

Report of	Assistant Director (Policy and Corporate)	Author	Sean Plummer ☎ 282347 Darren Brown ☎ 282891
Title	2018/19 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 2016/17 and 2017/18**
- **Agree new spending proposals in 2017/18.**
- **Note the budget forecast and timetable for the 2018/19 budget**
- **Note the updated Medium Term Financial Forecast for the period to 31 March 2021**
- **Note an update of the Revenue Balances position and agree changes.**

1. Decisions Required

- 1.1. To note the pre-audit outturn position for the financial year 2016/17.
- 1.2. To agree to release funding from budgets for projects set out at paragraph 3.6 and 3.8.
- 1.3. To note the budget forecast, approach and timetable for the preparation of the 2018/19 budget.
- 1.4. To note the updated position in respect of balances and agree the proposed allocations to be held in balances set out at 6.4.
- 1.5. To note the updated Medium Term Financial Forecast as set out at Appendix B.

2. Reasons for Decisions

- 2.1. The Council is required to approve a financial strategy and timetable in respect of the financial year 2018/19, and a Medium Term Financial Forecast (MTFF) for the two subsequent financial years.

3 Financial Overview 2016/17 and 2017/18

Financial Year 2016/17

- 3.1. The Pre-Audit Outturn report for the year to 31 March 2017 was presented to the Scrutiny Panel on 13 June 2017.

- 3.2. The position shows a net overspend on budgets of £92k after allowing for a number of agreed carry forward items. This was lower than the anticipated overspend of £240k. A number of factors have contributed towards the outturn position including:
- There have been one-off unforeseen/unbudgeted costs and service-demand cost pressures (e.g. homelessness), that have contributed to the outturn position.
 - The main service income lines show £0.6m less income compared to the budget. The main shortfalls being in sport & leisure, planning and some trading areas. We also received less income due to external delays.
 - There are a number of one-off technical items which have mitigated the cost pressures in-year, including a gain on housing benefits/subsidy, debt repayment and from reviewing certain balance sheet codes and reserves held.
- 3.3. *Financial Year 2017/18*
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 and Governance and Audit Committee.
- 3.4. There are a number of proposals relating to the current year.
- Allocation for strategic plan priorities - £110k*
- 3.5. The 17/18 budget included an allocation of £110k for projects that would support delivery of strategic plan priorities. It has already been agreed that the estimated £10k cost to abolish charges for burial and cremation fees and charges, in respect of child funerals (up to the age of 18 years), held in Colchester Cemetery and Colchester Crematorium would be funded from this budget.
- 3.6. It is proposed that the remaining £100k be allocated to one off projects as set out in the following table.
- | | £'000 | Comment |
|---------|------------|--|
| Tourism | 60 | To build on the success of the 2016 Tourism campaign, iSpy, and continue to promote Colchester to a wider national and international audience. This is in addition to a further £10k which has been reallocated from an existing New Homes Bonus allocation. |
| Events | 40 | Seed funding for new and enhanced events including Christmas attraction and market. This is in addition to a further £15k which has been reallocated from an existing New Homes Bonus allocation. |
| | 100 | |
- New Homes Bonus*
- 3.7. In the 17/18 budget it was agreed to allocate £2.036m of the NHB to help deliver projects which support strategic plan priorities and also those which can deliver income to assist with managing future budget pressures. To date decisions have been made to allocate £300k towards the Northern Gateway Heat project and £250k towards the commercial company proposals including the housing company.
- 3.8. At the Full Council meeting on 24 May 2017 it was agreed that a 1918 Commemoration Task and Finish Group be established to ensure that the 100th anniversary of the end of World War One is appropriately commemorated across the borough and provides a lasting tribute to the residents of Colchester at that time. It is proposed that a budget of £25k be allocated from the New Homes Bonus for this group.

