Colchester	**Cabinet** **13 July 2016**	**Item 8(i)**

Report of	**Assistant Chief Executive**	**Author**	**Sean Plummer** **☎ 282347** **Darren Brown** **☎ 282891**
Title	**2017/18 Budget Strategy, Medium Term Financial Forecast and Budget Timetable**		
Wards affected	Not applicable		

This report asks Cabinet to:

- **Note the current financial position for the financial years 2015/16 and 2016/17**
- **Agree the use of balances**
- **Note the budget forecast and timetable for the 2017/18 budget**
- **Note the updated Medium Term Financial Forecast for the period to 31 March 2020**
- **Note an update of the Revenue Balances position**
- **To note the Capital Programme.**

1. Decisions Required

1.1. To note the pre-audit outturn position for the financial year 2015/16.

1.2. To agree to release funding from balances for projects set out at paragraph 3.4

1.3. To note the budget forecast, approach and timetable for the preparation of the 2017/18 budget and updated position in respect of balances.

1.5 To note the updated Medium Term Financial Forecast as set out at Appendix B.

1.6 To note the latest position in respect of the Capital Programme and agree the additional funding for the Priory Street car park scheme set out in section 7.

2. Reasons for Decisions

2.1. The Council is required to approve a financial strategy and timetable in respect of the financial year 2017/18, and a Medium Term Financial Forecast (MTFF) for the two subsequent financial years.

3 Financial Overview 2015/16 and 2016/17

Financial Year 2015/16

3.1. The Pre-Audit Outturn report for the year to 31 March 2016 was presented to the Scrutiny Panel on 21 June 2016.

3.2. The position shows a net underspend on budgets of £791k after allowing for a number of agreed carry forward items. A number of factors have contributed towards this position including:

- The main service income lines show £0.9m of additional income compared to the budget. The main gains being parking, planning and bereavement services.
- Net interest costs of £0.2m and savings from the lower than budgeted pay award of £0.1m have been delivered as identified and reported during the year.
- Redundancy costs of £0.4m including pension strain payments have been absorbed without needing to use balances.
- £0.5m of projects from the assumed in-year underspend (agreed by Cabinet in November 2015) have been funded including the Big Choice grant scheme.

3.3. The 2015/16 budget included c£2.2m of savings or additional income. As shown these have all been delivered or compensating savings have been found. The 2016/17 budget was based on the plan that the 2015/16 outturn would be delivered "on budget", although it was acknowledged at the time that a net surplus was forecast. The final position therefore reflects an improvement and the additional surplus has initially been added to balances.

3.4. *Financial Year 2016/17*
At this stage in the financial year it is difficult to assess potential variances (both positive and negative). The position will be reported throughout the year to Scrutiny Panel. There are a number of proposed allocations totalling £351k which are being recommended to be funded from balances:-

Proposal	**Comment**	**£'000**
Garden Communities	See Appendix A	250
Building Control Project	As agreed at Cabinet on 8 June 2016	101
Total Proposed Allocations		**351**

3.5. Based on the above proposals balances would remain above our recommended level. Scrutiny Panel will receive reports during the year on the budget position.

4. Budget Forecast for 2017/18

4.1. Appendix B sets out a budget forecast for 2017/18 and a Medium Term Financial Forecast (MTFF) for the subsequent two years including the key assumptions. The Government has set out provisional funding figures for 2016/17 to 2019/20 which include the removal of all Revenue Support Grant. During the next few months the result of the consultation on the New Homes Bonus are expected to be published. In addition draft consultation proposals for how the 100% localisation of Business Rates will operate are also expected later in the year. The Council is responding to the increasing budget pressures faced by identifying new ways of working to deliver savings and increased income. The EU referendum result has now added a level of uncertainty and risk to the Council budget plans and this is considered throughout this report. These issues provide the backdrop for considering the budget strategy for 2017/18.

4.2. The current forecast budget gap for 2017/18 is £0.8m and is summarised in the following table:-

	2017/18	note
	£'000	
Base Budget	23,959	
Adjustment for c/f items (one off items)	(111)	See MTFF (Appendix B)
Cost Pressures (net of one off changes)	956	
Growth Items (net of one off changes)	156	
Savings	(1,300)	
Forecast Base Budget	**23,660**	
Funded By:		
Revenue Support Grant	(920)	See para.4.6.
Business Rates Baseline	(4,038)	
Settlement funding	*(4,958)*	
Increase in NNDR / taxbase above baseline	(900)	See paras. 4.7 to 4.10
New Homes Bonus	(5,754)	See para 4.27
Total Gov't grants	***(11,612)***	
Council Tax	(11,010)	See para 4.30 to 4.22
Use of Reserves	(272)	
Total Funding	**(22,894)**	
Budget gap	**766**	

4.3. The key assumptions in respect of the 2017/18 forecast are:

Government Funding & Business Rates

4.4. The 2016/17 Finance Settlement included the announcement of an "offer" of a four year funding settlement. This key points to note are:-

- In return for accepting the offer councils are required to publish an "efficiency plan"
- There will still be an annual settlement which will include changes to take account of final business rate multipliers.
- There may also be changes such as transfer of functions to or between local authorities or any unforeseen events. Though not mentioned at the time, the EU referendum result may now have an impact on the actual settlement in the coming three years.

