

Cabinet

11 July 2018

Item

Report of	Assistant Director, Policy and Corporate	Author	Sean Plummer ☎ 282347 Darren Brown ☎ 282891
Title	2019/20 Budget Strategy, Medium Term Financial Forecast and Budget Timetable		
Wards affected	Not applicable		

1. Executive Summary

- 1.1 This report sets out the budget forecast position for 2019/20 which shows a current budget gap of £0.93m. Information on the last year's outturn (2017/18) and current year (2018/19) are also provided.
- 1.2 The updated Medium Term Financial Forecast (MTFF) is set out including an updated position on general fund balances and risks and variables to the budget forecast.

2. Recommended Decision

- 2.1. To note the pre-audit outturn position for the financial year 2017/18.
- 2.2. To note the budget forecast, approach and timetable for the preparation of the 2019/20 budget.
- 2.3. To note the updated position in respect of balances and changes made to allocations.
- 2.4. To note the updated Medium Term Financial Forecast as set out at Appendix B.
- 2.5. To agree the change to the Housing Investment Programme as set out at para.8.2.

3. Reason for Recommended Decision

- 3.1 The Council is required to approve a financial strategy and timetable in respect of the financial year 2019/20, and a Medium Term Financial Forecast (MTFF) for the two subsequent financial years.

4. Alternative Options

- 4.1 At this stage in the budget process the main objective is to note the current position and to consider the approach to closing the budget gap. Alternative approaches to the budget strategy could be considered.

5 Background Information

Financial Overview 2017/18 and 2018/19

- 5.1. The Pre-Audit Outturn report for the year to 31 March 2018 was presented to the Scrutiny Panel on 12 June 2018.
- 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 £79k:-

	Budget	Actual	Variance	c/f	Net
	£'000	£'000	£'000	£'000	£'000
Corporate & Democratic Core	(496)	(450)	46	-	46
Policy & Corporate	8,243	7,676	(567)	686	119
Executive Management Team	659	656	(3)	-	(3)
Commercial	452	1,013	561	-	561
Community	4,415	4,268	(147)	44	(103)
Customers	4,108	3,999	(109)	73	(36)
Environment	2,918	2,771	(147)	-	(147)
Sub-Total Services	20,299	19,933	(366)	803	437
<i>Technical / corporate items</i>					
NEPP (North Essex Parking Partnership)	(210)	(272)	(62)	62	-
CIMS (Colchester & Ipswich Museum Service)	1,164	1,193	29	(29)	-
Benefits	(984)	(1,288)	(304)		(304)
Net General Fund/HRA (Housing Revenue A/c)	4,340	4,367	27	-	27
Total Services	24,609	23,933	(676)	836	160
Pensions	(634)	(657)	(23)		(23)
MRP (Minimum Revenue Provision)	1,255	1,255	-		-
CLIA (net interest account)	747	726	(21)		(21)
Misc. items	-	37	37		37
Misc. Gov't grants	(87)	(162)	(75)		(75)
General service related items	332		(332)	175	(157)
Local Taxation - Business Rates	(4,938)	(5,920)	(982)	982	-
Local Taxation - Business Rates Pool	-	(834)	(834)	834	-
Total	21,284	18,378	(2,906)	2,827	(79)

- 5.3. When the 2018/19 budget was set, it had been assumed for planning purposes that the end of year position could *potentially* be an overspend of £200k. The outturn therefore improves the balances position. In summary, it means that balances are £520k above the recommended level. As shown in the following table.

	£'000	Note
Uncommitted / unallocated balances above 'prudent' level	441	Position when 2018/19 budget was set.
Outturn underspend	79	Position reported to Scrutiny Panel
Balances above agreed level	520	

