

Report to the Council

Committee: Cabinet

Date: 21 February 2019

Portfolio Holder: Councillor G Mohindra

Item:

BUDGETS AND COUNCIL TAX DECLARATION 2019/20

Recommending:

(1) That the list of CSB growth and savings for the 2019/20 budget (set out in Annex 1) be approved;

(2) That the list of District Development Fund and Invest to Save items for the 2019/20 budget (set out in Annexes 2 and 3) be approved;

(3) That the revenue estimates for 2019/20 and the draft Capital Programme for 2019/20 be approved as set out in Annexes 4, 5 (a-i) and 6 including all contributions to and from reserves as set out in the attached Annexes;

(4) That the medium term financial strategy be approved as set out in Annexes 9 a and 9 b;

(5) That the 2019/20 HRA budget be approved on the basis that a contribution to the self-financing reserve of £500,000 is made, and that the application of rent decreases resulting in an average decrease of 1% from £95.57 to £94.61, be approved;

(6) That the Council's policy of retaining revenue balances at no lower than £4.0M or 25% of the net budget requirement whichever is the higher for the four year period to 2021/22 be amended to no lower than £4.0M or 25% of the net budget requirement whichever is the higher during the four year period up to and including 2022/23;

(7) That the report of the Chief Financial Officer on the robustness of the estimates for the purposes of the Council's 2019/20 budgets and the adequacy of the reserves (see Annex 10) be noted;

(8) That the Capital Strategy (see Annex 11) for the period 2018/19 to 2022/23 be adopted.

Declaration of Council Tax

(9) That it be noted that under delegated authority the Assistant Director of Resources, in consultation with the Business Support Services Portfolio Holder, calculated the Council Tax Base 2019/20:

(a) for the whole Council area as 54,159.4 (Item T in the formula in Section 31B of the Local Government Finance Act 1992, as amended); and

(b) for dwellings in those parts of its area to which a Parish precept relates as set out below and in Annex 7.

	Tax Base
Abbess, Beauchamp & Berners Roding	227.4
Buckhurst Hill	5,238.9
Chigwell	6,191.9
Epping Town	5,319.1
Epping Upland	413.6
Fyfield	415.7
High Ongar	562.6
Lambourne	895.4
Loughton Town	12,580.6
Matching	450.9
Moreton, Bobbingworth and The Lavers	591.3
Nazeing	2,089.4
North Weald Bassett	2,550.6
Ongar	2,730.3
Roydon	1,364.8
Sheering	1,356.9
Stanford Rivers	365.6
Stapleford Abbotts	523.2
Stapleford Tawney	85.0
Theydon Bois	2,002.7
Theydon Garnon	86.4
Theydon Mount	117.4
Waltham Abbey Town	7,763.4
Willingale	236.3

(10) That the following amounts be calculated for the year 2018/19 in accordance with sections 31 to 36 of the Local Government Finance Act 1992:

- (a) £116,208,277 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act taking into account all precepts issued to it by Parish Councils;**
- (b) £104,300,368 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act;**
- (c) £11,907,909 being the amount by which the aggregate at 10 (a) above exceeds the aggregate at 10 (b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax requirement for the year. (Item R in the formula in Section 31B of the Act);**
- (d) £219.87 being the amount at 10 (c) above (Item R), all divided by Item T (the amount at 9 (a) above), calculated by the Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year (including Parish precepts);**
- (e) £3,650,767 being the aggregate amount of all special items (Parish precepts) referred to in Section 34(1) of the Act (as per the attached Annex 7);**
- (f) £152.46 being the amount at 10 (d) above less the result given by dividing the amount at 10 (e) above by Item T (9 (a) above), calculated by the Council, in accordance with Section 34(2) of the Act, as the basic**

amount of its Council Tax for the year for dwellings in those parts of its area to which no Parish precept relates.

(11) That it be noted that the County Council, the Police Authority and the Fire Authority have issued precepts to the Council in accordance with Section 40 of the Local Government Finance Act 1992 for each of the category of dwellings in the Council's area as shown in Annex 8 (to be tabled);

(12) That the Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, hereby sets the aggregate amounts in Annex 8 Part B (tabled) as the amounts of Council Tax for 2019/20 for each part of its area and for each of the categories of dwellings.

(13) That in accordance with section 52ZB of the Local Government Finance Act 1992, Council determines that the amount of Council Tax shown at (9) (f) of £152.46 for 2019/20, being an increase of 0% from 2018/19 is not excessive and therefore there is no need to hold a local referendum.

General Fund Budget Guidelines

1. The annual budget process commenced with the Financial Issues Paper (FIP) being presented to the Finance & Performance Management Cabinet Committee on 26 July 2018. This continued the earlier start to the process and reflected concerns over the reform of financing for local authorities and highlighted the uncertainties associated with:

- a) Central Government Funding
- b) Business Rates Retention
- c) Welfare Reform
- d) New Homes Bonus
- e) Development Opportunities
- f) Transformation
- g) Waste and Leisure Contracts; and
- h) Miscellaneous, including recession and pay awards

2. There is now a little more clarity on some issues, but several are subject to consultations and will not be resolved for some time.