4.5. Councils have until 14th October 2016 to decide whether to "apply to accept" this offer. No real guidance has been provided on what should be included in the efficiency plan, explaining that it should be locally owned and locally driven. It has to cover the four year period and be "open and transparent about the benefits" this will bring to the Council and community. Cabinet will decide whether to accept the deal and any efficiency plan at the next meeting in September.

4.6. The following table sets out the four year figures for 2016/17 to 2019/20. These show a total reduction of £2.1million (35%) from April 2017 with a reduction next year of almost £1m (17%).

	Actual	Provisional allocations			
	2016/17	2017/18	2018/19	2019/20	Total
	£'000	£'000	£'000	£'000	£'000
Revenue Support Grant	(1,978)	(920)	(275)	446	
Business Rates Baseline	(3,960)	(4,038)	(4,157)	(4,290)	
Settlement Funding Assessment (SFA)	*(5,938)*	*(4,958)*	*(4,432)*	*(3,844)*	
Reduction (£'000)		980	526	588	2,094
Reduction (%)		-17%	-11%	-13%	-35%

4.7. The localisation of Business Rates (NNDR) 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.

4.8. 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, currently about a half of the total RV of the borough is under appeal. We have made provision for appeals in our accounts, but this is an area which is impossible to predict.

4.9. Looking ahead, the budget forecast currently assumes that we might see an increase in our retained NNDR income of £100k in 17/18. Throughout the year we will continue to monitor income levels and appeal decisions, and will revisit this assumption as appropriate. As we now retain a proportion of business rate income we share some of the risk if businesses close or move. It is recognised that the impact of the EU referendum will be felt to a varying extent by business. As such, the risk or uncertainty around the Council's retained income may mean that income projections will need to be reviewed.

4.10. For 2015/16 and 2016/17 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 NNDR income above the baseline. Based on figures provided as part of the 2015/16 closure of accounts there is an estimated gain of £0.2m, however, this is subject to change and therefore will be reviewed later in the year when figures are finalised. It is too early to estimate any additional income that we might achieve from this arrangement in 16/17; any such gain would not be accounted for until 2017/18, and it is unlikely that we will be able to estimate this as part of the 2017/18 budget setting process.

Inflation and costs

4.11. For 2017/18 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 pay and energy costs in due course and this is therefore subject to change.

4.12. During 2016 the actuarial review of the pension fund will take place with the outcome of this reported in the autumn. An assumption of an increased cost of £250k is shown for 2017/18 to recognise the potential impact from this review. It is not clear of any impact the EU referendum result will have on the performance of the Essex pension fund and therefore this may have an impact on future contributions. A further allowance for the impact of pensions 'auto enrolment' which is due in 2017 has been made. Both these assumptions will be reviewed later in the year.

4.13. No other specific cost pressures are currently included in the 2017/18 forecast, however, the following are specific risk areas where we expect that issues may be quantified:-

- Changes to housing benefit administration grant
- Review of income targets

4.14. The MTFF reflects that the government grant being used to support the costs of food waste collection will run out in the next two years. This is currently being reviewed and it is expected that the cost pressure in 2017/18 will reduce as the grant. The only other specific change is the inclusion of the revenue implication of the ICT strategy.

4.15. There are a number of potential risks 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 arising from growth in the Borough,
- cost pressures arising from any contract changes, specifically the current ICT contract.

4.16. These items and any other emerging issues will be reviewed as the budget progresses and any changes will be reported to Cabinet accordingly.

Growth Items

4.17. An allowance has been built into the budget forecast to continue the locality budgets of £2,000 for Ward Councillors in 2017/18. The budget also assumes that the funding from New Homes Bonus allocated for investment in projects will continue to be available and that this will increase by £150k due to the planned reduced use to support the base budget.

Savings

4.18. The 17/18 budget forecast includes £1.3m of savings and income This comprises the following:

- Commercial income (£0.5m). This reflects the business plans for trading services, including the events service, and also forecast income from commercial assets.
- Sport and leisure business plan (£0.2m). The savings and increased income reflect the projections in the business plan agreed by Cabinet. This includes the assumption that inflation will not be allocated to the sport and leisure budget.
- Digital challenge (£0.6m). Cabinet agreed the Digital Challenge business case on 16 March 2016. This set out savings and income of £0.6m for 2017/18. Detailed plans have been produced to track delivery of the various activities required to achieve the target in 17/18 and later years.
- 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.

4.19. The MTFF includes forecast savings for beyond next year. These include projections for all the above areas.

Council Tax

4.20. It was reported to Cabinet that the Government's Spending Power forecasts assumed an annual increase in Council Tax of 1.75%. In the final Settlement the Government announced that all district councils would be allowed to increase their Council Tax by the higher of £5 or 2%. For Colchester the limit is therefore £5 which would currently equate to an increase of 2.85%. The Government has updated their "Spending Power" forecasts to assume that councils do increase Council Tax up to this limit.