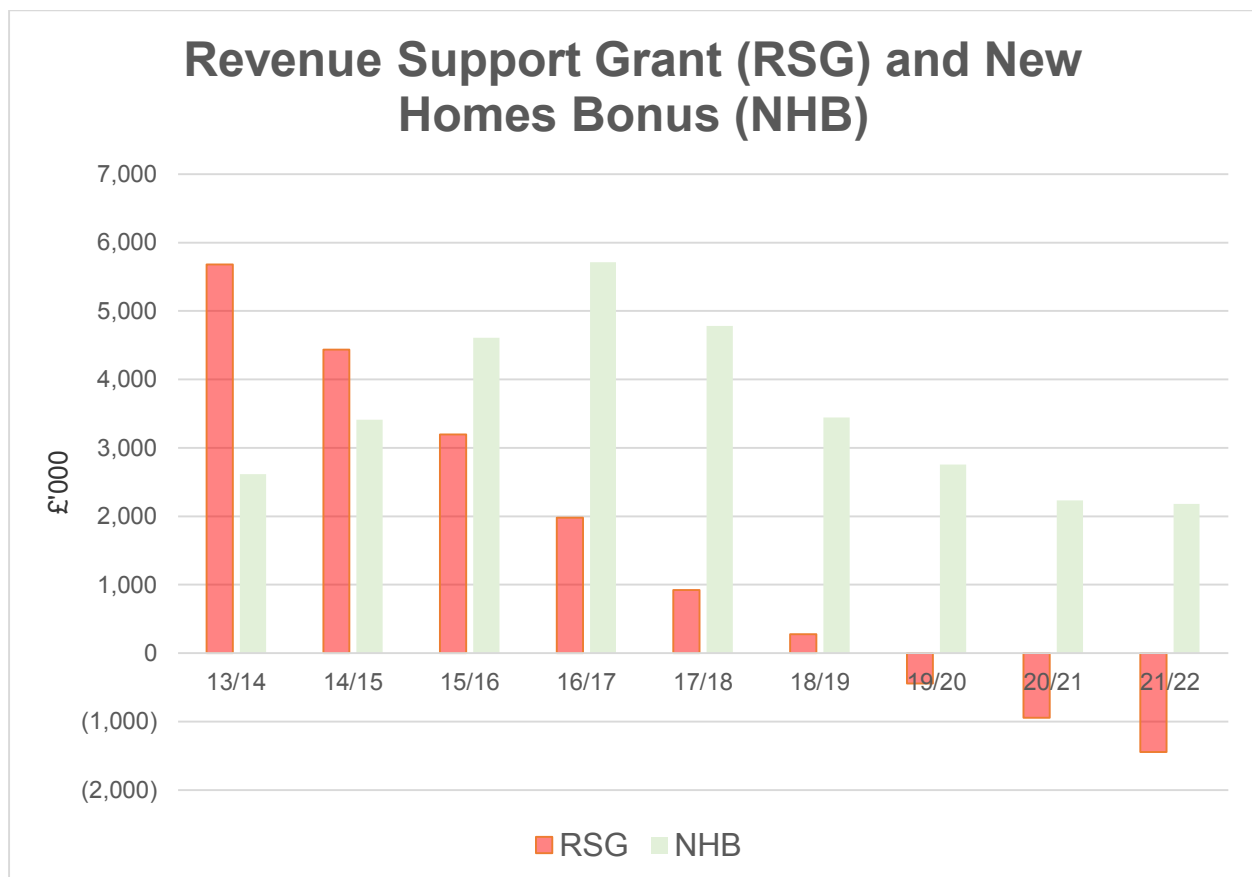
- 5.4. *Financial Year 2018/19*

At this stage in the financial year it is difficult to assess potential variances (both positive and negative). One area to highlight is that the agreed pay award for this year has been set at 1.5%. The budget provided for an increase of 2% and therefore there is a saving of c£100k. The overall position will be reported throughout the year to Scrutiny Panel and Governance and Audit Committee.

- 5.5. The separate report on this agenda sets out proposals to allocate c£2m to support delivery of strategic plan priorities. This includes £1.063m from the New Homes Bonus which was included in the budget to help deliver projects which support strategic plan priorities and also those which can deliver income to assist with managing future budget pressures.

Budget Forecast for 2019/20

- 5.6. Appendix B sets out a budget forecast for 2019/20 and a Medium Term Financial Forecast (MTFF) for the subsequent two years including the key assumptions. As part of the 4 year settlement agreement, the Government has previously set out provisional funding figures for 2019/200 which include the removal of all Revenue Support Grant. The Council is responding to the increasing budget pressures faced by identifying new ways of working to deliver savings and increased income. These issues provide the backdrop for considering the budget strategy for 2019/20. The graph below sets out the level of grant (Revenue Support Grant and New Homes Bonus) received since 2013/14 showing how government funding has reduced and is expected to reduce further.



5.7. The forecast budget gap for 2019/20 is £0.93m as shown in the following table.

	2019/20	Note
	£'000	
Base Budget	19,695	
One-off items	(500)	Adjustments to base budget for one-off items
Cost Pressures	1,166	Para 5.16 to 5.21
Savings	(516)	Para 5.23
Change in use of NHB for one off investment	(485)	Reduction in grant less reduced use of £200k for base budget.
Forecast Base Budget	19,360	
<i>Funded By:</i>		
Revenue Support Grant	446	Para 5.9
Business Rates Baseline	(4,290)	Para 5.9
SFA	(3,844)	
Increase in business rates income above baseline	(1,100)	Para 5.11
Business Rates Pooling	(200)	Para 5.14
New Homes Bonus	(2,758)	Para 5.29
Total Gov't grants & business rates	(7,902)	
Council Tax	(11,929)	Para 5.25
Contribution to Reserves	1,401	Re: pensions (para 5.17)
Total Funding	(18,430)	
Annual increase	930	

5.8. The key assumptions in respect of the 2019/20 forecast are:

Government Funding & Business Rates

- 5.9. The Settlement Funding Allocation (SFA) which comprises our RSG and business rate baseline figure has been cut by £0.524million (11%) in 2018/19. This reduction is in line with the 4 year funding settlement which the Council applied for and which was agreed by Government. The following table sets out the 4 year settlement, which ends in 2019/20, and a planning assumption of reduction of £0.5m for each of the next 2 years. **These show a total reduction in grant of £2.1million (35%), and specifically for next year's budget a reduction in funding of £0.59m.**

	4 year settlement					Assumption	
	Actual			Provisional			
	16/17	17/18	18/19	19/20		20/21	21/22
	£'000	£'000	£'000	£'000		£'000	£'000
Revenue Support Grant	1,978	920	275	(446)		(946)	(1,446)
Business Rates Baseline	3,960	4,041	4,162	4,290		4,290	4,290
Settlement Funding Assessment (SFA)	5,938	4,961	4,437	3,844		3,344	2,844
Reduction (£'000)		(977)	(524)	(593)	(2,094)	(500)	(500)
Reduction (%)		(16.5%)	(10.6%)	(13.4%)	(35.3%)	(13.0%)	(15.0%)

- 5.10. As has been previously reported, the Government proposes to allocate funding on the basis of the core resources available to local authorities, taking into account councils' business rates and council tax, as well as their Revenue Support Grant. It follows that some councils with less Revenue Support Grant in later years will need to **contribute** funding from the other elements of their settlement core funding in order to meet the overall reductions to local government funding set in the Spending Review. Where this is the case, the Government proposes to adjust the relevant councils' tariff or top up under the business rates retention scheme. The table shows that by 2019/20 there will be no more RSG and that a contribution of almost £446k will be required to be made.
- 5.11. The localisation of Business Rates was introduced in 2013/14. For 13/14 and 14/15 we had been broadly budgeting at the baseline level, but since the 15/16 budget additional income has been included. This is currently set at an increase of £1.1m above the baseline.
- 5.12. One of the main risks within the current scheme is that businesses can appeal their Rateable Value (RV), and get decisions backdated. This means there is a risk that we have to refund business rates in respect of previous years, and also the ongoing income may drop. To put some of this into context, over £7m has been paid in appeals since localised business rates was introduced and a significant number of appeals remain unresolved. We have made provision for appeals in our accounts, but this is an area which is impossible to predict.
- 5.13. Looking ahead, the budget forecast currently assumes no increase in our retained business rate income in 19/20. Throughout the year we will continue to monitor income levels and appeal decisions, and will revisit this assumption.
- 5.14. Since 2015/16 the Council has been part of an Essex business rate "pool". The rationale for this is that the pool provides an opportunity to keep a greater share of business rate income above the baseline. Based on figures provided as part of the 2017/18 closure of accounts there is an estimated gain of £0.834m, however, this is subject to change although at this stage this is not expected to be material. The 2019/20 budget assumes that we will use £200k from this to support next year's budget. It is too early to estimate any additional income that we might achieve from

this arrangement in 18/19, however, the MTFF assumes we will continue to aim to use £200k of any gain to support the 2020/21 budget.