3. In setting the budget for the current year Members had anticipated using £306,000 from the General Fund reserves. There was expected to be a surplus of £994,000 on ongoing General Fund activities however it was agreed to make a transfer to the District Development Fund (DDF) of £1.3m to ensure the DDF remained in surplus. Also the MTFS approved in February 2018 showed a combination of net savings targets and use of reserves which still adhered to the policy on reserves over the medium term. Between 2017/18 and 2021/22 it was expected that a little under £1m would be used from the General Fund reserve bringing the balance down to £4.8m at the end of the period. This though was still well above the target of 25% of the 2021/22 estimated Net Budget Requirement of £3.233m.

4. The revised MTFS presented with the FIP took into account all the changes known at that point and highlighted the uncertainties around income from business rates. This projection showed the savings targets could be left unchanged at £300,000 in both 2020/21 and 2021/22 and still keep revenue balances comfortably above the target level at the end of the final year. However the significant uncertainties around funding beyond the next financial year are making forward funding projections extremely difficult.

5. Members adopted this measured approach to reduce expenditure in a progressive and controlled manner. The budget guidelines for 2019/20 were therefore established as:

- i. The ceiling for CSB net expenditure be no more than £12.1m including net growth/savings.
- ii. The ceiling for DDF net expenditure be no more than £0.553m.
- iii. The District Council Tax to continue to be frozen.

The Current Position

6. The overall position on the budgets through the medium term is rather different now to what it was in July. Considerable progress has been made on implementing the People Strategy with the appointment of the new Service Directors in September and recruitment to the level 2 managers currently ongoing. The savings target set for 2018/19 has been achieved and indeed exceeded. In roads have also been made into meeting the 2019/20 target by virtue of the fact that some of the savings contributing to the 2018/19 target are only a part year effect with the remainder falling into 2019/20. Good progress has also been made on other aspects of transformation including the delivery of the ICT strategy. The original budget included an expansion in community safety spending to help address the district wide problem of anti-social behaviour and this is already having a positive effect. This increased expenditure has been funded by a 2.48% increase in the Council Tax.

7. Two consultation papers have also been issued requesting responses by 21st February 2019. The first relates to the Fair Funding Review (FFR) and the second looks at reforms to business rates retention.

a) Central Government Funding

8. The provisional settlement figures were released on 13th December after a short delay. There was a consultation period of four weeks until 10th January the final figures were confirmed on 29th January and apart from a minor adjustment to the business rate tariff figure were unchanged.

9. Back in July 2016 this Committee decided that the offer from MHCLG of a four-year settlement should be accepted. There are very few authorities that made a different decision as MHCLG announced an acceptance rate of 97%. Subsequent to the settlement being agreed, there were further reductions in all three remaining years which was rather disappointing including the slightly bizarre introduction of negative revenue support grant for 2019/20. The final settlement confirms that this has now be removed as the Government accepted that the proposal went against previous assurances it had given to local authorities. Having said that there is still a reduction in funding for 2019/20 compared to 2018/19 just less than previously expected. The position now compared to previous years is shown in the table below.

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Revenue Support Grant	2.45	1.53	0.74	0.26	0.00
Retained Business Rates	3.02	3.05	3.11	3.20	3.27
SFA	5.47	4.58	3.85	3.46	3.27
Decrease £		0.89	0.73	0.39	0.19
Decrease %		16.3%	15.9%	10.1%	5.5%

10. This confirms the bleak picture for the four year period to 2019/20 with the SFA reducing over the period by £2.2m or over 40%. It is worth noting that 2019/20 is the final year of the four year settlement and the settlement was better than expected. Having said that we have little information yet on prospects after that.

11. The Settlement also released two consultation papers requesting responses by today. The first is a review of local authorities' relative needs and resources and looks at the distribution of funds across all councils and is referred to as the Fair Funding Review (FFR). The second looks at reforms to business rates retention and will explore how 75% retention by the sector might work in practice. Both these papers are significant and will inform how local authorities are funded in the medium term starting in 2020/21. The papers have been examined and a response has been considered by the Resources Select Committee. However, it is unlikely that any improvement in District Council funding will be seen in the near future and in the unlikely event of some additional funding it will likely come hand in hand with additional responsibilities. The FFR will not apply to funding outside the Local Government Finance settlement such as schools and policing but for this Council it is likely to affect New Homes Bonus, Housing Benefit Admin grant and more importantly how Business Rates retention is going to evolve over the next few years. New Homes Bonus and Business Rates Retention will be dealt with in more detail later.

12. The Council increased the Council Tax in 2018/19 by 2.48% which was below the 2.99% district referendum limit, to pay for additional policing for three years. The officers are now in place and based in the Civic Offices within the Community Safety team. There have already been some positive results seen from this and a review of how this has operated will be carried out in due course. This Council Tax increase was the first since 2010/11 and demonstrates how the Council's desire to keep the Council Tax low has been met over this time.