4.21. The 2017/18 budget forecast and MTFF has therefore been updated to reflect a <u>planning assumption</u> of an increase in Band D Council Tax of £5. This does not represent a formal proposal at this stage and the impact on the budget position of a freeze in Council Tax is also shown for comparison purposes.

4.22. 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)

4.23. The Local Council Tax Support Scheme (LCTS) was approved by Full Council in December. This replaced Council Tax benefits and, as has previously been reported, places a number of changing 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.

4.24. 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 by c17% in 2017/18. Consideration will need to be given to the impact of this on any cost of the LCTS.

New Homes Bonus (NHB)

4.25. The Government published a consultation paper on changes to the New Homes Bonus: "New Homes Bonus: Sharpening the Incentive". The consultation asked for views on options on changes to the New Homes Bonus in order to "better reflect authorities' delivery of new housing. Views were also sought on reducing the number of years in which current and future payments are made". Cabinet considered the Council's response to the consultation and we expect the Government to consider all responses and produce proposals for changes to the NHB in the next few months.

4.26. The New Homes Bonus is a key element of the financial support for local authorities and the Government has stated that the New Homes Bonus will continue indefinitely, but with changes.

4.27. The 2017/18 budget forecast and MTFF includes the New Homes Bonus used in the Government's spending power projections. This is only *indicative* as the future sums will change depending on the outcome of the consultation and actual housing numbers. The MTFF assumes that given that New Homes Bonus will continue "indefinitely" and that it will continue to be used to support the base budget. However, recognising the risk that the level of NHB may reduce further, it is proposed that the MTFF shows a planning assumption that £150k less of the NHB in each year will be used to support the base budget. It is also assumed that the annual contribution of £250k to the RIF (Revolving Investment Fund) will continue. Based on the Government's figures this will therefore leave a reducing sum available to support new. These assumptions are set out in the following table.

	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
Grant	**5,714**	**5,754**	**3,615**	**3,469**
Use of grant:-				
Base budget	1,783	1,633	1,483	1,333
Contribution to RIF	250	250	250	250
Mercury Theatre (2nd year)		500		
Support for new schemes	3,393	3,081	1,702	1,716
Affordable housing allocation *	288	290	180	170
Total grant	**5,714**	**5,754**	**3,615**	**3,469**

*This is indicative only and the budget assumption is that the bonus made for affordable homes will continue to be allocated to housing projects.

4.28. The current budget strategy and MTFF assumes that any reductions in New Homes Bonus in 2017/18 and beyond will result in a reduction in the level of one-off investment provided. The NHB will remain a risk until there is clarity on the changes to the scheme. The Council will also need to be aware of any negative impact on the house building market following the "leave" referendum result.

Summary of Budget Forecast

4.29. There are a number of significant budget risks and variables that will affect the 2017/18 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.

4.30. In summary there is a forecast budget gap of circa £0.8m. This already reflects planned savings of £1.3m. It should be noted that at this stage this gap could change based on a number of emerging factors.

Delivering the 2017/18 Budget

4.31. 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 FSR process, maintaining and where possible increasing income and through exploring different ways to deliver services.

4.32. 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. In outline these include:-

Outturn Review

4.33. In the last two years reviews of the outturn position have been carried out to identify where budgets should be adjusted to reflect where they are not fully spent, or where we receive more income. A further outturn review is planned for the 17/18 budget.

NNDR Income

4.34. As mentioned earlier, we will review the level of income expected from retained business rates as part of the 2017/18 budget.

Other reviews

4.35. There are a number of other areas that will be considered during the year. These will include:-

- Confirmation of savings and income from commercial activities and digital challenge
- A number of budget options for efficiencies, income or reductions

4.36. The Council's approach to budgets has always been to consider the longer-term impact of decisions. The budget process for 2017/18 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.

4.37. Appendix C sets out the proposed budget timetable.

Housing Revenue Account (HRA)

4.38. 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.

4.39. 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 2016/17 budget, which also took account of the impact of the Government's announcement of an annual 1% reduction in social housing rents for the next 4 years. The 2017/18 budget will therefore be similarly developed within this framework.

5. Medium Term Financial Forecast

5.1. The Medium Term Financial Forecast (MTFF), as set out at Appendix B, shows a potential budget cumulative budget gap of c£2m by 2019/20. The key factors affecting the budget gap in later years include the assumed further reduction in Government funding, the planned reduced use of the New Homes Bonus to support the base budget and the savings and additional income already identified.

5.2. 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.

5.3. The EU referendum result has added further uncertainty and risk to the Council's budget assumptions. With the Council's budget funding dependant on business rates, Government grants and earned income and some costs subjects to economic factors (such as fuel and utilities) it will be necessary to be aware of the impact on the budget of any changes.

5.4. 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 2017/18 budget progresses.

5.5. In summary, the MTFF sets out what is likely to continue to be a challenging financial outlook with a continuing 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.