- 5.15. The 2018/19 settlement included a formal consultation on a review of relative needs and resources with the aim of implementing a funding system in 2020/21. Alongside this, the latest phase of the business rates retention programme was announced, with an aim for councils to retain 75 per cent of business rates from 2020/21. Future budget updates will consider any proposals arising from this important review of local government funding.

Inflation and costs

- 5.16. For 2019/20 a planning figure has been included for general changes to “pay and prices” in line with the approach used in recent years. It will be necessary to review forecasts for specific areas including energy costs in due course and this is therefore subject to change. The allocation includes an adjustment to reflect that the pay award agreed for 2018/19 is 0.5% less than that allowed for in the budget and as such this provides an ongoing saving for 2019/20.
- 5.17. The next actuarial review of the pension fund will take place in 2019. No allowance has been included for any impact from this review, however, this will be considered in future updates of the MTFF. As part of the 2017/18 budget it was agreed that a one off payment would be made to cover the pensions deficit cost for the period 2017/18 to 2019/20. This is partly being funded from reserves which will be paid back during 2018/19 and 2019/20. This contribution to reserves is shown in the budget forecast for 2019/20.

Fees and charges income

- 5.18. It is evident that there has been a fluctuation in some income budgets over recent years and a number of budgets have been changed to reflect these revised assumptions. On this basis the MTFF assumes a broadly neutral position over the next three years.

Specific Cost Pressures

- 5.19. The 19/20 budget forecast reflects that the government grant being used to support the costs of food waste collection will run out. In addition an allowance is included for the forecast full year impact of the change in the community stadium rent. An assumption has been made that the income received from the Council Tax sharing agreement may reduce in 2019/20.
- 5.20. There remain a number of potential risks and pressures for which no allowance is currently made. These include:-
- an increase in interest costs which are currently being minimised through internal borrowing
 - demands on services including those arising from growth in the Borough.
 - an assessment of the potential revenue and capital impact of major projects such as Garden Communities and Northern Gateway sports project.
 - Costs to the Council relating to the BID
- 5.21. The above issues will be reviewed in the next budget update and consideration will be given to any need to make allocations in the 2019/20 budget forecast.

Growth Items

- 5.22. The budget assumes no allowance for any service growth. However, the 2019/20 budget proposals still include an allocation of the New Homes Bonus to support investment and this is considered later in the report.

Savings.

- 5.23. The 19/20 budget forecast includes just over £0.5m of savings and income. This comprises the following:

- An additional dividend return from the Council's commercial companies and also an anticipated interest margin from lending to these commercial companies. (£181k).
- Sport and leisure business plan (£50k). The savings and increased income reflect the projections in the business plan agreed by Cabinet.
- Additional savings from the Customer Futures 2 review of £228k as agreed by Cabinet.
- The agreed second reduction of £50k from the arts grants budget
- The assumption that parish grants in respect of LCTS (Local Council Tax Support) will reduce in line with the Council's reduction in the SFA.

- 5.24. The MTFF includes forecast savings for beyond next year. These include projections for all the above areas and also assumptions in respect of increased income from the Council's commercial asset programme.

Council Tax

- 5.25. The Government's Spending Power forecasts assume an annual increase in Council Tax of £5 for Band D properties. The budget forecast and MTFF reflect this assumption, however, this does not represent a proposal. An allowance for an increase in Council Tax income through growth in the tax base of 1% pa is also included in the forecast.

Local Council Tax Support (LCTS)

- 5.26. The Local Council Tax Support Scheme (LCTS) for 2018/19 was approved by Full Council last year. LCTS replaced Council Tax benefits and, as has previously been reported, places a number of risks to the Council, such as:-
- *Recovery of Council Tax.* There is a risk of a lower level of collection of Council Tax, given that more people have to pay Council Tax.
 - *Recovery costs and resources.* The number of people paying Council Tax has increased and the impact on resources has to be considered.
 - *Demand.* Under the previous benefit scheme there was no direct financial impact on the Council of changes in the amount of benefit paid. Under the LCTS scheme the Government grant is a fixed sum and therefore any increase is borne by all of the major preceptors including Colchester.
- 5.27. The Government funding for LCTS is provided within the revenue support grant and retained business rates figures, which as explained earlier in the report is forecast to reduce further in 2019/20. Consideration will need to be given to the impact of this on any cost of the LCTS.

New Homes Bonus (NHB)

- 5.28. The 2018/19 NHB grant reflected the continuation of the changes to the methodology of the scheme introduced in 2017/18. These included:-
- From 17/18 the scheme has introduced a national baseline of 0.4%. NHB is only paid above this level.

- From 17/18 payments were made over 5 years rather than 6 and now, from 18/19, payments are only made over 4 years.

5.29. The final figure is a total grant for 2018/19 of £3.443m, a reduction of £1.34m. The budget forecast for 2019/20 and MTFF includes projections based on the changes already made to the NHB scheme and is based on an 'average' level of growth for future years. The following table shows a forecast grant next year of c£2.8m, a reduction of £0.6m on this year's grant.

