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| Report of | Assistant Director, Policy & Corporate | Author | Paul Cook ☎ 505861 Darren Brown ☎ 282891 |
| Title | Budget Strategy 2020/21 | | |
| Wards affected | All | | |

1 Executive Summary

- 1.1 This is the start of the timetable to update the Medium Term Financial Forecast and set the 2020/21 Budget.
- 1.2 The report sets how the Council will develop a financially sustainable budget strategy that continues to deliver the Council's strategic aims. The main budget factors and risks are considered.
- 1.3 The report also explains the timetable for detailed budget preparation and budget consultation.

2 Recommended Decision

- 2.1 To note the pre-audit outturn position for the financial year 2018/19.
- 2.2 To note the approach and timetable for the 2020/21 budget.
- 2.3 To note the updated Medium-Term Financial Forecast as set out in Section 7.
- 2.4 To note the amendments to the capital programme set out in Section 10.5

3 Reason for Recommended Decision

- 3.1 The Council is required to approve a financial strategy and timetable in respect of the 2020/21 budget and MTFF.

4 Alternative Options

- 4.1 None at this stage

5 Background Information

Financial Overview 2018/19 and 2019/20

- 5.1. The Pre-Audit Outturn report for the year to 31 March 2019 was presented to the Scrutiny Panel on 11 June 2019.
- 5.2. The following table provides a breakdown of the end of year position showing an overall net general fund underspend after carry forwards of £263k:-

| Table 1 – Summary of 2018/19 Outturn | | | | | | |
|---|-------------------------------|---------------|---------------|----------------|--------------|--------------|
| | | Actual | Budget | Var | C/fwd | Net |
| | | £'000 | £'000 | £'000 | £'000 | £'000 |
| 1 | Corporate & Democratic Core | (407) | (503) | 96 | - | 96 |
| 2 | Policy & Corporate | 9,323 | 10,024 | (701) | 499 | (202) |
| 3 | Executive Management Team | 657 | 655 | 2 | - | 2 |
| 4 | Community | 1,674 | 2,075 | (401) | 401 | - |
| 5 | Customers | 4,091 | 4,177 | (86) | 280 | 194 |
| 6 | Environment | 4,673 | 4,615 | 58 | 218 | 276 |
| 7 | Sub-Total Services | 20,011 | 21,043 | (1,032) | 1,398 | 366 |
| 8 | <i>Net Recharge Movement</i> | | | | | |
| 9 | NEPP | (115) | (110) | (5) | 5 | - |
| 10 | CIMS | 1,035 | 1,019 | 16 | (16) | - |
| 11 | Benefits | (709) | (727) | 18 | | 18 |
| 12 | General Fund / HRA | 7,179 | 7,368 | (189) | - | (189) |
| 13 | HRA Contingency (cost in 12) | | 84 | (84) | | (84) |
| 14 | Total Services | 27,401 | 28,677 | (1,276) | 1,387 | 111 |
| 15 | Pensions | 725 | 715 | 10 | | 10 |
| 16 | CLIA | 538 | 630 | (92) | 92 | - |
| 17 | Provision for Bad Debts | (347) | - | (347) | | (347) |
| 18 | Miscellaneous | 99 | - | 99 | | 99 |
| 19 | Other Government Grants | (86) | - | (86) | 18 | (68) |
| 20 | General service related items | | 422 | (422) | 352 | (70) |
| 21 | Business Rates | (6,295) | (5,262) | (1,033) | 1,033 | - |
| 22 | Business Rates Pool | (645) | - | (645) | 645 | - |
| 23 | Collection Fund | (607) | (609) | 2 | | 2 |
| 24 | Total | 20,783 | 24,573 | (3,790) | 3,527 | (263) |

Table 1 Abbreviations

HRA (Housing Revenue Account)
 NEPP (North Essex Parking Partnership)
 CIMS (Colchester and Ipswich Museums Service)
 CLIA (Central Loans and Investment Account)

- 5.3. When the 2019/20 budget was set, it had been assumed for planning purposes that the end of year position would be on budget. The outturn therefore improves the balances position. In summary, it means that balances are £530k above the recommended level as shown Table 2.

| Table 2 – Change to Balances 2018/19 | | |
|--|--------------|---------------------------------------|
| Factor | £'000 | Note |
| Uncommitted / unallocated balances above prudent level | 267 | Position when 2019/20 budget was set. |
| Outturn underspend | 263 | Position reported to Scrutiny Panel |
| Balances above agreed level | 530 | |

Financial Year 2019/20

- 5.4. At this stage in the financial year it is difficult to assess potential variances (both positive and negative). The overall position will be reported throughout the year to Scrutiny Panel and Governance and Audit Committee.