6. Revenue Balances

6.1. The current balances position is set out within Appendix B. This shows that following the 2015/16 outturn including review of detailed allocations in balances and proposals for allocation to projects in 2016/17, uncommitted or unallocated balances are currently at almost £2.7m, which is £0.8m above the recommended level of £1.9m. To put this in context the General Fund gross budget is c£100m and therefore £2.7m equates to 3%, or, gross spending for 10 days.

6.2. As this report emphasises, the Council is expected to continue to face many underlying financial pressures in the medium term. Whilst some provisions have been made within balances for some of these, there is a recognised view that further significant reductions in public sector spending will occur over the coming years, and that there is an increased financial risk associated with many of the local government finance reforms such as localisation of business rates and the local council tax support scheme. It should also be noted that balances can by nature only be used once, and so it is not generally appropriate to use them to support ongoing budget pressures.

6.3. This is the first report in respect of the 2017/18 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.

7. Capital Programme Update

7.1. The following table sets out a summary of the total capital programme including the Revolving Investment Fund (RIF).

	2016/17 £'000	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**
GENERAL FUND				
Shortfall / (Surplus) B/Fwd	(576)	(776)	(976)	(1,176)
New schemes	0	0	0	0
Capital receipts	(200)	(200)	(200)	(200)
Shortfall / (Surplus) C/Fwd	(776)	(976)	(1,176)	(1,376)
REVOLVING INVESTMENT FUND				
Shortfall / (Surplus) B/Fwd	12	916	(2,347)	135
New schemes	6,076	1,955	5,500	0
Capital receipts	(5,172)	(5,218)	(3,018)	(19)
Shortfall / (Surplus) C/Fwd	916	(2,347)	135	116
Overall Shortfall / (Surplus) C/Fwd	**140**	**(3,323)**	**(1,041)**	**(1,260)**

7.2. The table shows that for the General Fund programme there are forecast surplus resources of £1.4m by 2019/20. Whilst a large proportion of this is available now, the table shows it also indicates that future receipts are limited and as such any new capital spending proposals need to be viewed in this context.

7.3 On 21 June 2016 Scrutiny Panel considered the end of year capital report. This showed that there was an overall forecast underspend on the capital programme of £12k. There is one further issue to report to Cabinet.

Priory Street refurbishment project

7.4. This project is to plan and deliver an improved car park with a new tarmac surface, renewed lining and better circulation that will enhance not only the motorists' experience, but provide a visitor attraction with the Roman wall floodlit, interpretation panels and possible interactive facilities for the public. We have now received the tenders and the original bids were in excess of the original budget for the whole scheme. The tendering firms were asked to rework their quotes and these new bids have come in and, on examination, they do look consistent with the costs being charged for these type of projects. The main differences from the original estimate, produced about 18 months ago, is due to the general increases in construction costs and the requirements that Historic England have requested because of the proximity to the scheduled monument. This is mainly the shade of tarmac that is required and the paving to delineate the missing bastions.

7.5. The budget for the whole scheme was £450k, but £50k of that has been spent or committed on the consultation, archaeology investigations and purchasing the machines and equipment for the new car park. Therefore we have £400k left, but the best acceptable bid, financially and technically, is just under £500k. The Council does have £42k being returned to it from the surplus on the NEPP off-street account which the Portfolio Holder has indicated can be put towards this scheme leaving a funding gap of £58k. As shown earlier there is a current underspend on the capital programme and also a surplus of General Fund resources and therefore this can be funded.

7.6. An update of the RIF position is currently being produced and will be reported to the RIF Committee in due course. The position shown above reflects decisions made by the Committee in March and in total shows a shortfall in later years, however, at this stage this is expected to be 'manageable'. There remain some significant assumptions in the RIF in respect of both spending and capital receipts and any change to these may result in a need to consider borrowing to cover any shortfall. .

7.7. Further updates on the capital programme will be provided alongside budget reports.

8. Strategic Plan References

8.1. The 2017/18 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 these priorities.

9. Financial implications

9.1 As set out in the report.

10. Equality and Diversity Implications

10.1 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 polices and procedures including production of Equality Impact Assessments where appropriate.

11. Risk Management Implications

11.1 As set out in the report.

12 Consultation

12.1. 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 2015.

12.2. 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.

12.3. 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.

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

13. Other Standard References

13.1 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 – 21 June 2016

Appendix A

Garden Communities

The North Essex Garden Communities Project is continuing to gather significant momentum with ongoing project and financial support received from DCLG as well as the continued commitment of considerable officer time across each of the partner authorities. A draft Plan has been prepared to support the evolution of the project, and the following gives an indications of the key dates and decisions going forward which include:

- Consult on Preferred Options Local Plans – July/August 2016
- Site specific concept design/master planning commenced – Summer 2016
- Site specific cost, value & viability reviews – Autumn 2016
- LDV(s) created – Late 2016
- Initial LDV Business Plan(s) in place – End 2016
- Finalise landowner agreements – End 2016
- Submit Local Plans to Planning Inspectorate – early 2017
- Adopt Local Plans – mid 2018
- Evolve detailed site specific plans – 2018-2020
- Secure project finance 2018-2020
- (First Site) start on site 2020/21

An initial project budget was agreed by the Steering Group in December 2015 and brought to the Joint Shadow Delivery Board early in 2016. This primarily related to the original grant funding secured from the DCLG (£640k) as well as an additional contribution from Essex County Council (£15k) in 2015/16. The majority of this funding is now allocated and committed, and some has already been spent.