	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000
Growth re 13/14	1,185	<i>nil</i>	<i>nil</i>	<i>nil</i>
Growth re 14/15	1,025	1,025	<i>nil</i>	<i>nil</i>
Growth re 15/16	553	553	553	<i>nil</i>
Growth re 16/17	533	533	533	533
Growth re 17/18 (est)		500	500	500
Growth re 18/19 (est)			500	500
Growth re 19/20 (est)				500
Total basic NHB	3,296	2,611	2,086	2,033
Affordable Homes Bonus	147	147	147	147
Estimated NHB	3,443	2,758	2,233	2,180

5.30. The budget forecast and MTFF assumes that the New Homes Bonus will continue to be used to support the base budget. Following consideration by Budget Group it is proposed that the base budget allocation will be reduced year on year by £200k to continue to reduce the risk of future changes to this grant. It is also assumed that the annual contribution of £250k to the RIF will continue and that the bonus paid for affordable housing will continue to be earmarked for housing. Cabinet has previously agreed to use £500k from the NHB to support the Northern Gateway Sports Project. These assumptions are set out in the following table.

	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000
New Homes Bonus	3,443	2,758	2,233	2,180
<i>Allocated to:-</i>				
Contribution to RIF	250	250	250	250
Affordable housing allocation	147	147	147	147
Base Budget	1,233	1,033	833	633
Allocation to CNG Sports Project	750	500		
Support for new schemes / projects	1,063	828	1,003	1,150
Total allocation	3,443	2,758	2,233	2,180

Summary of Budget Forecast

5.31. There are a number of significant budget risks and variables that will affect the 2019/20 budget process and these are set out within Appendix B. It will therefore be important to consider and respond to any changes in the budget forecast and this

will be reported to Cabinet throughout this year. The key areas to note include the items set out at 5.20 and any changes to government funding.

- 5.32. There is a forecast budget gap of circa £0.9m. This already reflects planned savings of over £0.5m. It should be noted that at this stage this gap could change based on a number of emerging factors.

Delivering the 2019/20 Budget

- 5.33. The Council's approach to the budget is that it is primarily driven by the Strategic Plan. We have adopted a number of different ways to identify savings or additional income to support Strategic Plan priorities and to meet a number of substantial cost pressures. The strategy for the last few years has been broadly based upon identifying opportunities to make efficiencies, mainly through the service reviews, maintaining and where possible increasing income and through exploring different ways to deliver services.
- 5.34. The Budget Group comprising Cabinet members and senior officers has operated for several years and continues to provide an overview of all possible budget opportunities, monitoring progress and taking relevant reports. Work has already started and has identified a number of possible options. These include:-

Service reviews

- A number of reviews have already started and the first of these, Environment and Communities, will be considered soon by Scrutiny Panel prior to Cabinet. Other reviews have also started including sport and leisure and corporate services.

Procurement exercises

- Cabinet has previously reports in respect of the fleet procurement exercise and savings from this will need to be quantified as part of the 2019/20 budget.

Other reviews and initiatives

- Previous reports to Cabinet have included consideration of the green waste proposals and again, work, to assess any saving will continue this year.

- 5.35. The Council's approach to budgets has always been to consider the longer-term impact of decisions. The budget process for 2019/20 will continue to reflect this by recognising that some service changes (reductions, income and growth) will often be delivered over a period longer than a year.
- 5.36. Appendix B sets out the proposed budget timetable and will include consideration of the capital programme.

Housing Revenue Account (HRA)

- 5.37. The HRA is a ring fenced account that relates to costs and income in respect of the Council's housing stock. The HRA budget and rent setting process is carried out alongside the General Fund budget and elements of the process are carried out simultaneously. 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.
- 5.38. HRA Self-Financing has been in operation since 1st April 2012, and Cabinet have agreed a 30 year HRA Business Plan which runs to 2043. This has assisted with financial planning and the outputs from this were reflected in the 2018/19 budget, which continues to take account of the Government's policy to reduce social

housing rents up to 2019/20. The 2019/20 budget will therefore be similarly developed within this framework.

6. Medium Term Financial Forecast

- 6.1. The Medium Term Financial Forecast (MTFF), as set out at Appendix A, shows a potential budget cumulative budget gap of a further c£1m by 2021/22. The key factors affecting the budget gap in later years include the assumed further reduction in Government funding, changes to the New Homes Bonus and the savings and additional income already identified. It should be noted that the 4 year settlement ends in 2019/20 and at this stage a reduction of £0.5m is assumed for each year.
- 6.2. The forecast needs to be viewed alongside the level of significant risks and uncertainty regarding a number of key factors that will impact on the Council's finances in the medium term. Most of the key risks outlined in the MTFF could result in recurring cost pressures for the Council. This will require recurring cost savings or additional income to be identified to minimise the escalation of these pressures.
- 6.3. The MTFF also shows that the Council continues to hold reserves and balances to support the Council's budgets. The position on these reserves will be reviewed during the year as the 2019/20 budget progresses.
- 6.4. In summary, the MTFF sets out what is likely to continue to be a challenging financial outlook with an ongoing level of uncertainty in future years. The budget process needs to establish that the Council's spending plans, in the medium term, are affordable and can be prudently financed.

7. Revenue Balances

- 7.1. When the 2018/19 budget was set it was reported that balances were forecast to be £241k above our recommended level of £1.9m. This took account of a potential net overspend of £200k. Having now reported the 2017/18 outturn position there are certain changes to report and proposals to make.
- 7.2. As reported earlier in this report and also to the last Cabinet meeting, the final outturn position was an underspend of £79k which was £279k less than the £200k assumed.
- 7.3. Various allocations within balances have been reviewed as part of the end of year accounts. These include residual budgets held within balances for various projects which are now complete or for which the sums are no longer required. These span a period of years and many are now complete or considered to be no longer required. These sums have been reallocated to the budget held for redundancy costs (including pension strain costs). With the series of service reviews in progress or planned and the level of costs incurred last year it is necessary to make appropriate provision for future costs.
- 7.4. As set out in the Medium Term Financial Forecast balances are now £520k above our recommended level. Proposals in a separate report on this agenda are made to allocate part of this surplus, alongside the New Homes Bonus and business rates pooling gain.
- 7.5. This is the first report in respect of the 2019/20 budget. The budget timetable sets out that the position on balances and other reserves and provisions will be reported later this year. It will again be necessary to review the risk assessment that informs

the recommended level of balances and detailed allocations. The scope and option of using balances to support the revenue budget will therefore be considered in future reports.