- 3.9. In total this therefore leaves £1.461m available to allocate to other projects as set out in the following table:-

	2017/18	
	£'000	
Budget for one off projects	2,036	
Allocations:-		
• Heat Network (equity / one offs)	300	Agreed by Cabinet
• Commercial Company (incl. Housing)	250	
• 1918 commemoration	25	Proposed in this report
<i>Total allocations</i>	<i>575</i>	
Remaining to be allocated	1,461	

4. Budget Forecast for 2018/19

- 4.1. Appendix B sets out a budget forecast for 2018/19 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 set out provisional funding figures for 2018/19 to 2019/20 which include the removal of all Revenue Support Grant. The results of the consultation on the New Homes Bonus were published alongside the finance settlement and showed a significant reduction in the grant over the coming years. 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 2018/19.
- 4.2. The current forecast budget gap for 2018/19 is £0.868m and is summarised in the following table:-

	2018/19	Note
	£'000	
Base Budget	25,911	
One-off items	(3,661)	Adjustments to base budget for one-off items
Cost Pressures	1,520	Para 4.11 to 4.16
Growth Items	(100)	Para 4.17
Savings	(1,483)	Para 4.18
Change in use of NHB for one off investment	(945)	Para 4.17
Forecast Base Budget	21,242	
<i>Funded By:</i>		
Revenue Support Grant	(275)	Para 4.4
Business Rates Baseline	(4,157)	Para 4.4
<i>SFA</i>	<i>(4,432)</i>	
Increase in NNDR / taxbase above baseline	(1,000)	Para 4.8
New Homes Bonus	(3,438)	Para 4.23
Total Gov't grants	(8,870)	
Council Tax	(11,434)	Para 4.20
Use of Reserves	(70)	
Total Funding	(20,374)	
Budget Gap	868	

4.3. The key assumptions in respect of the 2018/19 forecast are:

Government Funding & Business Rates

4.4. The Settlement Funding Allocation (SFA) which comprises our RSG and baseline NNDR figure has been cut by £0.98million in 17/18. The reduction in RSG is in line with the 4 year funding settlement which the Council applied for and which has been agreed by Government. The following table sets out the remaining figures in the 4 year settlement which ends in 2019/20 and a planning assumption of a standstill position in 20/21. These show a total reduction in grant of £2.1million (35%), and specifically for next year's budget a reduction in funding of £0.5m.

	Actual	4 year settlement				
	2016/17	2017/18	2018/19	2019/20	2020/21	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue Support Grant	(1,978)	(920)	(275)	446	446	
Business Rates Baseline	(3,960)	(4,038)	(4,157)	(4,290)	(4,290)	
<i>Settlement Funding Assessment (SFA)</i>	<i>(5,938)</i>	<i>(4,958)</i>	<i>(4,432)</i>	<i>(3,844)</i>	<i>(3,844)</i>	
Reduction (£'000)		980	526	588	0	2,094
Reduction (%)		-17%	-11%	-13%	0%	-35%

4.5. 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.

4.6. 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.

4.7. 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.

4.8. Looking ahead, the budget forecast currently assumes that we might see an increase in our retained NNDR income of £100k in 18/19. Throughout the year we will continue to monitor income levels and appeal decisions, and will revisit this assumption as appropriate.

4.9. 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 NNDR income above the baseline. Based on figures provided as part of the

2016/17 closure of accounts there is an estimated gain of £0.7m, 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 17/18.

- 4.10. It has previously been that the Government that during the last year the Government has been consulting on reforms in respect of proposals for 100% local business rate retention. Alongside this consultation, a discussion paper on 'Fair Funding Review: Call for evidence on Needs and Redistribution' was published. The proposals in the consultation had set out that by the end of this Parliament, local government will retain 100 per cent of taxes raised locally. In order to ensure that the reforms are fiscally neutral, councils will gain new responsibilities, and some Whitehall grants will be phased out. The extent to which these reforms will be made is now even more uncertain as the required Local Government Finance Bill was not included in the Queen's Speech.

Inflation and costs

- 4.11. For 2018/19 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. The allocation includes an adjustment to reflect that an element of the 2017/18 pay award is being made as a one-off unconsolidated payment which therefore reduces costs in later years.
- 4.12. 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. 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. An allowance has been included for the potential full year impact arising from the pensions auto enrolment.

Fees and charges income

- 4.13. 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, other than additional income assumed within business cases, and this will need to be reviewed annually to ensure income targets are reasonable.