Further discussions have been held with DCLG who have advised that additional funding is available in 2016/17 to be distributed between the current partners in the wider national Garden City Programme (Bicester, North Northants, Basingstoke, Didcot and North Essex). A bidding process has been initiated with early indication that at least £204,000 will be secured, with the potential for more. It is also anticipated that further funding would be available from DCLG for the remaining years of the Spending Review period, but any such amounts would be subject to HM Treasury approvals on a year by year basis.

It is recognised that all current partners are committing significant time and resource to the project with particular pressures on planning, transport, legal and financial staff together with senior management. An exercise is currently underway to identify the impact on existing workloads as well as against the skills/knowledge needs going forward. Through the investment from each authority towards the Garden Communities work, there will be a freeing up of some of the time and resource each authority is current committing to the project.

Due to the progress being made in relation to the Garden Communities it is important to move away from a one year budget to a three year budget. A three year work programme and project budget has therefore been evolved which sets out current position on resource requirements and external commissioned support. This provides the best estimate of resource needs based upon the current position. This resource projection will be subject to ongoing monitoring and change but includes allowances across the following key areas:

- Project Resources: Support for project and programme management and a range of focussed roles dedicated to planning, infrastructure, funding and legal inputs;
- Legal: External legal support with respect to the planning process, establishment of LDV/s and evolution of legal agreements with landowners;

- Finance: Commissioned work to investigate funding opportunities, consider tax implications;
- Planning and Infrastructure: Further concept development and master planning of selected sites, together with wider evidence gathering to support plan examinations;
- Land Agreements: Allowances for landowner professional costs associated with evolving land agreements;
- Others: Other evidence base studies, communications and consultation activities.
- Auditing and reporting to the Steering Group and Shadow Board.

At its meeting in May, the Shadow Delivery Board reiterated its support for the Garden Communities project noting that there will be further costs to the project for which funding is not yet in place and that whilst there may well be further opportunities to bid for and secure further DCLG funding, there w be a requirement for each Council to underwrite a contribution towards further work on the project.
As such, the Board resolved to request a further contribution of £250,000 from each of the four partnership authorities to enable further project resourcing. This contribution was subject to each authority gaining the necessary approvals in line with their own financial procedure rules and constitution. This contribution will ensure that the work programme can be delivered going forward and would principally enable the delivery of the project budget highlighted in the following table. The actual funding requirement will relate to the schedule of work undertaken each year, net of any residual and/or additional capacity funding support provided by DCLG. As has already been mentioned, funding requirements will be expected to change subject to working up detailed delivery arrangements and the need for formalised LDV/s.

NEGC - PARTNER ACTIVITY	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**	**Total £'000**
ESTIMATED REVENUE BUDGET				
Project Resource	144	334	376	854
Legal	200	200	80	480
Finance	35	35	35	105
Planning	215	100	0	315
Infrastructure	50	50	0	100
Land Agreements	100	140	0	240
Others	300	43	25	367
Total	1,044	902	516	2,461
FUNDING SOURCES				
DCLG - committed	655			655
DCLG - forecast	204	300	300	804
ECC	250	0	0	250
Braintree	250	0	0	250
Colchester	250	0	0	250
Tendring	250	0	0	250
Total	1,859	300	300	2,459
NET POSITION (0) = negative				
Net position	815	(602)	(216)	(2)
		213	(2)	

It is proposed that project spend will be administrated by Colchester Council as the accountable body. This will be monitored through the Finance Working Group and Steering Group. Regular updates on the resource budget will be made the Steering Group and Shadow Board. Any significant additional and currently unforeseen requirements which cannot be accommodated within the project budget will be brought back to the Board for consideration.

It is anticipated that the positive relationship with DCLG officials and the ambitious growth agenda in North Essex means that it is well placed to secure further external funding. A key part of the approach going forward will be to maintain such positive relationships, and make considerable efforts to monitor and bid for further funding as opportunities arise.

Appendix B

Medium Term Financial Forecast
2016/17 – 2019/20

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 2016/17 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 2017/18 and beyond
- The current position on Council General Fund balances including the risk assessment for 2016
- The current position on all other reserves and balances

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

2. 2016/17 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 2016/17 is **£17.8million**.

	£'000
Net Budget (incl: New Homes Bonus)	17,797
Funded by:	
- Revenue Support (excl Transition Grant)	1,978 (11%)
- Retained Business Rates (as shown in baseline assessment)	4,760 (27%)
- Council Taxpayers (excl. parishes)	10,599 (60%)
- Use of Balances / Reserves and Collection Fund	460 (2%)
	17,797

The following table sets out a summary of the 2016/17 budget including changes made from the previous year.