13. The settlement has left the referendum limit at 2.99% but it was again decided not to impose referendum limits on parishes, although this position remains under review. This means if parishes are unable to match the reductions in their Local Council Tax Support (LCTS) funding with efficiencies they are still free to increase their precepts.

14. In January 2018 the Finance and Performance Management Cabinet Committee confirmed its previous decision that, in view of Revenue Support Grant disappearing by 2019/20, the LCTS grant to parishes should also be phased out.

15. It is difficult to know what the outcome of the FFR will be and we still do not have much to work with as the deadline for consultation responses is today. The Financial Issues Paper (FIP) has previously commented that the current funding formula might still be in place for 2020/21 but surely with the consultation having started this will not now be the case?

b) Business Rates Retention

16. As last year the Council was part of the Essex bid to become a 75% Business Rates pilot and like last year Thurrock did not take part. The settlement confirmed that the bid had been unsuccessful. Whether Thurrock's non-participation was a factor in this is open to debate. There were 15 successful bids including Hertfordshire and Norfolk these areas will be able to keep 75% of business rates without detriment to other areas. Having been unsuccessful the Council will continue to be part of the Essex Business Rates Pool which should mean some additional resources being available when compared to EFDC acting on its own.

17. The council is now into the sixth year of business rates retention. Since the introduction of business rates retention this Council has done rather better than the DCLG has predicted, as illustrated in the table below.

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
DCLG	2.97	3.02	3.05	3.11	3.21	3.32	tbc
Actual/Est.	3.64	4.40	4.63	4.59	4.86	4.71	4.30
Surplus	0.67	1.38	1.58	1.48	1.65	1.39	tbc
Levy	0.34	0.24	0.37	0.56	tbc	tbc	tbc

18. For both 2013/14 and 2014/15 as the Council was not in a business rates pool we had to pay over half of the income above the DCLG estimate as a levy, in addition to the tariff that had already been paid. From 2015/16 a reduced levy is payable to the members of the pool who are top-up authorities, Essex County Council and Essex Fire Authority. The value of the levy is dependent on the performance of the pool as a whole rather than this Council's performance alone.

19. The table above illustrates that the rate of growth in business rate income has been higher than MHCLG estimated. Part of this divergence may have been caused by the number of adjustments to the scheme after it was constructed. These include the extension of small business rate relief, the capping of increases and the introduction of retail rate relief. As all of these adjustments reduce the bills that Councils would have issued, compensation is paid under what is known as Section 31 grant. With the introduction of the new rating list from April 2017 there were further new reliefs and the system has become quite difficult to administer and very messy. It is evident that Section 31 grant will be with us for the foreseeable future.

20. Whilst the amounts included in the MTFS exceed those calculated by MHCLG they are still felt to be prudent. Particular caution is needed over the estimates included and it is proposed that we assume no growth in 2020/21 at this stage as we simply do not know what the outcome of the consultation will be. We are also now in the second year which will be billed using the new rating list and there is still little data on appeals.

21. The complexity around the introduction of the new list has been made worse by changes to transitional relief and the appeals system. There were two levels of transitional relief but for reasons best known to the MHCLG the new list has three levels. This has then been compounded by the introduction of a new system of "Check, Challenge, Appeal" for businesses to use in challenging their bills. This process was introduced over a year ago and so far only about 16 appeals have reached the challenge stage and these have been on properties with quite small rateable values. I think it is fair to say appellants have struggled with the new system particularly those using agents who have had bulk appeals to submit as the system is more geared to those submitting single appeals. Some software changes designed to improve user friendliness are planned to make it work satisfactorily for ratepayers but this will again add further delays to the system. It is hoped that in the long term this system will be better for all parties and will indeed reduce the very lengthy delays that this system was designed to alleviate in the first place. However, the introduction of a new system means we have no past data that can be used to estimate the number of appeals and how they will arise and be dealt with through the life of the valuation list. Estimating business rates income has been extremely difficult in the past and if anything is even more so now but the figures will continue to be carefully monitored.

22. Having mentioned the difficulty with new appeals we should not lose sight of the appeals that are still outstanding on old lists. Progress on clearing these appeals has been extremely slow, but we are now down to 85 so about 20 appeals have been settled in the last six months! Most of those remaining relate to schools and supermarkets. Calculating an appropriate provision for appeals remains extremely difficult. Each appeal will have arisen from different circumstances and it is difficult to produce a uniform percentage to apply. This is a particular concern as there is one property in the south of the district which has a rateable value approaching £6 million and is currently being appealed. If a full provision was included in our calculations for the owners of this property being completely successful in their appeal there would be a significant shortfall.

23. Based on previous experience and discussions with the Valuation Office a provision has been calculated that is felt to be prudent, but given the size of the financial risk here it is worth mentioning the potential problem. The total provision against appeals at 31st March 2018 is £3.39m.

24. The settlement has announced that the amounts collected from local authorities in the form of the levy on business rates growth has been higher than that paid out in safety net payments and this is probably due to the aforementioned issues in para 19. As a result a one off windfall repayment is to be made to authorities during 2019/20. For this Council it amounts to around £50,000 and although it is not overly significant it is at least positive and given it's one off nature it makes sense to put this into the DDF.