8. Capital Programme

- 8.1. This report does not include a full review of the capital programme. This will be carried out later in the budget process. However, there is one item to report.
- 8.2. The 2018/19 Housing Investment Programme (HIP) agreed by Cabinet at its meeting on 31 January 2018 included an initial allocation of £500k to potentially buy back properties offered to the Council under the right of first refusal provisions contained in the Right to Buy legislation. Cabinet has now agreed the principle to purchase up to 10 properties through this allocation, therefore it is necessary to increase the funding in the HIP to £2.2million to enable this number of purchases. This expenditure will be funded through the use of retained 1-4-1 Right to Buy receipts (up to 30% of total cost), with the balance of 70% coming from S106 commuted sums for affordable housing.

9. Strategic Plan References

- 9.1. The 2019/20 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.

10. Financial implications

- 10.1 As set out in the report.

11. Equality and Diversity Implications

- 11.1 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.

12. Risk Management Implications

- 12.1 As set out in the report.

13 Consultation

- 13.1. The Council is required to consult on its budget proposals. A consultation exercise took place as part of the production of the Strategic Plan agreed by Council in February 2018.
- 13.2. The budget strategy and timetable aims to ensure that information is available for scrutiny and input from all Members on proposals in the process. The aim is that detailed information will be available prior to the final budget report being submitted to Cabinet and approval by Council in February 2019.
- 13.3. As has been the case in previous years the opportunity remains open for the leader of the opposition to meet with officers to assist with consideration of any alternative

budget proposals.

- 13.4. Furthermore, we will continue with the statutory consultation with business ratepayers and will meet with parish councils in respect of grant funding.

14. Other Standard References

- 14.1 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 – 12 June 2018

Budget Position for Cabinet – 6 June 2018

Medium Term Financial Forecast 2018/19 – 2021/22

1. Introduction

The Medium Term Financial Forecast (MTFF) sets out the Council's budget forecast for the next three years. The MTFF sets out:-

- A summary of the 2018/19 budget including an analysis of all service budgets
- The budget forecast for next three years including current cost pressures, growth items and assumptions regarding use of reserves.
- A list of key risk items for 2019/20 and beyond
- The current position on Council General Fund balances including the risk assessment for 2018
- The current position on all other reserves and balances will be produced as part of 2019/20 budget updates

The MTFF will continue to be updated during the year as the budget progresses.

2. 2018/19 Budget

The Council's General Fund includes all costs and income other than those in respect of the Council housing stock

Colchester's total net revenue budget for 2018/19 (net of balances) is **£17.6million**.

Net Budget (incl: New Homes Bonus and net movement on reserves)	£'000 17,617
Funded by:	
- Revenue Support	275 (2%)
- Retained Business Rates	5,262 (30%)
- Council Taxpayers (excl. parishes)	11,471 (65%)
- Collection Fund surplus	609 (3%)
	17,617

The following table sets out a summary of the 2018/19 budget including changes made from the previous year.

2018/19 Summary Budget

	<i>Adjusted Base Budget</i>	<i>One-Off Items</i>	<i>Cost Pressures</i>	<i>Technical Items</i>	<i>Total Savings</i>	<i>Detailed 18/19 Budgets</i>
		£'000	£'000	£'000	£'000	£'000
Corporate & Democratic Core	(496)	0	0		(7)	(503)
Executive Management Team	623	0	9		54	686
Community	5,595	(33)	205		(249)	5,519
Customers	3,440	(127)	111		(323)	3,100
Environmental (excl NEPP)	2,526	(20)	725		(535)	2,696
Policy & Corporate	8,009	(325)	932		(715)	7,901
Total General Fund Services	19,697	(505)	1,982	0	(1,775)	19,399
Technical Items						
<i>Corporate Items / sums to be allocated to services</i>						
Procurement Savings	(15)		15		0	0
Investment Allowance funded by NHB	2,872	0	0	0	(810)	2,062
Business Rates revaluation / inflation Index	15		(25)		0	(10)
Apprenticeship Levy	30		(30)		0	0
Waste Review	72	(72)	0		0	0
Comms / Marketing post for CCHL	0		45		0	45
Strategic Plan 17/18	100	(100)	0		0	0
Digital Challenge	70		0		(70)	0
Grounds Maintenance Savings	11		(11)		0	0
Digital Challenge - Post & Print	(5)		5		0	0
PV Panels / LACM (Carbon Management)	(20)		0		0	(20)

	<i>Adjusted Base Budget</i>	<i>One-Off Items</i>	<i>Cost Pressures</i>	<i>Technical Items</i>	<i>Total Savings</i>	<i>Detailed 18/19 Budgets</i>
		£'000	£'000	£'000	£'000	£'000
<i>Non-Service Budgets</i>						
CLIA (net interest)	538		1		(106)	433
Building Mtce. Plan Contribution	150		0			150
Minimum Revenue Provision	560		0		0	560
Pensions	5,108	(3,112)	(44)	(1,586)		366
Heritage Reserve & Gosbecks Reserve	3		(3)			0
General Fund /HRA /NEPP Adjustment	(3,275)		(15)		0	(3,290)
Total corporate / technical items	6,214	(3,284)	(62)	(1,586)	(986)	296
Total incl. corporate / technical items	25,911	(3,789)	1,920	(1,586)	(2,761)	19,695
<i>Funded by:-</i>						
Use of balances: re carry forwards	(77)	77	0	(63)		(63)
Use of balances	(422)	422	0	(73)		(73)
Contribution to balances	0	0	0	2,186		2,186
Use of balances for one-off Pension costs funding	(3,173)	3,173	0	0		0
Use of other Earmarked Reserves	(475)	475	0	(485)		(485)
Use of NNDR reserve	(489)	489	0	0		0
Use of S.106 reserve	(20)	20	0			0
Revenue Support Grant	(920)		645			(275)
Business Rates Baseline	(4,038)		(124)			(4,162)
Transition Grant	(88)	88	0			0
Business Rates Growth above Baseline	(900)		0	(200)		(1,100)
Business Rates Pooling	0		0	(200)		(200)
Council Tax	(11,015)		0	(456)		(11,471)

	<i>Adjusted Base Budget</i>	<i>One-Off Items</i>	<i>Cost Pressures</i>	<i>Technical Items</i>	<i>Total Savings</i>	<i>Detailed 18/19 Budgets</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Collection fund Transfer	(48)	48	0	(609)		(609)
New Homes Bonus	(4,783)		0	1,340		(3,443)
Business Rates Deficit / (Surplus)	537	(537)	0	0		0
Total	(25,911)	4,255	521	1,441	0	(19,695)

3. Budget Forecast 2018/19 to 2021/22

The following table sets out the Council's budget forecast for the next three years including key assumptions.

