revised external guidance has been delayed, it has not been possible to produce the Treasury Strategy for this meeting. However in accordance with the Budget and Policy Framework the Treasury Strategy is required to be considered by the Corporate Management Committee, following which it will be reviewed by Cabinet for recommending to Full Council in March. To enable this timetable to be met, a recommendation is included earlier on in this report to delegate the approval of the Treasury Strategy 2018/19 to the Finance and Corporate Resources Portfolio for consultation with the Corporate Management Committee. However the relevant prudential indicators for consideration as part of the overall budget setting process, which are based on the budget proposals for 2018/19 set out above, are included in **Appendix I**.

RESERVES

Detailed information in respect of the level of reserves is set out within **Appendix B**

The adjustments made since Cabinet's meeting on 15 December 2017 reflect the changes set out elsewhere in this report.

As set out in **Appendix A**, the forecast reflects a contribution **to** the Forecast Risk Fund of **£0.454m** in 2017/18 and a contribution **from** the same reserve in 2018/19 of **£0.144m.**

The Forecast Risk Fund is estimated to be **£1.744m** in 2018/19 compared to **£1.398m** that was highlighted in the initial forecast considered by Cabinet in September 2017, which provides a stronger position to move forward against as part of the 10 year forecast approach.

Robustness of Estimates and Adequacy of Reserves – Report under Section 25 of the Local Government Act 2003.

As part of the requirements set out in legislation, the Chief Finance Officer (S151 Officer) must report to Council as part of the budget process on the following two matters:

Robustness of the Estimates

As part of the new Long Term Financial Sustainability Plan introduced during 2017/18, the forecast and budget setting process is built on the following 5 key strands:

- Increases to Underlying Income
- Controlling Net Expenditure Inflationary Pressure
- Savings and Efficiencies
- Delivering a Favourable Outturn Position
- Cost Pressure Mitigation

Within each strand, the forecast is based on relatively conservative estimates with no optimistic bias included. Each element of the forecast and how it has been derived is clearly set out within reports to Management Team and Members.

In respect of the last bullet point above, it is acknowledged that each year there are a number of cost pressures that emerge and are usually formed of a mix of where there is no option such as reductions in external funding and where there is a choice whether to fund or not. The proposed new approach to the forecast highlights the need to compromise to some extent in terms of the speed at which the Council can spend money on items where it has a choice to do so or not. This may involve areas where the additional expenditure may support income growth or the Council's reputation. A hard but fair line is being taken to how much additional expenditure by way of cost pressures can be accommodated within the ten year forecast.

The detailed budget for 2018/19 has been prepared within the above framework. Clear rationale has been stated in respect of the formulation of the financial forecast and how it has been translated into the detailed budgets for 2018/19.

This forecast has been supported by a programme of actions not only in 2018/19 but from previous years such as Portfolio Working Parties, which continue to contribute to the delivering of a sustainable financial position.

The on-going review of reserves continues to demonstrate that the Council's current level of reserves remain adequate to 'underwrite' risks and uncertainties that are also inherent within the forecasting process, supported by a specific Forecast Risk Fund. No significant adjustments have been required in 2018/19 that weakens this approach. A specific statement on reserves is set out further on in this section of the report.

The financial forecasting process continues to remain alert to government announcements and the impact of external issues such as funding receivable from elsewhere within the public sector. The forecast also aims to reflect the outturn position from the previous year along with cost pressures which also allow it to remain alert to potential changes to its financial position.

Clear actions in respect of financial resilience continue to form part of the Council's Annual

Governance Statement that includes amongst other things a number of financial risks and issues that enable the Council to keep a watching brief on significant upcoming matters that may have a financial consequence. Where the Council makes significant financial commitments, such as to major projects to deliver against its priorities, money is found from within existing budgets and set aside accordingly rather than relying on projected savings or future forecasts.

The Council's External Auditor confirmed in its most recent Annual Audit Letter that the new 10 year approach to the forecast has responded to their recommendation concerning more detail being required on future budget gaps.

Financial Resilience remains at the forefront of the financial planning process with money identified where possible to invest in 'spend to save' projects that will in turn support the Council in delivering a balanced and sustainable budget in the long term. It is important to highlight that the Council continues to aim to find savings from within its underlying revenue budget rather than rely on potentially time limited income such as from the New Homes Bonus to balance the budget.

The need to continue to deliver against the 10 year forecast is clearly recognised and remains the key focus for the Council in 2018/19 to enable it to continue to provide quality services and investment in its priorities. Self-sufficiency underpins the Council's 10 year forecast along with maximising opportunities through investment and maximising savings opportunities over a longer time period. Taking a longer term view of the forecast also enables the Council to respond to any significant financial impacts over several years rather than as part of an annual budget cycle, which strengthens financial resilience in the long term.

Another aspect to the new 10 year approach to the forecast is the ability to 'flex' the delivery of services rather than cut services. If required by the forecast, the Council could flex the delivery of a service one year but increase it again when money becomes available which also provides a key foundation against which the budget is 'built'.

The Council is also playing a key role in a number of activities such as engaging with cross authority working and maximising commercial opportunities wherever possible, all of which are important elements in supporting the Council's longer term financial strength. Significant transformation activities including office rationalisation and channel shift projects are now underway within the Council to support the overall financial position going forward.

The Council remains alert to the risks associated with the highly complex area of the budget introduced via the local retention of business rates. A separate Business Rates Resilience Reserve has been established to support the Council through periods where income may be volatile, which provides the Council with a longer recovery period through a self-sufficiency approach.