Specific Cost Pressures

- 4.14. The 18/19 budget forecast reflects that the government grant being used to support the costs of food waste collection will run out in the next two years. In addition an allowance is included for the potential change in the community stadium rent. An assumption has been made that the income received from the Council Tax sharing agreement may reduce in 2018/19. An allowance has also been made to fund the cost of borough elections and for the full year impact of other cost pressures
- 4.15. 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.

4.16. Consideration will be given to these and other items in the coming months and will be reported to Cabinet accordingly.

Growth Items

4.17. The budget assumes no allowance for any service growth, with the only change shown reflecting the proposal that £10k of the £110k allocated for strategic plan priorities be used to fund the recurring cost of child funerals previously referred to. The budget proposals still include an allocation of the New Homes Bonus to support one off investment and allocation to support housing. Based on the assumptions set out in the report these allocations will reduce by £945k as set out in the following table.

	2017/18	2018/19	Reduction
	£'000	£'000	£'000
Affordable housing allocation	277	175	(102)
Balance for one-off schemes	2,623	1,780	(843)
	2,900	1,955	(945)

Savings.

4.18. The 18/19 budget forecast includes £1.5m of savings and income This comprises the following:

- The agreed anticipated savings in 2018/19 from the senior management restructuring and commercial company proposals set out in the business case (£0.4m)
- Commercial asset income (£0.4m). This reflects forecast additional 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 (£0.4m). Cabinet agreed the Digital Challenge business case on 16 March 2016. This set out savings and income of £0.4m for 2018/19. Detailed plans have been produced to track delivery of the various activities required to achieve the target in 18/19.
- Removal of support costs for digital challenge and other service savings (£0.1m).
- 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. 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)

- 4.21. The Local Council Tax Support Scheme (LCTS) for 2017/18 was approved by Full Council last year. LCTS 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.
- 4.22. 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 c11% in 2018/19. Consideration will need to be given to the impact of this on any cost of the LCTS.

New Homes Bonus (NHB)

- 4.23. The 2017/18 NHB grant reflected changes to the methodology of the scheme, the main two changes made are:-
- From 17/18 payments are made over 5 years rather than 6. From 18/19 this will reduce further to payments being for 4 years.
 - In addition from 17/18 the scheme has introduced a national baseline of 0.4%. NHB is only paid above this level.
- 4.24. For 2017/18 the final figure is a total grant of £4.783m, a reduction of £0.9m. The table below sets out our planning assumptions of future grant levels showing significant further reductions in grant in 2018/19 and beyond.

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000	£'000
Growth re 09/10	724	<i>nil</i>	<i>nil</i>	<i>nil</i>	<i>nil</i>	<i>nil</i>
Growth re 10/11	749	<i>nil</i>	<i>nil</i>	<i>nil</i>	<i>nil</i>	<i>nil</i>
Growth re 11/12	986	986	<i>nil</i>	<i>nil</i>	<i>nil</i>	<i>nil</i>
Growth re 12/13	757	757	<i>nil</i>	<i>nil</i>	<i>nil</i>	<i>nil</i>
Growth re 13/14	1,185	1,185	1,185	<i>nil</i>	<i>nil</i>	<i>nil</i>
Growth re 14/15	1,025	1,025	1,025	1,025	<i>nil</i>	<i>nil</i>
Growth re 15/16		553	553	553	553	<i>nil</i>
Growth re 16/17 (est)			500	500	500	500
Growth re 17/18 (est)				500	500	500
Growth re 18/19 (est)					500	500
Growth re 19/20 (est)						500
Total basic NHB	5,426	4,506	3,263	2,578	2,053	2,000
Affordable Homes Bonus	287	277	175	175	175	175
Estimated NHB	5,713	4,783	3,438	2,753	2,228	2,175