	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000
Base Budget	25,911	19,695	19,360	19,152
One-off items	(3,789)	(500)	0	0
Cost Pressures	1,920	1,166	640	640
Growth Items	0	0	0	0
Savings	(1,821)	(516)	(523)	(222)
Change in use of NHB for one off investment	(940)	(485)	(325)	147
Pensions contribution	(1,586)			
Forecast Base Budget	19,695	19,360	19,152	19,717
<i>Funded By:</i>				
Revenue Support Grant	(275)	446	946	1,446
Business Rates Baseline	(4,162)	(4,290)	(4,290)	(4,290)
SFA	(4,437)	(3,844)	(3,344)	(2,844)
Increase in Business Rates above baseline	(1,100)	(1,100)	(1,100)	(1,100)
Business Rates Pooling	(200)	(200)	(200)	(200)
New Homes Bonus	(3,443)	(2,758)	(2,233)	(2,180)
Total Gov't grants & business rates	(9,180)	(7,902)	(6,877)	(6,324)
Council Tax	(11,471)	(11,929)	(12,407)	(12,907)
Collection Fund Deficit / (Surplus)	(9)	0	0	0
Business Rates Deficit / (surplus)	(600)	0	0	0
Contribution to / (Use of Reserves)	1,565	1,401	1,401	1,401
Total Funding	(19,695)	(18,430)	(17,883)	(17,830)
Budget (surplus) / gap before changes (cumulative)	0	930	1,269	1,887
Annual increase		930	339	618

	2019/20	2020/21	2021/22
	£'000	£'000	£'000
Cost Pressures			
<i>Inflation and specific cost pressures:-</i>			
General Inflation	540	640	640
Food Waste (net impact of loss of grant)	204		
Stadium rent	22		
IT costs (incremental cost of ICT strategy 2018)	150		
Council Tax Sharing Agreement	250		
Total cost pressures	1,166	640	640
<i>One-off adjustments:-</i>			

	2019/20	2020/21	2021/22
	£'000	£'000	£'000
Budget Carry forwards	(392)		
LDF	(30)		
CBH Inflation	(13)		
Wiring costs	(20)		
Additional Communications and marketing	(45)		
One-off adjustments	(500)	0	0
Total	666	640	640

Savings (incl. one off adjustments)			
<i>Efficiencies, income and service reviews</i>			
Sport & leisure	(50)	(58)	
Commercial Assets		(150)	(92)
Commercial Company assumptions	(107)	(135)	(130)
Customer Futures 2	(228)		
Assumed incremental lending to CCHL margin	(74)	(180)	
<i>Budget reductions agreed</i>			
Arts Grant	(50)		
LCTS grant to parishes	(7)		
Total	(516)	(523)	(222)

Change in use of New Homes Bonus for one off investment			
Reduction due to falling grant	(685)	(525)	(53)
Increase due to change in use for base budget	200	200	200
Total saving	(485)	(325)	147

Use of / contribution to Reserves			
Use of balances - pensions	(1,586)	(1,586)	(1,586)
Use of NEPP reserve	185	185	185
Total	(1,401)	(1,401)	(1,401)

New Homes Bonus Grant - Income			
Basic NHB	(2,611)	(2,086)	(2,033)
Affordable Homes Bonus	(147)	(147)	(147)
Total Grant	(2,758)	(2,233)	(2,180)

4. Risk Areas / Uncertainty

There are several key risk areas or areas where the outcome is uncertain which will impact on the budget forecast. The main areas are:-

Risk / Area of uncertainty	
Impact of EU referendum 'leave' result.	<p>At this early stage any impact from the "leave" decision is unclear. However, the uncertainty and risks include:-</p> <ul style="list-style-type: none"> • Any changes to the announced public sector funding levels including NHB • Any impact on the Council's business rates 'taxbase' • Any impact on the Council's treasury management costs arising from interest rate changes. • Any impact of economic climate on Public Sector funding
<i>Government Funding / Business Rate Retention Scheme</i>	<p>The MTFF includes the reduction in the 'SFA' for 2018/19 with a further reduction for the year after in line with figures included in the 4 year settlement. For the remaining two years a reduction of £500k pa has been assumed for planning purposes.</p> <p>From 2013/14 a proportion of the Council's core income that used to be provided by Government grant is now funded by the Council keeping a share of business rates income. This poses a new risk as well as a potential reward.</p> <p>The budget includes an assumption that in 2018/19 we will retain an extra £1,100k of business rates income above our baseline figure. The business rates revaluation took effect in 2017/18 and the risk and impact of business rate appeals remains an area of concern. With the planned changes to business rates retention still uncertain this remains a risk area for the Council's budget.</p>
<i>Welfare Reform (including Local Council Tax Support - LCTS)</i>	<p>Budget papers have previously set out some of the key risks associated with the implications of the Council having approved the LCTS scheme. The combined impact of the Government's welfare reforms and demands on Council services will need to be considered during the period of the MTFF.</p>
<i>Government grants and partnership funding</i>	<p>The Council's budget has changed over recent years with a greater emphasis on funding from both partner organisations and Government bodies. These funding streams can rarely be guaranteed and can therefore add to our cost pressures.</p> <p>Provision has been made in the 2018/19 budget for the New Homes Bonus based on the notified grant. Thereafter the MTFF assumes the grant will reduce based on proposals made by the Government. These grant reductions will reduce the funds available for one-off investment and this is assumed within the MTFF.</p>
<i>Pensions</i>	<p>In the 17/18 budget an allowance was built in for an increase in pensions costs based on the results of the actuarial review. In addition the budget allowed for the payment of the deficit for the next three years in one payment. This was partly funded from reserves which are being repaid in 18/19 and 19/20.</p> <p>In 20/21 it will be necessary to reflect the deficit costs resulting from the next actuarial review. The assumption in the MTFF is</p>