25. As mentioned earlier a consultation on the future of business rates has been issued with responses required today. It will explore how 75% business rate retention might work in practice but it is unlikely we will have much in the way of further information in time. The figures used are very much an estimate based on the existing system and indeed the estimate for 2020/21 has been left at a similar level to that in the first version of the MTFs and increased by around 2.5% thereafter. As regards the consultation the business rates baseline will no doubt be amended particularly as the original baselines appear to have been set too low. The proportions allocated to each sector will also no doubt change though again it is unclear by how much and what the actual effect will be. Finally there will probably need to be some transitional measures put in place to prevent too many large funding swings between individual authorities and this is a practice that has previously been seen when funding changes are made. The Government will be issuing further consultations on this in the future.

26. One thing we can be certain of though is that 75% retention will not mean an increase in the business rate income we have to spend from £3.3m to £27m. What it actually means is that 75% will be retained within local government and no amounts of either base funding or growth will be paid over to the Treasury. The second point is that 75% retention will not solve funding problems for the local government sector. It has been made clear by the Government that the policy will be fiscally neutral, which means any additional funding will be matched by a transfer of additional responsibilities that have previously been centrally funded.

27. As stated earlier the new system is meant to be in place by 2020/21 at the latest, whether this happens remains to be seen.

28. It has been mentioned above that the Council has benefitted significantly from being in a business rates pool and consequently it has remained in a pool for 2019/20. Monitoring so far indicates that this should still prove beneficial but we are reliant on the outcomes from the other pool members. If it becomes evident through the monitoring for 2019/20 that this Council will not benefit financially from pooling a recommendation will be made not to pool for 2020/21.

c) Welfare Reform

29. The current scheme of Local Council Tax Support (LCTS) is based on the maximum level of support being 75%. A public consultation on the scheme was carried out in the second half of 2018 on the basis of no change to the existing scheme. Cabinet is recommending that the status quo be maintained.

30. The Universal Credit (UC) is now live across the District for all new claims relating to those of working age. The roll out, which has been ongoing for some considerable time, has been quite confusing for claimants as well as officers due to its fragmented nature and there have been some changes along the way which have generally at least improved things a little. The next stage is for existing claims for working age claimants to be migrated over a period of time up to 2023, though there is some suggestion that a ministerial review of this will be carried out so this could be subject to change.

31. One other aspect of welfare reform that continues is the DWP achieving their savings through reducing the grant paid to local authorities to administer housing benefit. Following a relatively modest reduction of £22,000 in 2015/16, £40,000 was taken in 2016/17 £42,000 in 2017/18 and £25,000 in 2018/19. A further reduction of £37,000, is proposed for 2019/20 which is a cut of around 27% over that time. An officer working group has been set up to assess the impact of UC on all Council services and customers

d) New Homes Bonus

32. During 2017/18 significant changes were made to the way New Homes Bonus (NHB) is allocated and the reductions in grant were far greater than had been anticipated. The reason for this much larger reduction was the introduction of a baseline of 0.4% for 2017/18. This meant that only growth above 0.4% of the taxbase qualified for NHB, in practical terms this reduced the number of qualifying properties from 241 to 11 or in cash terms the additional NHB for 2017/18 was £16,000 instead of £320,000. Increasing this baseline was one of the options being considered but the settlement has left the baseline at the existing level.

33. During 2017/18 the Council received a little short of £2m in bonus. In 2018/19 this had dropped to £0.849m a fall of over £1.1m. The original estimate for 2019/20 was £0.7m but because of increased growth in housing provision and also a significant increase in empty properties being brought back into use the figure is £1.049m. The amount awarded for 2019/20 being £0.452m. Having said that each amount is now only payable for four years rather than the original six and over half of the amount payable in 2019/20 will fall out in 2020/21 to be replaced by an amount as yet unknown. It is distinctly possible that NHB will fall again in future years not just due to this and any adjustment to the baseline but the FFR could well change the methodology completely so for that reason it is proposed to continue removing amounts of NHB from the CSB and instead placing them into the DDF.

34. The previous paper suggested that we might see NHB increases again now that the adoption process for the Local Plan can continue and logic would suggest that this should be the case with the additional development expected. But given its volatile nature and the possibility of changes to the scheme the course of action proposed in para 30 seems the best for the time being. This can of course be reviewed during each budget cycle depending on how things progress.

e) Development Opportunities

35. There is a separate Cabinet Committee for co-ordinating asset management issues so it is not intended to devote too much space to developments. However, it is necessary to touch briefly on the number of opportunities that currently exist in the district and their potential benefits. This is particularly important given the increased significance of retained business rates.

36. The retail park is now operational and all units are now let. There are rent free periods relating to a number of units so the full rental income will not be received immediately. The rent roll is £2.634m per annum but because of rent free periods the rent accounted for annually is slightly less at £2.498m.