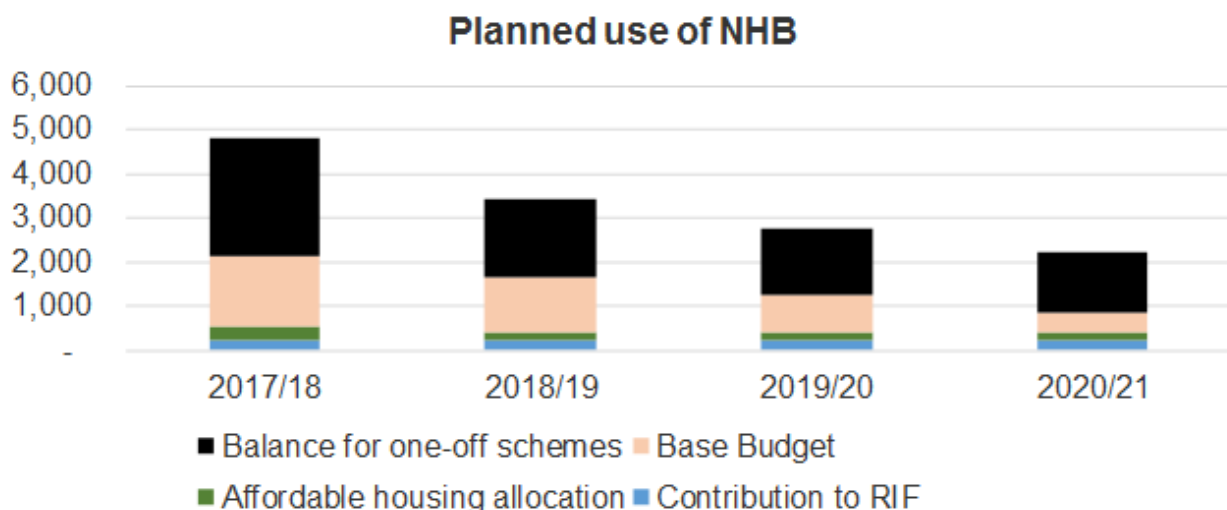
- 4.25. The Council has recognised the risk that the New Homes Bonus would change and has been reducing how much of the grant is used to support the base budget. In 2017/18 this was reduced by £150k. Given the scale of reduction in grant and the continuing uncertainty about this funding source it is proposed that from 2018/19 the use of NHB to support the base budget be reduced by £400k pa over the life of the MTFF. The following table sets out the position:-

	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Assumed NHB grant	4,783	3,438	2,753	2,228
Proposed use for base budget	1,633	1,233	833	433

- 4.26. The assumption remains that £250k of the NHB will be allocated annually to the RIF and that the grant in respect of affordable homes delivery will continue to be allocated for housing. In total this therefore leaves an estimated £1.78m to support one off schemes as set out in the following table

	2018/19
	£'000
Contribution to RIF	250
Affordable housing allocation	175
Base Budget (Assumed reduction of £400k)	1,233
Balance for one-off schemes	1,780
	3,438

- 4.27. The following graph sets out the forecast NHB grant and proposed use.



Summary of Budget Forecast

- 4.28. There are a number of significant budget risks and variables that will affect the 2018/19 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.

- 4.29. In summary there is a forecast budget gap of circa £0.9m. This already reflects planned savings of £1.5m. It should be noted that at this stage this gap could change based on a number of emerging factors.

Delivering the 2018/19 Budget

- 4.30. 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.
- 4.31. 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 specific reviews, for example areas which have changed as part of the senior management restructuring.
 - Consideration of specific costs areas where there is a need to carry out a re-tendering exercise (such as fleet).
- 4.32. The Council's approach to budgets has always been to consider the longer-term impact of decisions. The budget process for 2018/19 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.
- 4.33. Appendix B sets out the proposed budget timetable and will include consideration of the capital programme.

Housing Revenue Account (HRA)

- 4.34. 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.
- 4.35. 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 2017/18 budget, which continues to take account of the Government's policy to reduce social housing rents up to 2019/20. The 2018/19 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 A, shows a potential budget cumulative budget gap of a further c£1.6m by 2020/21. 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 'standstill' position is assumed in respect 2020/21.

- 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 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 2018/19 budget progresses.
- 5.4. 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, especially 2020/21. 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. When the 2017/18 budget was set it was reported that balances were £305k above our recommended level of £1.9m. Having now reported the 2016/17 outturn position there are a number of changes to report and proposals to make.