Risk / Area of uncertainty	
	that this is again funded in the same way as it has been in 17/18.
<i>Fees and charges and other income</i>	<p>As has been seen in the past few years we have experienced a number of pressures arising from changes in income levels. Looking ahead to 2018/19 and beyond it is difficult to estimate how income levels may continue to be affected. Some targets have been reduced in 2018/19 to reflect lower current income levels.</p> <p>The MTFF does include some additional income forecast from agreed business plans.</p> <p>The 2018/19 budget also includes the assumed dividend payment from Colchester Commercial Holdings Ltd (CCHL) with increases to this assumed for later years in the MTFF. This remains a risk to the Council's budget, especially given shortfalls in commercial trading activities incurred last year. This will be monitored closely during 2018/19.</p>
<i>Inflation</i>	<p>An allowance for general inflation including pay has been built into the 18/19 forecast and MTFF. The pay award has already been agreed for 2019/20 which helps to provide certainty in the budget for next year.</p> <p>Council's cost inflation is in general not directly linked to RPI and therefore we will continue to monitor the impact of inflation on all Council costs. Some of the main risk areas include energy, fuel costs and pay assumptions.</p>
<i>Use of reserves</i>	The budget position for 2018/19 includes proposals to use certain reserves mostly for one off items. The MTFF includes some assumptions in respect of reserves but these are mostly associated with the funding of the pensions deficit payment. It should be noted that the Cabinet is considering use of balances as a separate decision on this agenda.
<i>Legislation</i>	There are likely to be several items of new legislation over the life of the MTFF for which any available funding may not cover costs or which may impact significantly on the Council e.g. Universal Credit.
<i>Property review</i>	A review of our assets was carried out and a 5-year Building Repairs and Maintenance Plan produced. There will continue to be financial implications arising from this for both the revenue budget and capital programme and these will be considered in detail and included in the on-going updates of the MTFF. The 2018/19 budget forecast maintains the additional allocation of £150k in respect of planned repairs. Consideration is being given to whether this contribution needs to be increased for future years.

Risk / Area of uncertainty	
<i>Impact of growth in the Borough and demand for services</i>	A number of Local Authority services are directly impacted by the increase of population in the Borough, such as waste services, planning, benefits etc. As part of future budgets it will be necessary to consider whether there is a need for additional resources in these or other areas in order to maintain levels of service. A financial assumption has been made that the Council's programme of service reviews will assist in identifying efficiencies to cope with changes in demand, however, it will be necessary to ensure that future budgets allow for any cost pressures.
<i>Delivery of budget savings</i>	The 2018/19 budget includes c£2.8m of savings, increased income or budget reductions. The savings and income forecasts have been risk assessed and all are considered deliverable, however, the budget report considers the risk to delivering some of the income targets and if these cannot be achieved there is the risk in the MTFF of the ongoing impact. The MTFF includes further savings from the ongoing budget and service reviews and whilst these are currently considered to be on track to be delivered these will be reviewed as part of the 19/20 budget. As referred to earlier one of the main areas to consider is the assumptions linked to the Council's commercial companies.
<i>Net Interest earnings and investments</i>	The budget is influenced by a number of factors including interest rates and cashflow movements. The Council's strategy of internal borrowing has helped minimise our interest cost, however, it is recognised that this is not a long term approach and therefore there may be future cost pressures from any need to borrow externally. This is currently not reflected in the MTFF but will be considered as part of future budget updates.
<i>Capital Programme (incl. RIF)</i>	The Council's capital programme (incl. Revolving Investment Fund – RIF) has grown in recent years to reflect significant new schemes such as projects in the Northern Gateway area and lending to the Council's commercial companies. A number of these schemes include complicated funding arrangements that can give rise to short term cashflow costs. It is also important to note that there are projects under consideration by the Council for which ongoing funding has not been agreed. This includes areas where feasibility funding has been agreed in the RIF and also North Essex Garden Communities.

5. General Fund Balances – Risk Assessment

A risk assessment has been undertaken to determine the prudent level of general fund balances as part of the 2018/19 budget process. This has been carried out with reference to specific risk allocation sums held within balances

Historically we have maintained a strong level of balances and these have been used to:-

- Support the annual budget - particularly to fund one off items.
- Fund new initiatives identified during the year.
- Provide cover for cashflow and emergency situations.
- Provide flexibility and a resource for change management.

Risk Assessment

The results of the current assessment are summarised below.

Factor	Assessed Risk			Comment
	High	Med	Low	
	£'000	£'000	£'000	
Cash Flow	1,000			No change to current level
Inflation		100		
Investment Income	75			
Trading Activities and fees and charges		200		No change made for new company arrangements.
Benefits		200		Separate allocation also held in balances
New legal commitments			100	
Litigation		150		
Partnerships			100	
VAT Exemption Limit			450	Increased to £450k in 16/17 representing current impact.
Budget Process		150		Increased in 16/17 by £50k to reflect removal of contingency sums
Revenue impact of capital schemes			150	
Impact of Local Government Finance reforms	300			Maintained, given funds held in earmarked reserve and balances
	1,375	800	800	

	Risk	%	Minimum provision
High Risks	1,375	100	1,375
Medium Risks	800	50	400
Low risks	800	10	80
Sub total			1,855
Unforeseen factors			45
Recommended level			1,900

This shows the minimum level of balances be maintained at £1.9 million. It is then a matter of judgement whether it would be desirable to hold any further level of balances beyond this, or to seek to rebuild balances above this level to provide for future flexibility.