37. With regard to the mixed use re-development of the St Johns area in Epping, having purchased the land with a view to selling the site on for re-development to include cinema, retail and residential the negotiations with the potential developer fell through during the summer. The process had become quite protracted and a lot of time and effort had been expended, so the failure to reach a satisfactory conclusion on the one hand was disappointing. Having said that this outcome has now presented the Council with an opportunity.

38. For some time now it has been known that Epping Sports Centre is close to the end of

its life and the centre at Ongar was not far behind. Members have been aware that we would need to re-provide the service on another site and to that end, when bids were submitted for the leisure management contract, an additional scenario was provided with the management fee to show the situation when and if this re-provision was to occur. Now that the intention is for the St John's site is to be re-developed by the Council it is possible that the leisure re-provision can be made here and indeed initial site investigations as to its suitability are already underway.

39. The capital cost of a new leisure centre is likely to be in the order of £16-20m and in order to pay for the construction the Council will need to borrow money. Whilst the overall leisure management fee is likely to reduce and some future costs, particularly maintenance related, will be avoided by the construction of a new leisure centre by the time borrowing costs including the need to set aside revenue for the repayment of debt have been factored in there will be an additional CSB cost to finance for the Council. How this is to be met will need to be considered. However, it is the intention to produce a full development appraisal for the whole of the St John's Road Scheme, which will identify what capital contributions may be available to off-set the costs of any new Leisure Centre, but the sale of the existing site in Hemnall Street and the sale of any housing units identified in the adopted Design and Development Brief. In addition, it will assume the likely revenue to be generated by any retail/focal beverage units provided as part of the development.

40. It is also worth mentioning the former Winston Churchill pub site. There have been some difficulties with the letting of the retail space and some additional funding has been agreed to ensure the scheme is brought to a satisfactory conclusion. The majority of the units are under offer or in negotiation and £250,000 should be achievable when all units are let.

41. It had been expected that we would need to borrow funds externally during 2018/19 but as of early February there was still around £20m in surplus cash available so borrowing is unlikely until early in 2019/20 but it must be noted that going forward any significant additional capital expenditure either HRA or General Fund will no longer be freely available and borrowing costs will need to be considered as part of any options appraisals.

f) Transformation

42. Since the last FIP an in-principle decision has been made to relocate back office functions to a new building on Council owned land at North Weald. This will release land earmarked for residential development in the Local Plan including the Conder building, the rear extension and car park. The intention is to retain the existing front offices for customer service, civic and democratic functions whilst the remainder is let out to local businesses and various partners. Initial discussions have been started to this end. Based on information available at this early stage it is expected that the project can be funded from the capital receipt generated by the sale of the site supplemented by existing capital provision held as a result of a number of Civic Office projects put on hold by the review which totals a little under £1.2 million.

43. As regards the people strategy target of £647,000 set for 2018/19 this has now been achieved and indeed exceeded which has meant some progress has already been made toward the 2019/20 target. An estimated allocation of the savings between the HRA (£210,000) and General Fund (£437,000) was made and more savings have accrued to the General Fund than expected with less to the HRA. The actual position is expected to be a saving of £716,000, £504,000 General Fund and £212,000 HRA. The next stage is to recruit to the level 2 manager posts, which is currently underway with the remaining areas to follow on with completion expected to occur by the end of the summer.

44. With regard to the ICT strategy progress is broadly on track though some projects that are affected by the accommodation review have been placed on hold and there could be some additional costs arising from a review of the current server hosting arrangements.

45. The remaining amount left on the Invest to Save (ITS) has been allocated to the

accommodation review so there are no unallocated amounts left. The ITS has been a useful mechanism for generating CSB savings and income but has generally funded quite small scale projects. A review of its effectiveness and purpose is probably due and perhaps a paper should come back to members to consider the future options for the fund. If the fund is to be continued the General Fund will need to provide the initial finance.

g) Waste and Leisure Contracts

46. Two of the Council's high profile and high cost services are provided by external contractors, Biffa for waste and Places for People for leisure. Following an extensive competitive dialogue procedure Biffa took over the waste contract in November 2014. The contract hand over and the first six months of the new service went well. But in May 2015 the service was re-organised on a four day week basis and considerable difficulties were encountered.

47. The service was procured at a lower cost and the savings were included in the MTFS. However, issues with recycling and service delivery mean that CSB growth of nearly £500,000 was included in the revised estimates for 2016/17 together with £200,000 of DDF expenditure. Since then there have been further increases relating to loss of recycling income of £150,000 which is DDF to the February 2018 Cabinet and in June 2018 additional funding to meet the issues relating to the Chinese recycling market £200,000 one off Capital and £50,000 ongoing CSB. These costs are not sustainable in the long term and options need to be discussed with Biffa at the Waste Management Partnership Board to examine how overall costs can be reduced in future years.

48. There is also the prospect of the consultation on the Resources and Waste Strategy 25 year environment plan. The consultation paper could be out as early as this month. The detail is not available yet but we should respond to the consultation as it is likely to have an impact on service delivery and costs.