Changes to balances

- 6.2. There are three changes to the balances position:-
 - i. The final outturn position was an overspend of £92k which was £148k less than the £240k assumed.
 - ii. An allocation was made by Cabinet in respect of the proposed Building Control shared service. As this project did not go ahead there is £29k unallocated which can be 'returned' to balances.
 - iii. Cabinet agreed to the formation of a cross service team in order to support residents and preserve operational services within a challenging framework of welfare reform. It was agreed to fund £152k of this from balances in 2017/18 and 2018/19. As part of the review of end of year accounts we have identified a number of Government grants provided to support local authorities with welfare reforms and therefore these will now be used to fund the cross service team instead of using balances.

Proposed allocation of balances

- 6.3. Within General Fund balances we hold a number of sums against specific risks or for specific purposes. There are two areas where it is proposed to make changes:-
 - i. An allocation is held in respect of costs relating to planning, legal and HR issues. This allocation has been used to fund costs of planning appeals in the last financial year. To reinstate this allocation to reasonable level it is proposed to add £100k to give a total allocation of £222k.
 - ii. An allocation for redundancy costs (including pension strain payments) is held within balances. It has previously been reported that there would be one off costs relating to the senior management restructuring, and with the need to identify and deliver further budget savings, providing funds to meet one-off costs means that savings can be taken against the budget sooner. It is therefore proposed to allocate a further £100k for this purpose.

6.4. The following table summarises the impact of these changes and proposals:-

	£'000	£'000	
Surplus above recommended level		305	
Outturn position better than forecast	148		See 6.2 (i)
Building Control sums no longer required	29		See 6.2 (ii)
Use of Government grants rather than balances	152	329	See 6.2 (iii)
<i>Less: proposed allocations</i>			
Allocation for planning, legal and HR issues	(100)		See 6. 3(i)
Increase in redundancy provision	(100)	(200)	See 6.3 (ii)
Revised surplus above recommend level		434	

6.5. 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.

6.6. This is the first report in respect of the 2018/19 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 Strategic Plan References

7.1. The 2018/19 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.

8. Financial implications

8.1 As set out in the report.

9. Equality and Diversity Implications

9.1 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.

10. Risk Management Implications

10.1 As set out in the report.

11 Consultation

- 11.1. 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.
- 11.2. 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.
- 11.3. 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.
- 11.4. Furthermore, we will continue with the statutory consultation with business ratepayers and will meet with parish councils in respect of grant funding.

12. Other Standard References

- 12.1 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 – 13 June 2017

Medium Term Financial Forecast 2017/18 – 2020/21

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 2017/18 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 2018/19 and beyond
- The current position on Council General Fund balances including the risk assessment for 2017
- The current position on all other reserves and balances

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

2. 2017/18 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 (excluding collection fund) for 2017/18 is **£21.1million**.

	£'000
Net Budget (incl: New Homes Bonus)	21,128
Funded by:	
- Revenue Support	920 (4%)
- Retained Business Rates	4,938 (24%)
- Council Taxpayers (excl. parishes)	11,015 (52%)
- Use of Balances / Reserves and Collection Fund	4,255 (20%)
surplus/deficit	
	21,128

The following table sets out a summary of the 2017/18 budget including changes made from the previous year.

2017/18 Summary Budget

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 17/18 Budgets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Corporate & Democratic Core	227						227
Corporate & Financial Management	6,202	(19)	445			(67)	6,561
Executive Management Team	605		17				622
Community Services	6,191	(147)	179	102		(150)	6,175
Commercial Services	1,665	(50)	420			(422)	1,613
Customer Services	2,375	(70)	263			(78)	2,490
Operational Services (excl. NEPP)	1,166		260			(352)	1,074
Professional Services	2,250	(142)	156			(244)	2,020
Total General Fund Services	20,681	(428)	1,740	102	0	(1,313)	20,782
Technical Items							
<i>Corporate Items / sums to be allocated to services</i>							
Procurement Savings	(15)						(15)
Investment Allowance funded by New Homes Bonus	3,573	70		150		(921)	2,872
Business Rates revaluation	0		100				100
Apprenticeship Levy	0		120				120
Waste Review	0		56			(38)	18
Strategic Plan (funded by 15/16 NHB)	205	(205)					0
Allocation to support Strategic Plan	0			110			110