The main issues to mention concerning the assessment are: -

- The key reason for proposing to increase balances in 2013/14 was the new risks associated with major Local Government reforms such as the creation of a Local Council Tax Support Scheme and the local retention of business rates. This remains a key risk area.
- While the possible requirement to meet capital spending from revenue resources a potential risk it is no longer shown in the assessment as it is classed as "nil" because of the current level of funds held in the capital expenditure reserve and the introduction of the Prudential Code.
- Net investment income has been identified as a risk area. In last year's risk assessment this was classified as a "high risk" and due to the continuing uncertainty in the world economy this has been maintained.
- The assessment includes the risk that the VAT exemption limit will be exceeded with a consequent loss of recoverable VAT. Regular monitoring and active management of new schemes minimises this risk.

Implications

The risk assessment will be carried out at least annually as part of the budget process. While the current assessment indicates a minimum level it is important to recognise that there are implications of operating at this level. As noted above we have traditionally had a level of balances that have provided flexibility and enabled new initiatives to be considered outside the annual budget process. Operating at the minimum level requires an approach and a discipline to: -

- Ensure all spending aspirations for the coming year are assessed as part of the annual budget process. The continued development of the Medium Term Financial Forecast will assist in this.
- Recognise that it will not be possible to draw on balances to fund new discretionary initiatives identified in the year, however desirable they may be; an alternative source of funding would need to be identified.
- Realise future assessments could identify a need to rebuild balances
- Accept that the potential for interest earnings on balances will change depending on the level of balances held. (This will be reflected in the budget accordingly).
- Acknowledge that any balances desired for future flexibility/change management will need to be built up over and above the prudent level identified.

In addition it is acknowledged that it may be necessary for balances to fall below the recommended level. Balances are provided to mitigate unbudgeted cost pressures and as such at times they may be used to provide temporary support to the Council's budget.

6. General Fund Balances - Position

Balances					
	Allocated	Risk allocations	Unallocated	Total	Note
	£'000	£'000	£'000	£'000	
Opening balance 1/4/18	(2,322)	(844)	(2,420)	(5,586)	per 17/18 accounts
Reallocations				0	
Revised opening position	(2,322)	(844)	(2,420)	(5,586)	
<i>Budget Carry Forwards / sums held in balances:-</i>					
17/18 Service Budget c/fs (incl. NHB)	803			803	As reported to Scrutiny Panel June 18
Previous pooling gain c/f (contr'n to reserve)	216			216	
Business rates reserve c/f	982			982	
17/18 Business rates pooling c/f	834			834	As reported to Scrutiny Panel June 18. Proposals to use this reported to Cabinet July 18. £200k will also be used to support 19/20 budget.
Carry forwards held in balances	475			475	Agreed budget sums, such as New Homes Bonus which have not yet been moved to service budgets. These items have been reviewed and unused balances transferred to the redundancy allocation
Allocations in previous years c/f	143			143	Allocations against specific projects. This has been reviewed as part of closure and certain allocations no longer required have

Balances					
	Allocated	Risk allocations	Unallocated	Total	Note
	£'000	£'000	£'000	£'000	
					been transferred to the redundancy allocation.
Colchester & Ipswich Museum Service (CIMS)	38			38	Use of balances subject to decisions made by joint Committees.
North Essex Parking Partnership (NEPP)	223			223	
Redundancy costs	528			528	Costs have been incurred in 2017/18 with the balance c/f. Includes proposed allocation as shown above.
Council Tax Sharing agreement	271			271	Carry forward sum from previous years
Right to challenge - Gov't funding	46			46	Funds held against any issues.
Startwell	100			100	Agreed by Cabinet 12 October 2016.
Total carry forwards and allocations	4,659	0	0	4,659	
Proposed Use in 18/19					
Use of Pooling gain to support budget	200			200	As agreed in budget report 18/19
Funding one off costs	43			43	As agreed in budget report 18/19
Funding c/f to support budget	93			93	As agreed in budget report 18/19
Community Stadium - rent adjustment	500			500	Provision for one-off reduction in rent.
	836	0	0	836	
Pensions					
Contribution to reserves in 18/19 and 19/20	(3,173)	0	0	(3,173)	Reinstatement of reserves to fund one off cost.

Balances					
	Allocated	Risk allocations	Unallocated	Total	Note
	£'000	£'000	£'000	£'000	
<i>Use of balances in later years or risk allocations</i>					
Business rates / Welfare reform		172		172	Provision for impact arising from reforms.
Planning appeals (incl. legal, HR etc.) risk allocation		222		222	Sums held for costs associated with planning appeals.
Housing benefit - risk allocation		300		300	Agreed in 15/16 budget
Collection Fund - risk allocation		150		150	Agreed in 15/16 budget
Total later years allocations (incl. pensions)	(3,173)	844	0	(2,329)	
Uncommitted / unallocated Balance	0	0	(2,420)	(2,420)	
Recommended level			(1,900)	(1,900)	Proposed level
Surplus above recommended level	0	0	(520)	(520)	

2019/20 Budget Timetable	
Budget Strategy	
March – June (SMT and Budget Group)	Budget Group Meetings Agreed Update MTFF /Budget Strategy Review potential cost pressures, growth and risks Consider approach to budget Initial budget reviews started
Cabinet – 11 July 18	<ul style="list-style-type: none"> • Review 17/18 outturn • Report on updated budget strategy / MTFF • Timetable approved
Scrutiny Panel – 17 July 18	Review Cabinet report
Detailed Budget preparation and Budget Setting Consultation	
Budget Group / Leadership Team regular sessions on progress / budget options now - December	Review budget tasks Consider delivery of existing budget savings Complete outturn review
Cabinet – 5 September 18 and /or 10 October 18	<ul style="list-style-type: none"> • Budget Update • Review of capital resources / programme
Cabinet – 21 November 18	<ul style="list-style-type: none"> • Budget update • Reserves and balances • Agree fees and charges / budget changes • Government Finance settlement (if available) • Review in year budget position
Scrutiny Panel – 29 January 18	Budget position (Detailed proposals)
Cabinet – 30 January 19	Revenue and Capital budgets recommended to Council
Council – 20 February 19	Budget agreed / capital programme agreed / Council Tax set

Leadership Team to review budget progress during year.