49. The current Leisure Management contract started on 1 April 2017 with Places for People for a period of 20 years. Over the lifetime of the contract the average CSB savings will be more than £1m per year. The payments under the contract vary considerably between years and so the CSB savings are phased in over the first four years of the contract. If the whole CSB saving was included at the start of the contract there would need to be substantial transfers to the DDF for the first few years so it is better within the MTFS to match the economic reality of the contract. Experience so far has shown that there are also one or two issues that need to be dealt with as the contract progresses so the savings used in the MTFS have been tempered to allow for such issues to be addressed.

50. The contract assumes investment in both new and existing leisure facilities. The replacement facility in Waltham Abbey opened during November as expected and has been well received by the community.

h) Miscellaneous

51. In addition to the significant items mentioned above there are a number of other issues that need to be borne in mind. The economy goes in cycles and it is possible that a recession may occur and some commentators have suggested it is somewhat overdue. There has been a period of slow growth and inflation has generally been between 2 and 3% for some time. There is no point in speculating on if or when a recession will occur but we do need to be wary of the consequences of a slowdown in the economy. In any economic downturn property related income streams such as development control and rent from our commercial estate tend to suffer. This reduction in income in a downturn will be magnified as the proportion of our income coming from retained business rates increases. Added to the reduction in income will be increased pressure on services with greater spending on benefits and homelessness. Clearly it is in no one's interests to talk down the economy and talk up a recession but in a paper highlighting financial issues it is a subject that cannot be ignored.

52. The other issue to be aware of is the possibility of a no deal Brexit. There has been ample speculation around the possible effects that Brexit might have on the economy and business generally. Speculation more recently has concentrated on the effects of a no deal Brexit. The simple truth is that we do not really know what is going to happen but most commentators think a no deal Brexit will have a worse effect on the economy than leaving with a deal. It is possible that Brexit might trigger a recession in which case the effects would be similar to those outlined in para 45 above.

53. A new item appears in the budget this time round called 'Minimum Revenue Provision or MRP'. When capital expenditure is either unfinanced or financed by borrowing an amount has to be charged to either to the General Fund or HRA depending on which account is carrying out the borrowing. This amount is set aside for repayment of debt and needs to be spread over the life of the asset to which the borrowing relates.

54. The Council's single largest cost is the annual pay bill of around £23m. The pay award for 2018/19 averaged out at around 2.3% for this Council. The agreement itself is for the period to 2020/21 and includes a complete overhaul of the pay scales because of the increases to the National Living Wage over that time. In 2019/20 an average increase of 2.5% is expected as increases on the lower points will be rather more. The MTFS is based on increases at 2.5% in 2020/21 and 2021/22 and 2% thereafter.

55. When the adoption of the local plan occurs there will be 11,400 properties built within the district over the period of the plan generating additional Council Tax income. It is difficult to assess what effect this will have on council services other than additional waste collections. Based on the waste management contract the additional cost per property stands at a little over £60 per property per annum which is well short of the additional band D equivalent council tax of £152.46 per property.

The ceiling for CSB net expenditure be no more than £12.0m including net growth

56. Annex 1 lists all the CSB changes for next year. The MTFS in July included net CSB savings of £1,461,000 for 2019/20 and the revised 2018/19 budget had a net CSB reduction of £1,313,000. Overall with the inclusion of additional income from parking and changes in recharges to the HRA for corporate activities the CSB position for 2019/20 is below that targeted set in July. In July the MTFS had a CSB target for 2019/20 of £12.16m and the General Fund CSB total is £164,000 below this at £12.0m. Therefore it is proposed to reduce the CSB target to £12m.

The ceiling for DDF net expenditure be no more than £2.373m

57. The DDF net movement for 2019/20 is £2.373m, Annex 2 lists all the DDF items in detail. This has increased by £1.82m since the July MTFS and has been partly driven by the inclusion of slippage on the local plan and additional resources for the Garden Town amongst a significant number of other movements.

58. At £2.373m the DDF programme is substantially above the target for 2019/20. Though as in previous years most of this is really due to slippage rather than a significant increase in expenditure. The previous MTFS highlighted the fact that the DDF was likely to run short of money due to the demands on the fund, however by maintaining the previously agreed transfer from the General Fund and the better than expected New Homes Bonus for 2019/20 the fund does look somewhat more healthy. The DDF now shows the balance falling to £438,000 at the end of the period by virtue of allocating £900,000 from the NHB to the fund.

59. The above figures do not include anything additional apart from extending the spending on anti-social behavior. Any other additional spending will mean an increase in DDF total spending and possibly an increase in the size of the transfer necessary from the General Fund Reserve to the DDF. At the moment though there is more headroom available than at this time last year particularly in 2019/20.

The District Council Tax be frozen

60. Members have indicated that they want to freeze the Council Tax in 2019/20. It has been assumed in the MTFS that for 2020/21 onwards it will be increased by 2.5% per annum.