2016/17 Summary Budget

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 16/17 Budgets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Corporate & Democratic Core	213		19			(5)	227
Corporate & Financial Management	6,238		139		19	(93)	6,303
Executive Management Team	600		14			(3)	610
Community Services	5,938		208	122	25	(34)	6,258
Commercial Services	2,086	(100)	142	123	50	(339)	1,962
Customer Services	2,114		141		20	(130)	2,145
Operational Services (excl NEPP)	1,376	(6)	195			(449)	1,116
Professional Services	2,292	(38)	125	20	17	(169)	2,247
Total General Fund Services	**20,857**	**(144)**	**981**	**265**	**131**	**(1,223)**	**20,867**
Technical Items							
Corporate Items / sums to be allocated to services							
Procurement Savings	(132)		0			(8)	(140)
Journey Management	0		0				0
Investment Allowance funded by New Homes Bonus	2,335		0	1,005	88	95	3,523
IT Servers	250	(250)	0				0
Borough-Wide service pressures	200		(200)				0
EMT Local Govt Devolution	5	(5)	0				0
Welfare Reform	0		118				118
Strategic Plan (funded by 15/16 NHB)	0		0	205			205

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 16/17 Budgets
Digital Challenge	0		0	150			150
Grounds Maintenance Savings	0		0			(50)	(50)
Digital Challenge - post and print	0		0			(50)	(50)
Angel Court	50		0			(50)	0
Inflation reduction			(100)				(100)
Non-Service Budgets							
NHB Top-Slice	(13)	13	0				0
Parish Council Grants / LCTS	102		0			(11)	91
CLIA (net interest)	599		0			(181)	418
R&R Contribution	150		0				150
Min Revenue Provision	662		0			(9)	653
Pensions	2,143		0			(7)	2,136
C Tax Sharing Agreement	(650)		0				(650)
Heritage Reserve & Gosbecks Reserve	10		0			(7)	3
GF/HRA/NEPP Adjustment	(3,243)		8	1		(43)	(3,277)
Total Below the Line	2,468	(242)	(174)	1,361	88	(321)	3,180
Total incl Below the line	**23,325**	**(386)**	**807**	**1,626**	**219**	**(1,544)**	**24,047**
Funded by:-							
Use of balances: re carry forwards	(71)	71	0		(426)		(426)
Contribution to balances	560	(560)	0				0
Use of Reserves	0		0		(462)		(462)
Use of NNDR reserve	0		0		(1,537)		(1,537)
use of S.106 reserve	(20)		0				(20)
Government Grant (RSG / NNDR)	(7,122)		1,184				(5,938)
NNDR Growth above Baseline	(700)		0		(100)		(800)

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 16/17 Budgets
Council Tax Freeze Grant	(114)	114	0				0
Council Tax	(10,434)		0		(165)		(10,599)
Collection fund Transfer	(409)	409	0		(353)		(353)
New Homes Bonus	(4,615)		0		(1,099)		(5,714)
Transition Grant					(88)		(88)
NNDR Deficit / (Surplus)	(400)	400	0		1,890		1,890
Total	**(23,325)**	**434**	**1,184**	**0**	**(2,340)**	**0**	**(24,047)**

3. Budget Forecast 2016/17 to 2019/20
The following table sets out the Council's budget forecast for the next three years including key assumptions.

Medium Term Financial Forecast 2016/17 to 2019/20				
	2016/17	**2017/18**	**2018/19**	**2019/20**
	£'000	**£'000**	**£'000**	**£'000**
Base Budget	23,325	23,959	23,660	21,580
15/16 One-off items	(386)			
Cost Pressures	827	956	678	790
Growth Items	1,714	156	(1,771)	4
Savings	(1,632)	(1,300)	(987)	(142)
Carry forward items	111	(111)		
Forecast Base Budget	**23,959**	**23,660**	**21,580**	**22,232**
Funded By:				
Revenue Support Grant	(1,978)	(920)	(275)	446
Business Rates Baseline	(3,960)	(4,038)	(4,157)	(4,290)
SFA	*(5,938)*	*(4,958)*	*(4,432)*	*(3,844)*
Increase in NNDR / taxbase above baseline	(800)	(900)	(1,000)	(1,000)
New Homes Bonus	(5,714)	(5,754)	(3,615)	(3,469)
Total Gov't grants	***(12,452)***	***(11,612)***	***(9,047)***	***(8,313)***
Council Tax	(10,599)	(11,010)	(11,429)	(11,855)
Collection Fund Deficit / (Surplus)	(353)	0	0	0
Business Rates Deficit / (surplus)	1,890	0	0	0
Use of Reserves	(2,445)	(272)	(70)	(20)
Total Funding	**(23,959)**	**(22,894)**	**(20,546)**	**(20,188)**
Budget (surplus) / gap before changes (cumulative)	**0**	**766**	**1,034**	**2,044**
Annual increase		**766**	**268**	**1,010**
Revised cumulative gap based on Ctax freeze		***1,071***	***1,651***	***2,979***