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 17/18 Budgets
Digital Challenge implementation	150					(80)	70
Smarter Working	0					(200)	(200)
Digital Challenge - Post & Print	(50)					(50)	(100)
Inflation Reduction	0		(100)				(100)
Additional Service Savings	0					(60)	(60)
LACM	0					(50)	(50)
<i>Non-Service Budgets</i>							
Parish Council Grants / LCTS	91					(13)	78
Net interest Budget	418		120				538
Repair & Renewals Contribution	150						150
Minimum Revenue Provision (MRP)	653					(93)	560
Pensions	2,136		2,985				5,121
Council Tax Sharing Agreement	(650)					(150)	(800)
Heritage Reserve & Gosbecks Reserve	3						3
GF/HRA/NEPP Adjustment	(3,298)		12				(3,286)
Total Below the Line	3,366	(135)	3,293	260	0	(1,655)	5,129
Total incl. Below the line	24,047	(563)	5,033	362	0	(2,968)	25,911
<i>Funded by:-</i>							
Use of balances: re carry forwards	(426)	426			(77)		(77)
General use of balances	(462)	462			(422)		(422)
Use of balances for one-off Pension costs funding	0				(3,173)		(3,173)
Use of other Earmarked Reserves	0				(475)		(475)

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 17/18 Budgets
Use of Business Rates Reserve	(1,537)	1,537			(910)		(910)
Use of S.106 Reserve	(20)						(20)
Revenue Support Grant	(1,978)		1,058				(920)
Business Rates Baseline	(3,960)		(78)				(4,038)
Transition Grant	(88)						(88)
NNDR Growth above Baseline	(800)				(100)		(900)
Council Tax	(10,599)				(416)		(11,015)
Collection fund Transfer	(353)	353			(48)		(48)
New Homes Bonus	(5,714)				931		(4,783)
NNDR Deficit / (Surplus)	1,890	(1,890)			958		958
Total	(24,047)	888	980	0	(3,732)	0	(25,911)

3. Budget Forecast 2017/18 to 2020/21

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

Medium Term Financial Forecast				
2017/18 to 2020/21				
	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Base Budget	24,047	25,911	21,242	21,487
One-off items	(452)	(3,661)	0	0
Cost Pressures	5,033	1,520	1,066	640
Growth Items	212	(100)	0	0
Savings	(2,037)	(1,483)	(536)	(180)
Change in use of NHB for one off investment	(781)	(945)	(285)	(125)
Carry forward items	(111)			
Forecast Base Budget	25,911	21,242	21,487	21,822
<i>Funded By:</i>				
Revenue Support Grant	(920)	(275)	446	446
Business Rates Baseline	(4,038)	(4,157)	(4,290)	(4,290)
<i>SFA</i>	<i>(4,958)</i>	<i>(4,432)</i>	<i>(3,844)</i>	<i>(3,844)</i>
Increase in NNDR / taxbase above baseline	(900)	(1,000)	(1,000)	(1,000)
New Homes Bonus	(4,783)	(3,438)	(2,753)	(2,228)
Transition Grant	(88)			
Total Gov't grants	(10,729)	(8,870)	(7,597)	(7,072)
Council Tax	(11,015)	(11,434)	(11,860)	(12,293)
Collection Fund Deficit / (Surplus)	(48)	0	0	0
Business Rates Deficit / (surplus)	958	0	0	0
Use of Reserves	(5,077)	(70)	(20)	(20)
Total Funding	(25,911)	(20,374)	(19,477)	(19,385)
Budget (surplus) / gap before changes (cumulative)	0	868	2,010	2,437
Annual increase	0	868	1,142	427