That longer term guidelines covering the period to March 2023 provide for

The level of General Fund revenue balances to be maintained within a range of approximately £4.0m to £4.5m but at no lower level than 25% of net budget requirement whichever is the higher;

61. Current projections show this rule will not be breached by 2022/23, by which time reserves will have reduced to £4.63m and 25% of net budget requirement will be £3.407m.

Future levels of CSB net expenditure being financed predominately from External Funding from Government and Council Tax and that support from revenue balances be gradually phased out.

62. The outturn for 2017/18 added £0.518m to reserves and the revised estimates for 2018/19 anticipate a reduction of £0.922m. This would leave the opening revenue reserve for 2019/20 at £5.804m and with the estimates for 2019/20 showing an increase of £0.79m, reserves at the end of 2019/20 would be £6.59m, after a transfer of £0.6m to the DDF. The Medium Term Financial Strategy at Annex 9 shows deficit budgets in the final three years of the period. The level of deficit peaks at £0.917m in 2021/22 and reduces to £0.42m in 2022/23, although this is achieved through additional CSB savings of £100,000 in 2021/22 and £300,000 in 2022/23.

The Local Government Finance Settlement

63. This has already been covered in some detail above and whilst the figures are currently subject to consultation it is not anticipated that they will change significantly.

The 2019/20 General Fund Budget

64. Whilst the position on some issues is clearer now than it was when the FIP was written there are still significant risks and uncertainties. There is still significant risk around the valuation list for 2017 together with the changes to transitional relief and the amendments to the appeals process. This makes it extremely difficult to predict the level of income from retained business rates for 2019/20 and subsequent years.

65. The other area of concern highlighted in the section on Business Rates Retention is the large number of appeals that are still outstanding against previous rating assessments and the difficulty in calculating an appropriate provision. The backlog of appeals with the Valuation Office is reducing but the single largest appeal against us, on the property with the £6m rateable value, is still to be settled and so remains a significant financial risk.

66. It is clear that the Government now wants local authorities to be reliant on income from their activities and local taxation rather than central grants. This is a direction that we had seen coming and the work done to move the Council towards self-sufficiency means we are in a better position now than many other authorities.

67. The starting point for the budget is the attached Medium Term Financial Strategy, Annex 9. Annexes 9a and 9b are based on the current draft budget with no Council Tax increase (£152.46 Band D) in 2019/20. It has though been assumed that in future years the Council tax will increase by 2.5%.

68. Members are reminded that this strategy is based on a number of important assumptions, including the following:

- Future funding for 2020/21 and beyond is subject to the fair funding review and at this stage we have little information on what funding will be available. The figures included are felt to be prudent given the uncertainty that there is.
- CSB growth has been restricted with the CSB target for 2019/20 of £12m achieved. Known changes beyond 2019/20 have been included but if the new leisure contract fails to yield the predicted savings, the full savings from the people strategy do not materialise or waste management costs increase other efficiencies will be necessary.
- All known DDF items are budgeted for, and because of the size of the Local Plan programme a transfer in of £1.3m from the General Fund Reserve will be required in 2018/19 followed by a further £0.6m in 2019/20 to ensure funds are available through to the end of 2022/23.
- Maintaining revenue balances of at least 25% of NBR. The forecast shows that the deficit budgets at the end of the period will reduce the closing balances at the end of 2022/23 to £4.63m or 34% of NBR for 2022/23, although this can only be done with further savings in 2021/22 and 2022/23.

The Housing Revenue Account

69. The balance on the HRA at 31 March 2020 is expected to be £2,057,000, after a deficit of £259,000 in 2018/19 and a surplus of £29,000 in 2019/20. The estimates for both years have been compiled on the self-financing basis and so the negative subsidy payments have been replaced with borrowing costs.

70. The process of Rent Restructuring to bring Council rents and Housing Association rents more in line with each other is no longer with us. Since 2016/17 local authorities have been required to reduce rents by 1% per annum and 2019/20 is the final year of this policy. However it has come to light that there is a potential problem in 2019/20 because there are 53 Mondays in that year. The Welfare reform act that introduced the requirement to reduce rents by 1% per annum can be interpreted in two ways, either the 1% is applied to the annual rent in which case the additional weeks rent will mean income actually increases and rents should be reduced by more than 1% to satisfy the requirements of the act or the 1% is applied weekly which means we can maintain the status quo and collecting the additional weeks rent in 2019/20 is fine. A number of authorities in liaison with the Local government Association have reached a consensus that the weekly approach is correct and have communicated this to the MHCLG. Their only response so far is that individual Local Authorities need to satisfy themselves that they are complying with the legal position.

71. Members are recommended to agree the budgets for 2019/20 and 2018/19 revised and to note that although there is a deficit in 2018/19 the HRA has adequate ongoing balances.

The Capital Programme

72. The Capital Programme at Annex 6 shows the expenditure previously agreed by Cabinet. Members have stated that priority will be given to capital schemes that will generate revenue in subsequent periods and this has been emphasised by stating that new borrowing should only be taken out to finance schemes with positive revenue consequences. This position has been included in previous Capital Strategies and has been reinforced by the new position that capital spending will require borrowing and thus impacts on the general fund revenue balance through interest payments.