	2016/17	2017/18	2018/19	2019/20
	£'000	**£'000**	**£'000**	**£'000**
Cost Pressures				
General Inflation	702	640	640	640
Pensions	0	250		
Elections	19	(90)	90	
Pensions - auto enrolment		200		
Local Taxation Inspection	20	(70)		
Pay award (savings)	(100)			
ICT – Digital Challenge / ICT strategy - ongoing cost				200
Community Services - Market	57			
Community Services - Zones	15			
Bank charges	18			
Operational - waste disposal charges	20			
Welfare reform	76	26	(52)	(50)
Total	**827**	**956**	**678**	**790**
Growth Items				
Food Waste (net impact)		141	368	
Locality budgets		102		
Affordable homes	74			
Growth linked to New Homes Bonus	1,025	40	(2,139)	(146)
Digital Challenge / ICT strategy - implementation	150		(150)	
Revenue contribution to NHB schemes	32	(32)		
Reduced use of NHB in base budget	188	150	150	150
Strategic plan priorities (spend in 16/17)	245	(245)		
Total	**1,714**	**156**	**(1,771)**	**4**

Savings (incl. one off adjustments)				
Council Tax sharing agreement			250	
LCTS grant to parish councils	(11)	(13)	(7)	(7)
Outturn review	(350)			
Sport & leisure	(48)	(194)	(198)	
Business process efficiencies	(286)			
Commercial income and procurement savings	(93)			
Asset income		(154)	(495)	(50)
CCTV / Community Alarms		(100)	(130)	
Events Business Case		(180)	(230)	
Bereavement services		(19)	(20)	
Procurement	(50)			
Members allowances	(50)			
Grounds Mtce Contract - estimate	(50)			
Car park income	(375)			
Accommodation savings	(50)			
Interest	(125)			

	2016/17	2017/18	2018/19	2019/20
	£'000	**£'000**	**£'000**	**£'000**
Gov't Transition Grant	(88)		88	
Digital challenge		(640)	(245)	(85)
Technical items / GF/HRA contingency	(56)			
Total	**(1,632)**	**(1,300)**	**(987)**	**(142)**

Use of / contribution to Reserves				
Funding c/f				
S106 monitoring reserve	20	20	20	20
Use of balances for welfare reform	76	102	50	
Use of balances to support budget	236			
Funding budget carry forwards	426			
Digital challenge	150	150		
NNDR Reserve	1,537			
Total	**2,445**	**272**	**70**	**20**

4. Risk Areas / Uncertainty

There are several key risk areas or areas where the outcome is uncertain which will impact on the 2017/18 budget forecast and potentially in later years. The main areas are:-

Risk / Area of uncertainty	
Impact of EU referendum 'leave' result,	At this early stage any impact from the "leave" decision is unclear. However, the uncertainty and risks include:- • 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
Government Funding / Business Rate Retention Scheme	The MTFF includes the reduction in the 'SFA' for 2016/17 of 17% with further reductions thereafter in line with figures included in the settlement. 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. The budget includes an assumption that in 16/17 we will retain an extra £800k of NNDR income above our baseline figure, with further increases in later years.
Welfare Reform (including Local Council Tax Support - LCTS)	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. Resources have been released to provide additional staffing to

Risk / Area of uncertainty	
	support residents with funding provided from the allocation for growth and the risk allocation.
Government grants and partnership funding	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. Provision has been made in the 2016/17 budget for the New Homes Bonus based on the notified grant. Thereafter the MTFF assumes the indicative grant figures provided by Government. These will change and the MTFF sets out any reductions will reduce the funds available for one-off investment. Provision has been made for changes in other Government grants, such as housing benefit administration, in 2016/17, however, the impact of any further reductions in these will be considered as the MTFF is reviewed.
Pensions	An allowance has been built in for increases in pensions costs based on the results of the last actuarial review and which therefore are fixed until the end of 2016/17. An allowance of £250k for an increase arising from the actuarial review has been assumed of £250k from 2017/18, and this will need to be reviewed closer to the time.
Fees and charges and other income	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 2017/18 and beyond it is difficult to estimate how income levels may continue to be affected.
Inflation	An allowance for general inflation including pay has been built into the 16/17 forecast and MTFF. Not all the Council's costs are directly linked to RPI and therefore we will continue to monitor the impact of inflation on all Council costs.
Use of reserves	The budget position for 2016/17 includes proposals to use certain reserves included some general use of balances to support the budget. The MTFF includes some proposals to use reserves to fund digital challenge costs in 17/18.
Legislation	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.
Impact of regeneration programme e.g. staff resources	The 2015/16 budget included additional resources of £100k to support work in the Northern Gateway. This is also being used in 2016/17. Furthermore, the recently established Revolving Investment Fund (RIF) provides a framework for managing potential pressures.
Property review	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 continue to be considered in detail and included in the on-going updates of the

Risk / Area of uncertainty	
	MTFF. The 2016/17 budget forecast maintains the additional allocation of £150k in respect of planned repairs. This will continue to be reviewed to consider if it is sufficient to meet ongoing requirements.
Impact of growth in the Borough and demand for services	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.
Delivery of budget savings	The 2016/17 budget includes c£1.5m of savings or increased income. These items 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 17/18 budget.
Net Interest earnings and investments	The budget is influenced by a number of factors including interest rates and cashflow movements. The treasury management strategy for 2016/17 highlights the outlook for interest rates in the medium-term which points to continuation of unprecedented low levels into 2016/17. 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.