6 Strategic Context

- 6.1 The Council like many other local authorities faces a challenging financial climate, and the Budget Strategy therefore emphasises affordable and sustainable solutions. Commercial approach and income generation are important, as is maximising external funding opportunities.
- 6.2 The 2020/21 budget setting must be undertaken during a period with an exceptionally high level of economic and political uncertainty. This arises primarily from uncertainty as to the date and arrangements for EU Exit, associated delays in parliamentary business and lack of clarity about the Government's Spending Review and the impact on public sector funding. A number of key economic metrics, that would impact on the Council's financial position, will be sensitive to this context, including interest rates, inflation, the local government settlement and general level of economic activity locally and nationally.
- 6.3 The Strategic Plan 2018-21 sets out the Council's vision and priorities for Colchester and the activities based around the following four themes:
- Growth – Ensuring all residents benefit from the growth of the Borough.
 - Responsibility - Encouraging everyone to do their bit to making our borough even better
 - Opportunity - Promoting and improving Colchester and its environment
 - Wellbeing - Making Colchester an even better place to live and supporting those who need most help

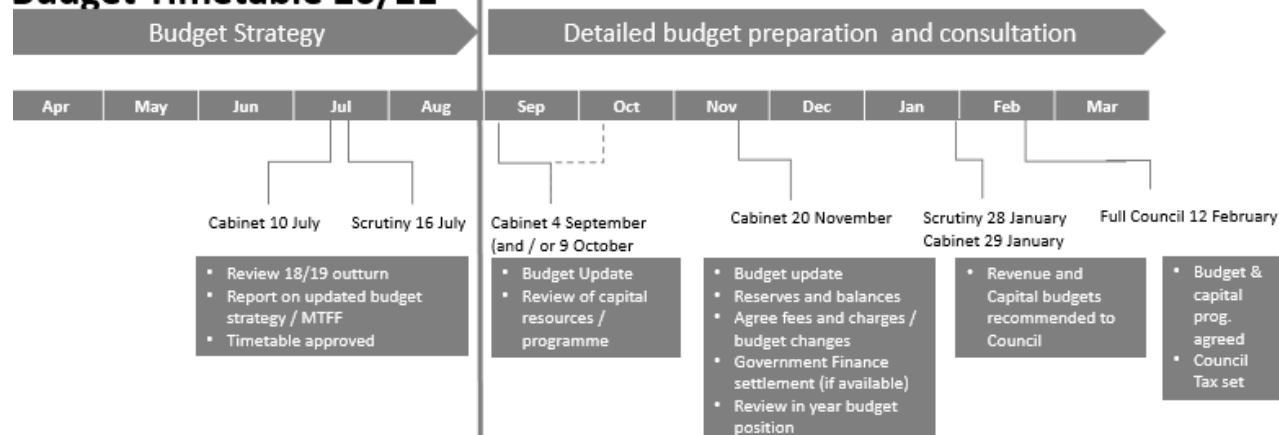
6.4 In support of the Strategic Plan, several priority themes have been identified by Cabinet as set out below:

- **Strengthen our Communities** to reduce isolation and loneliness and to help the physical, mental, economic and social well-being of our residents and safeguarding the vulnerable, with better support and facilities for our young people.
- **Preserve and Protect our Environment** tackling pollution, setting an example in reducing waste, improving recycling and reducing single use plastics, and pressing businesses across the borough to do the same.
- **Conserve and strengthen our natural habitats** around our beautiful borough, helping our community to know, love and use our woods and parks, planting more trees, developing community orchards and a new Colchester Wood.
- **Secure the infrastructure** growing communities need, within a Local Plan that puts people before the developers.
- **Deliver new and quality council and affordable housing**, tackling poor landlords.
- **Celebrate our arts and heritage and exciting future**, highlighting the best, ancient or modern, that Colchester has to offer visitors and residents, promoting Colchester as an inclusive, accessible and welcoming destination.
- **Explore the opportunity for cleaner and better public transport for** Colchester, including community and 'hopper' buses and joined up cycle paths, and to actively encourage cycling and walking.
- **Enhance community safety** with yet more police officers on our streets and more robust action on anti-social behaviour
- **Deliver a new Town Centre Master Plan** to make our town centre more of a destination to visit and to make the most of our public space.
- **Respond to the risks to public health from drugs** and the misuse of and addiction to pain killers and legally available opioids, and alcohol, and encourage NHS, police and community action that will save lives, helping users to keep safe.
- **Get a better deal from the County Council**, work with County to devolve powers and the money back to Colchester, to fix our broken roads and keep our libraries open.
- **Build the prosperity of our borough**, promoting innovation and the IT and creative sectors, supporting our Business Improvement Districts and the University of Essex, and promoting Colchester as a business investment district destination of choice.

7 Budget Timetable

7.1 The 2020/21 timetable is set out below.

Budget Timetable 20/21



8 Financial Context

8.1 In order to operate sustainably the Council plans its finances on a long-term basis in the MTFF. The MTFF is rolled forward annually. Set out below are the key drivers of the MTFF and any change in assumptions.

Table 3 – MTFF Assumptions 2020/21

| | Changed assumptions | |
|---|--|---|
| 1 | MTFF originally assumed negative Revenue Support Grant (RSG) of £446k would apply | Now assumed that negative RSG will not be applied to any local authority |
| 2 | Pay inflation continues at 2%, plus allowance for unavoidable contract inflation. | Increased assumption of 3%, adding £100k per year |
| | Unchanged assumptions | |
| 3 | £5 or 3% council tax increase in each successive financial year | No change |
| 4 | That 2019/20 is delivered on budget. | No change |
| 5 | All existing planned savings fully delivered | No change |
| 6 | 2018/19 delivered on budget | A £263k underspend was achieved by sound management and taken to balances |
| 7 | A reduction in district council funding by £500k steps in each future financial year from 2020/21 | No Change |
| 8 | New Homes Bonus to continue. £1m is included in the 2019/20 base budget then falling by £200k steps. Any additional NHB will be used for projects supporting the delivery of the Strategic Plan and Alliance Priorities. | No change |

| | | |
|----|--|--|
| 9 | General Fund balances maintained at a minimum prudent level of £1.9m | No change, though balances currently stand at £2.43m |
| 10 | 2019/20 business rates assumption of £6.057m including growth of £1.600m above the baseline and £200k pooling gain. (In 2018/19 assumptions were exceeded by £1.033m.) | No change |
| 11 | Employer's contribution to the ECC pension fund | No change following 2019 revaluation |
| 12 | The budget approach for the HRA will continue to be fully integrated within the General Fund budget process, with the final budget report and rent setting being included within the overall budget and Council Tax decisions. | No change |

- 8.2 The overall initial 2020/21 MTFF position on these changed assumptions is set out in the table below. This does not include any new savings or additional pressures for 2020/21 at this stage.
- 8.3 The position on business rates combines several factors. These will not be finalised until later in the budget process, including any government changes as part of the move to increased retention.
- 8.4 Council tax will be finalised later in the budget process, including growth and performance in 2019/20.
- 8.5 It is not expected there will be any increase in employer pension contribution rates. However this will not be finalised by ECC and their actuaries until much later in the budget process.

| Table 4 – 2020/21 MTFF Starting Position | | | | |
|---|----------------|----------------|----------------|----------------|
| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
| | £'000 | £'000 | £'000 | £'000 |
| Net Budget | 20,206 | 20,275 | 20,873 | 21,809 |
| Settlement Funding Assessment (with assumed reduction as Table 3) | (4,257) | (3,800) | (3,343) | (2,886) |
| NNDR Growth (including pooling gain) | (1,800) | (1,800) | (1,800) | (1,800) |
| New Homes Bonus | (3,415) | (2,890) | (2,837) | (2,804) |
| Other Grants | (65) | 0 | 0 | 0 |
| Council Tax | (12,072) | (12,556) | (13,062) | (13,588) |
| Reserves / Collection Fund | 1,403 | 1,401 | 1,401 | 1,401 |
| Cumulative Gap | 0 | 630 | 1,232 | 2,132 |
| | | | | |
| Gap at 2019/20 Budget Setting | 0 | 976 | 1,478 | 2,278 |