It is recognised that there are risks inherent within the Council's financial framework and corresponding detailed estimates. However, action has been taken to mitigate these risks as far as possible. The budgets have been prepared against the background of a continuing and challenging economic climate resulting in on-going reviews of significant budgets.

Within the Financial Strategy framework there is Cabinet involvement at various stages in addition to a comprehensive review and associated input from the Corporate Management Committee.

Regular and comprehensive monitoring of the budget will be undertaken during 2018/19 as part of the well-established and comprehensive Corporate Budget Monitoring process so issues can be identified and action taken at the earliest opportunity if and when appropriate. Also any savings identified during the year will be transferred to the Forecast Risk Fund where possible, to further strengthen the approach taken in 'underwriting' the risks associated with a 10 year forecasting period.

The proposed budget resulting from this process is therefore robust and deliverable and is supported by reserves with further details below.

Adequacy of the Reserves
An integral part of the Council's overall strategy is that the level of reserves is sufficient to support identified risks along with supporting a sustainable budget position in the longer term. The level of uncommitted reserves forecast at 31 March 2019 is **£4.000m** including the minimum working balance of **£1.600m**. All of the reserves are regarded as adequate and recognise significant risks such as from future welfare changes and potential business rates volatility.

Spend to save initiatives have been supported by reserves with the rate of return on any investment being a key consideration when any proposal is considered to be funded this way. Recent investment decisions provide for a rate of return in excess of 6%, and along with other future initiatives, this approach will provide the Council with additional income or budget reductions that will play a key role in delivering a sustainable and balanced budget in future years.

As mentioned above, a Financial Risk Fund has been established to 'underwrite' the 10 year forecast. Although **£0.144m** is proposed to be drawn down from this reserve in 2018/19, the amount is less than initially forecast and has been more than offset by a contribution to the reserve of **£0.454m** as part of the revised budget process for 2017/18.

As part of its review of the Council's financial resilience, the Council's External Auditor highlighted that *'the new approach to the forecast depends upon the use of £3.7 million reserves profiled to 2024/25 and using non-recurrent reserves is not a sustainable approach to addressing budget gaps. The Council needs to secure the income growth and risk assess and deliver its savings plan, especially should austerity continue'*. Income growth and the delivery of savings has formed a key element of the 2018/19 budget setting process and as mentioned above the use of the Financial Risk Fund was less than initially forecast, which along with the contribution of **£0.454m** from the 2017/18 revised budget provides a strong position going into 2019/20 and beyond.

SPECIAL EXPENSES, PARISH PRECEPTS AND DISTRICT TAX LEVIES

The impact of Special Expenses along with the proposed District Tax levy on a Band D property in each area is shown in **Appendix E**.

The Council has yet to be notified of the final precepts from Town and Parish Councils. However they will be included in the report to Council on 6 February 2018.

Appendix F sets out the current overall position regarding precepts on the Council's collection funds. The calculation of the estimated surplus on the collection funds for 2018/19 is set out in **Appendix H**.

The statutory figures which are required to be calculated in relation to the budget are set out in **Appendix D** (excludes Town and Parish precepts).

The District and Parish Council Tax amounts are to be considered by Full Council on 6 February 2018. The final precepts from the major precepting authorities will be included when the final Council Tax levies for 2018/19 are formally considered by the Council Tax Committee on 21 February 2018.

UPDATES TO THE FORECAST FOR THE PERIOD 2019/20 AND BEYOND

The initial forecast presented to Cabinet in September 2017 set out the following expected annual position for each remaining year of the forecast:

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

As previously mentioned, the latest forecasted deficit for 2018/19 is lower than originally expected which will have a favourable knock-on benefit to the position in future years. As set out in **Appendix A**, many lines of the forecast for 2018/19 were equal to or more favourable than expected, with the one significant exception being the increase in salary costs. The forecast will be updated to take account of the various changes for presenting to members as soon as possible in 2018. As part of the introduction of the new long term approach to the forecast, it was acknowledged that the 'safety valve' would be the annual savings target. The long term forecast currently reflects annual savings required of **£0.300m** for each year of the forecast, which may have to be revised up based on the various changes in 2018/19.

CODE OF PRACTICE – STATEMENT OF ACCOUNTS

Each year information is issued to Local Authorities which provides guidance on the information and presentation required for the Financial Statements the Council publishes on an annual basis. Therefore although not directly affecting the overall financial position of the Council, changes may occur across years. Budgets may need to be reviewed and budget transfers undertaken to address any new requirements emerging from the relevant codes of practice that are issued each year.

BACKGROUND PAPERS FOR THE DECISION

Working Papers in Accountancy

APPENDICES	
Appendix A	**Latest Financial Forecast 2018/19**
Appendix B	**Budget Book 2018/19 including detailed General Fund revenue estimates, fees and charges, capital programme and reserves**
Appendix C	**Special Expenses 2018/19**
Appendix D	**Requisite Budget Calculations 2018/19**
Appendix E	**Calculation of District Council Taxes for All Areas 2018/19**
Appendix F	**Precepts on the Collection Fund – District Amounts 2018/19**
Appendix G	**District Council Tax Amounts 2018/19 *(excludes Council Tax amounts for Town and Parish, County, Fire and Police services which will form part of the final Council Tax setting process via the Council Tax Committee)***
Appendix H	**Calculation of Estimated Surplus on the Collection Funds for 2018/19**
Appendix I	**Prudential Indicators 2018/19**