5. General Fund Balances – Risk Assessment

Introduction & Background

A risk assessment was undertaken to determine the prudent level of general fund balances as part of the 2016/17 budget process.

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 risk assessment has been kept under review. The results of the current assessment are summarised below.

	Assessed Risk			**Comment**
Factor	**High**	**Med**	**Low**	
	£'000	**£'000**	**£'000**	
Cash Flow	1,000			Increased to reflect current budget
Inflation		100		
Investment Income	75			Reduced from £150k to £75k reflected in year risk
Trading Activities and fees and charges		200		
Benefits		200		Increased risk from low to medium reflecting potential risk
New legal commitments			100	
Litigation		150		
Partnerships			100	
VAT Exemption Limit			450	Increased to £450k from £350k representing current impact.
Budget Process		150		Increased 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 being increased to £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.

- 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, however, the risk sum has been reduced.

- 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, however, the cost attached to this has been increased to reflect the current level.

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

The following table sets out the General Fund balances position. This has been reviewed and presented to highlight current sums allocated within balances

In summary this shows:-

- Current balance of £10.4m
- Of which, £6m is forecast to be spent or to remain as an allocation during 16/17 (including impact of proposals within this report)
- A further £1.7m is allocated for future year costs or against specific risks
- Leaving £2.7m uncommitted or unallocated.
- The recommended level of general fund balances is £1.9m, meaning we are **£0.8m** above our recommended minimum level.

General Fund balances

	Allocated	Risk allocations	Unallocated	Total	Note
	£'000	£'000	£'000	£'000	
Opening balance 1/4/16	**(6,434)**	**(863)**	**(3,065)**	**(10,362)**	per 15/16 accounts
Budget Carry Forwards:-					
Service Budget c/fs	1,475			1,475	
New Homes Bonus	1,008			1,008	
New allocations agreed Cabinet	128			128	
Colchester & Ipswich Museum Service (CIMS)	188			188	Use of balances subject to decisions made by joint Committees.
North Essex Parking Partnership (NEPP)	179			179	
Council Tax Sharing agreement	271			271	Includes carry forward sum from previous years. Being held given risk / uncertainty over future income from this agreement.
Funding allocation for Borough Investment For All	143			143	Agreed by Cabinet in 15/16, some funding c/f
Funding allocations held in balances					
Allocations in previous years c/f	648			648	Allocations against specific projects. This will be reviewed during the year to see if all still required.
Redundancy costs	473			473	Includes pension strain costs
Right to challenge - Gov't funding	46			46	
Agreed use of balances in 16/17:-					
Use of earmarked balances for welfare reform	76			76	Agreed by Cabinet November 15
Use of balances to support budget	386			386	“ “ “ “
Funding budget carry forwards	426			426	“ “ “ “
Funding previously held for Street Lights	185			185	Agreed by Cabinet March 16

	Allocated	Risk allocations	Unallocated	Total		Note
	£'000	£'000	£'000	£'000		
Proposed use of balances in 16/17:-						
Garden communities			250	250		See report
Building Control			101	101		“ “
Total use in 16/17	**5,632**	**0**	**351**	**5,983**		
Use of balances in later years or risk allocations						
Community Stadium - rent adjustment	500			500		Provision for one-off reduction in rent
NNDR / Welfare reform	152	172		324		Provision for impact arising from reforms. Some funding in later years agreed.
Support for digital challenge in 17/18	150			150		Report to be submitted to Cabinet March 16
Planning appeals, legal, HR etc- risk allocation		411		411		Some costs probable in 16/17, especially in respect of planning appeals.
Housing benefit - risk allocation		130		130		Agreed in 15/16 budget
Collection Fund - risk allocation		150		150		Agreed in 15/16 budget
Total later years allocations	**802**	**863**	**0**	**1,665**		
Uncommitted / unallocated Balance	**0**	**0**	**(2,714)**	**(2,714)**		
Recommended level			(1,900)	(1,900)		Agreed level
Surplus above recommended level	**0**	**0**	**(814)**	**(814)**		

Appendix C

2017/18 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 – 13 July 16	• Review 15/16 outturn • Report on updated budget strategy / MTFF • Timetable approved
Scrutiny Panel – 19 July 16	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 – 7 September 16 and /or 12 October 16	• Budget Update • Consider "4 year settlement" • Review of capital resources / programme
Cabinet – 30 November 16	• Budget update • Reserves and balances • Agree fees and charges / budget changes • Government Finance settlement (if available) • Review in year budget position
Scrutiny Panel – 31 January 17	Budget position (Detailed proposals)
Cabinet – 1 February 17	Revenue and Capital budgets recommended to Council
Council – 22 February 17	Budget agreed / capital programme agreed / Council Tax set

Leadership Team to review budget progress during year.