	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Cost Pressures				
General Inflation	389	540	640	640
Food Waste (net impact of loss of grant)		304	204	
Pensions actuarial review	206			
Elections		105		
Pensions - auto enrolment	50	150		
ICT strategy - ongoing cost			200	
Stadium rent		128	22	
Benefit payments	85			
Interest	120			
Business rates revaluation	100			
Apprenticeship levy	120			
Staff resources	188			
Various Service pressures	177	43		
Council Tax sharing agreement		250		
Various technical items	13			
Total cost pressures	1,448	1,520	1,066	640
<i>One-off adjustments:-</i>				
Pensions actuarial review - impact of one off payment	2,935	(2,935)		
Budget Carry forwards	402	(402)		
NEPP - reduction in income from ECC for TROs	150	(150)		
Waste Review -one-off (excl transition grant)	72	(72)		
Welfare reform	26	(102)		
One-off adjustments	3,585	(3,661)		
Total	5,033	(2,141)	1,066	640
Growth Items				
Locality budgets	102			
Strategic Plan growth	110	(100)		
Total	212	(100)	0	0

	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Savings (incl. one off adjustments)				
Council Tax sharing agreement	(150)			
LCTS grant to parishes	(13)	(7)	(7)	
LACM	(50)			
Butt Road car park	(42)			
Minimum Revenue Provision (MRP)	(93)			
Waste Review	(38)	(59)		
Outturn review	(580)			
Sport & leisure	(94)	(198)	(50)	
Assets	(154)	(395)	(200)	
Commercial Income	(113)			
Senior Management Restructuring & Commercial Company assumptions		(419)	(204)	(180)
Digital Challenge:-				
• Corporate Savings	(250)	(50)		
• Service Savings	(320)	(255)	(75)	
New service savings	(60)	(30)		
Digital Challenge / ICT strategy - implementation	(80)	(70)		
Total	(2,037)	(1,483)	(536)	(180)

Change in use of New Homes Bonus for one off investment				
Reduction due to falling grant	(921)	(1,243)	(685)	(525)
Increase due to change in use for base budget	150	400	400	400
Total saving	(771)	(843)	(285)	(125)
Reduced investment from NHB - affordable homes	(10)	(102)		
Total reduced one off investment funded by NHB	(781)	(945)	(285)	(125)

Use of / contribution to Reserves				
S106 monitoring reserve	20	20	20	20
Use of balances for welfare reform and digital challenge	252			
Use of balances (incl. supporting staff resources)	98	50		
Waste review one off	72			
Use of balances - pensions	3,173			
Use of Capital Expenditure Reserve - ICT Strategy	325			
Use of NEPP reserve	150			
Funding budget carry forwards	77			

	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
NNDR Reserve	910			
Total	5,077	70	20	20
New Homes Bonus Grant				
Basic NHB	(4,506)	(3,263)	(2,578)	(2,053)
Affordable Homes Bonus	(277)	(175)	(175)	(175)
Total Grant	(4,783)	(3,438)	(2,753)	(2,228)

4. Risk Areas / Uncertainty

There are several key risk areas or areas where the outcome is uncertain which will impact on the 2018/19 budget forecast and potentially in later years. 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 2017/18 of 17% with further reductions thereafter in line with figures included in the 4 year settlement.</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 2017/18 we will retain an extra £900k of NNDR income above our baseline figure, with a an increase of a further £100k in 18/19. The business rates revaluation takes effect in 2017/18 and the risk and impact of business rate appeals remains an area of concern. With the planned move to 100% business rates retention 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> <p>Resources have been released to provide additional staffing to support residents with funding provided from balances.</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</p>

Risk / Area of uncertainty	
	<p>guaranteed and can therefore add to our cost pressures. Provision has been made in the 2017/18 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 has been built in for an increase in pensions costs based on the results of the actuarial review. In addition the budget assumes we will pay the deficit payment for the next three years.</p> <p>An allowance has been made for the impact of 'auto enrolment' in 17/18 and 18/19. This may need to be revised depending on actual numbers joining the pension scheme.</p>
<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 2017/18 and beyond it is difficult to estimate how income levels may continue to be affected. Some targets have been increased to reflect performance in recent years and there is also additional income forecast from agreed business plans.</p>
<i>Inflation</i>	<p>An allowance for general inflation including pay has been built into the 17/18 forecast and MTFF.</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>	<p>The budget position for 2017/18 includes proposals to use certain reserves included some general use of balances to support the budget.</p> <p>The MTFF includes some proposals to use reserves in future years.</p>
<i>Legislation</i>	<p>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.</p>
<i>Impact of regeneration programme e.g. staff resources</i>	<p>The 2017/18 budget included continuing additional resources to support work in the Northern Gateway.</p> <p>Furthermore, the recently established Revolving Investment Fund (RIF) provides a framework for managing potential pressures.</p>
<i>Property review</i>	<p>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 2017/18 budget forecast maintains the additional allocation of £150k in respect of planned repairs.</p>