9 Budget Strategy

- 9.1 The MTFF assumptions are prudent without exaggerating the gap. Only in the event of fundamental changes to key drivers will the assumptions be revised.
- 9.2 The resilience of the MTFF will continue to be assessed, drawing on best practice including standard criteria published by the Chartered Institute of Public Finance and Accountancy.
- 9.3 There has been a widespread and effective programme of service reviews in recent years with new working arrangements and management structures in place. To allow these new ways of working to stabilise, a repeat of this process is not considered appropriate to deliver the required savings. Savings and income proposals will therefore be delivered through specific opportunities and business cases.
- 9.4 Some of the key areas of potential opportunity being explored are set out in Table 5 below:

| Table 5 – Budget Savings Strategy | | |
|--|-------------------------|--|
| 1 | Digital services | A better customer offer allowing more flexibility to book services and pay online |
| 2 | Commercial approach | To build on previous achievements to maximise the return on commercial assets and generate increased service income |
| 3 | Fees and charges. | To ensure fees and charges are set at an appropriate level |
| 4 | Procurement | To achieve better value for money and social value outcomes through expert procurement across a range of supplies and services |
| 5 | Invest to save | To direct capital resources into infrastructure and facilities that increase service efficiencies |
| 6 | Amphora dividend growth | To examine the potential to further increase commercial returns |
| 7 | Partnership working. | To continue to increase efficiency by partnership working with other agencies and stakeholders |
| 8 | External funding | To draw in external resources to help meet service cost or achieve capital investment |

- 9.5 Budget pressures will need to be accommodated by improved value for money and a continuing commercial approach to service delivery.
- 9.6 Any significant corporate pressures or funding changes that impact on the budget will need to be addressed during budget preparation

10 Capital Programme

- 10.1 The Council has an ambitious capital programme that will be further developed to maximise service delivery and investment potential. A revised Capital Strategy will be reported to September Cabinet.
- 10.2 One of the principles of the emerging Capital Strategy will be the use of capital resources to generate income gains and revenue savings. This will reduce revenue budget pressures.
- 10.3 The Revolving Investment Fund is the key mechanism to implement major investments with a focus on delivering key strategic objectives.
- 10.4 Capital proposals will be assessed for their fit to corporate objectives and their long-term affordability within the MTFF.
- 10.5 To progress the redevelopment of the Jacks site, £400k was ringfenced to support the capital costs of this scheme, including archaeological works. The scheme will bring in a rental income of £42k per annum, protect a locally listed historic building and support local jobs. Due to the timing of the need for the additional funding, the Leader of the Council gave approval under Cabinet Procedure Rule 22. This procedure requires that the action taken shall be submitted to this meeting.

11 Strategic Plan References

- 11.1 The 2020/21 budget and the Medium-Term Financial Forecast will be underpinned by the Strategic Plan priorities and will seek to preserve and shift resources where needed to support these priorities.

12 Financial implications

- 12.1 As set out in the report.

13 Equality and Diversity Implications

- 13.1 Consideration will be given to equality and diversity issues in respect of budget changes proposed as part of the budget process. This will be done in line with agreed policies and procedures including production of Equality Impact Assessments where appropriate.

14 Risk Management Implications

- 14.1 As set out in the report

15 Consultation

- 15.1 The budget strategy and timetable ensure that information is available for scrutiny and input from all Members. Detailed information will be available prior to the final budget report being submitted to Cabinet and approval by Council in February 2020. The Leader of the Opposition will have the opportunity to meet with officers to assist with consideration of any alternative budget proposals.

14.4 The normal consultation with business ratepayers and parish councils will take place.

15. Other Standard References

15.1 There are no direct Publicity, Human Rights, Community Safety or Health and Safety implications as a result of this report.

Background Papers

Revenue and Capital Outturn reports to Scrutiny Panel – 11 June 2019