73. Annex 9b sets out the estimated position on capital receipts for the next four years. The capital programme as shown in the appendix to Annex 11 shows over £97m over five years, it is anticipated that the Council will still have £3.9m of capital receipt balances at the end of the period (although these are one-four-one amounts to be used in the house building programme). In order to finance the capital programme it is currently envisaged that £8.2m of borrowing will be required.

Risk Assessment and the Level of Balances

74. The Local Government Act 2003 (s 25) introduced a specific personal duty on the "Chief Financial Officer" (CFO) to report to the Authority on the robustness of the estimates for the purposes of the budget and the adequacy of reserves. The Act requires Members to have regard to the report when determining the Council's budget requirement for 2019/20. Where this advice is not accepted, this should be formally recorded within the minutes of the Council meeting. The Council at its meeting on the 21 February will consider the recommendations of the Cabinet on the budget for 2019/20 and will determine the planned level of the Council's balances. Members will consider the report of the CFO at that meeting.

The Prudential Indicators and Treasury Management Strategy 2019/20

75. Since 2004/05 it has been necessary to set affordable borrowing limits, limits for the prudential indicators and a Treasury Management Strategy. These elements of the budget requirements were set out in a separate report to Cabinet on 7 February.

76. Due to the £185m of debt for the HRA self-financing the Council is no longer debt free and the Prudential Indicators and Treasury Management Strategy have been amended for this. Ongoing difficulties persist in financial markets but higher capital requirements have eased concerns about some banks, Arlingclose still advise a very restricted counter party list but have allowed some increase in suggested investment periods.

77. The size of the Capital Programme means additional borrowing will be required during 2019/20. Members have indicated that borrowing should only be undertaken to finance schemes that produce net savings overall and this principle will be included in the updated Treasury Management Strategy.

Council Tax

78. The revenue and capital budgets of the various spending portfolios are set out in Annexes 5(a)-(i). Annex 4 summarises the overall budget for the Council for the General Fund and the HRA and is grossed up for the effects of local parish and town council precepts. Annex 6 summarises the Council's Capital Programme. The budget as submitted produces a District Council Tax (Band D) of £152.46 for 2019/20 (£152.46 for 2018/19), which represents nil increase. The average (Band D) Council Tax including local Parish/Town Council precepts will be £219.87 (£217.45 in 2018/19), which represents an increase of 1.1%. Cabinet have also recommended the adoption of an empty properties premium in an effort to reduce the number of empty homes within the district. This report is elsewhere on the agenda.

Council Tax Declaration

79. Under Recommendations (1) – (5) which include Annexes 1, 2, 3, 4, 5(a)-(i) the Council will agree its budget for the next year. The Authority must then proceed to declare a Council Tax. The appropriate technical recommendations are set out in Recommendations (9) onwards. These have been revised following changes to the Local Government Finance Act 1992 brought in as part of the Localism Act 2011. Under these changes the billing authority is now required to calculate a Council Tax requirement for the year, not its budget requirement as previously. The standard form of declaration recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) has been used as it is designed to avoid the possibility of legal challenge to the declaration of the Council Tax.

80. The Council Tax bases for each band in each area of the District were calculated by the Assistant Director of Resources in consultation with the Portfolio Holder. These are reproduced in Recommendations (9) (a) and (b) and form part of the ensuing calculations. The amounts to be levied within the District in respect of Essex County Council, Essex Police Authority, Essex Fire Authority and Parish and Town Councils are notified to this Authority

and are matters on which the District Council has no discretion.

81. However, the precepts of Parish and Town Councils are levied on the District Council and then taken into account in the General Fund. Details relating to the District Council precept together with the precepts in respect of Parish and Town Councils are set out in the recommendations and analysis in Annex 7.

Guide to the Council Tax Calculation

82. The figures in Recommendation (10) draw on calculations contained within the report as follows:

10(a) is the total of the revenue expenditure items shown in Annex 4 summary of revenue including the total of the Parish/Town Council precepts;

10(b) is the total of the revenue income items shown in Annex 4;

10(c) is the difference between the revenue expenditure and income as shown in Annex 4 (in simple terms it represents the net budget requirement of the District Council plus Parish and Town Council precepts);

10(d) is obtained by dividing 10(c) by the Council Tax Base; this represents the average Band 'D' Council Tax for the District and Parish/Town Councils only;

10(e) as shown in Annex 4 is the total of Parish/Town Council precepts; and

10(f) represents the equivalent of dividing 10(e) by the Council Tax Base, the resulting figure being deducted from the figure shown in 10(d); this provides the average Band 'D' Council Tax for the District Council only.

83. This process culminates in the figures shown in Annex 7, which are the Council Tax amounts for the District Council and the Parish/Town Councils for each valuation band for 2019/20. To these amounts are added Council Tax figures supplied by the major precepting authorities and which are further summarised as the total Council Tax due for each valuation band in Part B of Annex 8.

84. Annex 8 relating to the precepts of various parts of the District will be tabled at the meeting.