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.
<i>Delivery of budget savings</i>	The 2017/18 budget includes c£3m 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 18/19 budget.
<i>Net Interest earnings and investments</i>	The budget is influenced by a number of factors including interest rates and cashflow movements. The treasury management strategy for 2017/18 highlights the outlook for interest rates in the medium-term which points to continuation of unprecedented low levels into 2017/18. 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

A risk assessment has been undertaken to determine the prudent level of general fund balances as part of the 2017/18 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			
Inflation		100		
Investment Income	75			
Trading Activities and fees and charges		200		
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

	Allocated	Risk allocations	Unallocated	Total	Note
	£'000	£'000	£'000	£'000	
Opening balance 1/4/17	(6,203)	(844)	(2,334)	(9,381)	per 16/17 accounts
]				
<i>Budget Carry Forwards and sums held in balances:-</i>					
16/17 Service Budget c/fs (inc NHB)	2,074			2,074	As reported to Scrutiny Panel June 17
16/17 Business rates pooling c/f	716			716	As reported to Scrutiny Panel June 17
Carry forwards held in balances	640			640	Agreed budget sums, such as New Homes Bonus and BIFA which have not yet been moved to service budgets.
Allocations in previous years c/f	400			400	Allocations against specific projects. This has been reviewed as part of the final budget report and certain allocations are no longer required.
Colchester & Ipswich Museum Service (CIMS)	84			84	Use of balances subject to decisions made by joint Committees.
North Essex Parking Partnership (NEPP)	242			242	
Redundancy costs	603			603	Some costs will be incurred in 2017/18 with the balance c/f. Includes proposed allocation of an extra £100k.
Council Tax Sharing agreement	271			271	Includes carry forward sum from previous years
Right to challenge - Gov't funding	46			46	
	180			180	Agreed by Cabinet 12 October 2016. . £20k of this assumed to be used to support staff resource in 17/18 budget
Think Global, Act Local (Startwell)					
Total carry forwards and allocations	5,256	0	0	5,256	

	Allocated	Risk allocations	Unallocated	Total	Note
	£'000	£'000	£'000	£'000	
Agreed use in 17/18 budget					
Support for digital challenge in 17/18	150			150	
Use for waste review	72			72	Balance of funding
General budget support	98			98	As Set out in this report
Carry forwards	77			77	
Total agreed use in 17/18	397	0	0	397	
<i>Use of balances in later years or risk allocations</i>					
Community Stadium - rent adjustment	500			500	Provision for one-off reduction in rent
NNDR / Welfare reform		172		172	Provision for impact arising from reforms.
Support for 18/19 budget	50			50	
Planning appeals, legal, HR etc- risk allocation		222		222	Includes proposed allocation of £100k
Housing benefit - risk allocation		300		300	Agreed in 15/16 budget and proposed to be increased by £170k to reflect increased risk relating to benefits.
Collection Fund - risk allocation		150		150	Agreed in 15/16 budget
Total later years allocations	550	844	0	1,394	
Uncommitted / unallocated Balance	0	0	(2,334)	(2,334)	
Recommended level			(1,900)	(1,900)	Proposed level
Surplus above recommended level	0	0	(434)	(434)	

2018/19 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 – 12 July 17	<ul style="list-style-type: none"> • Review 16/17 outturn • Report on updated budget strategy / MTFF • Timetable approved
Scrutiny Panel – 18 July 17	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 – 6 September 17 and /or 11 October 17	<ul style="list-style-type: none"> • Budget Update • Review of capital resources / programme
Cabinet – 22 November 17	<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 – 30 January 18	Budget position (Detailed proposals)
Cabinet – 31 January 18	Revenue and Capital budgets recommended to Council
Council – 21 February 18	Budget agreed / capital programme agreed / Council Tax set

Leadership Team to review budget progress during year.