



Chelmsford City Council Cabinet

10th October 2023

Mid-Year Budget Review and Financial Forecast

Report by:

Leader of the Council

Officer Contact:

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Purpose

The purpose of this report is to provide an update on the Council's projected financial position in 2023/24 and over the medium term. It also identifies actions for the budget process.

Options

After consideration of the updated financial forecast the options are:

1. Agree the actions recommended.
2. Propose other amendments to the actions.

Preferred option and reasons

Approve the actions as recommended, as they will enable the production of a budget for 2024/25

Recommendation

That Cabinet note the updated financial forecast and approve the actions.

1. Introduction

This report provides a financial forecast to enable members to consider the current financial position and the key issues that can be expected to be reported upon when the Council sets its budget for 2024/25.

The report contains:

- 1) Mid-Year 2023/24 budget review; current year income and expenditure compared to the approved budgets (Appendix 1)
- 2) Housing Temporary Accommodation demand and costs (Appendix 2)
- 3) Background on the wider Local Authority Sector (Appendix 3)
- 4) Medium Term Revenue Budget Forecast (Appendix 4) and
- 5) Reserves Forecast (Appendix 5)

The report that follows highlights the key points and actions that arise from the matters included in the appendices.

2. Summary of Financial Position

The following summary is drawn from the detailed Appendices to this report.

Current Year 2023/24 Revenue

There are in Appendix 1 projections of 2023/24 income and expenditure. The Appendix shows a net overspend against the original budget which requires the use of an additional projected use of General Fund (unearmarked reserves) of £1.824m. The largest cost variance is the Pay award £1.66m (£0.39m ongoing and £1.27m for a one-off payment) which has been approved. The most serious adverse variance is Temporary Accommodation costs, which are forecast to be £1.3m above the budget. This is an ongoing cost and expected to rise further in later years. The Council's income position is a mixed picture, but with several favourable items especially higher investment income (£1m) the result is in an overall improvement in income as measured against the budget.

After allowing for approved variances the net unapproved variations are £0.134m (overspend).

More details can be seen in Appendix 1

National Position -local authority Finances

There is a rapidly growing number of Councils declaring S114 notices (effectively bankruptcy) or announcing that they are nearing the point that will happen. Appendix 2 contains further background and examples of this national picture. Many of the early S114 notices were caused by risky investment strategies, resulting in debts that were unaffordable. However, it appears that the increasing trend is for local authorities to warn of the imminent likelihood of a S114 notice, due to growing cost pressures and insufficient government funding. Councils have pointed to increases in demand for adult social care, children's services and temporary accommodation costs as being the main causes.

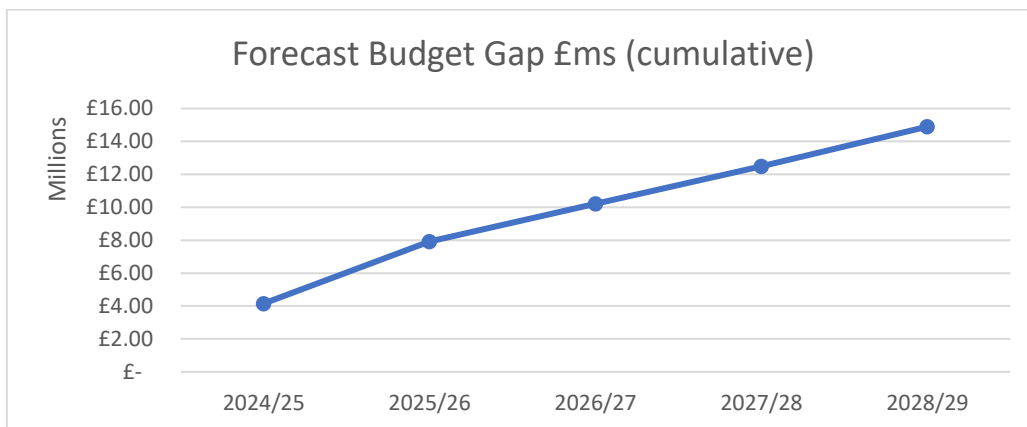
Some Councils are considering what are their statutory services, so they can move to minimum service provision to help balance their budget. At Birmingham City Council (who recently declared a S114), this question is proving difficult to answer as the legal position is unclear.

The forecast budget and reserves in this report demonstrate that a S114 notice is not needed at the City Council. However, the actions the Council takes in this budget cycle will need to reflect the challenging financial position that has been identified. It is clear that the Council has been and continues to be well run, but it cannot continue forever to fund growing cost pressures and demand internally when Government funding and Council Tax do not increase significantly to reflect those pressures.

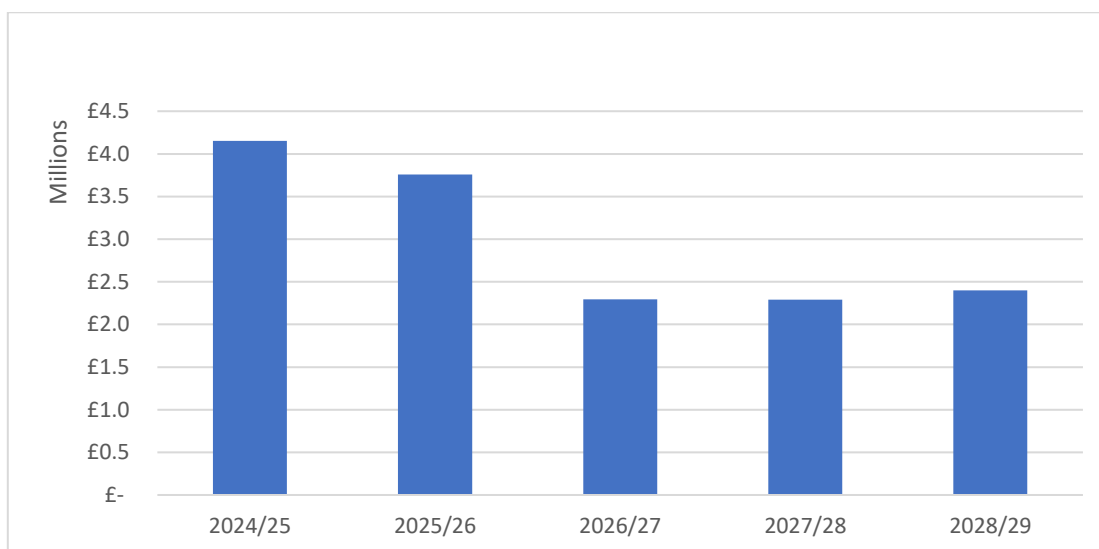
Eventually the burden of financial pressures on Councils will only be met by large cuts in services and recent evidence shows Councils will often financially fail before the cuts are made. Without increased Government funding it seems likely that ever larger numbers of Councils will be declaring S114 and debates about what are statutory minimum service levels will need to be resolved.

Future Year Revenue Budget Forecasts

The Forecast budget shortfalls on a cumulative basis:



The annualised shortfalls/ are shown below.



The causes of the forecast budget deficit are shown on the next page (showing year on year changes).

Revenue Budget Projection - High Level Summary					
	2024/25	2025/26	2026/27	2027/28	2028/29
Financial Pressures +(net)/- gains	£ms	£ms	£ms	£ms	£ms
Cost Inflation	2.397	1.439	1.478	1.520	1.563
Additional Fees and Charges pricing plus yield	-2.273	-1.209	-1.226	-1.248	-1.271
Housing Temporary Accommodation	2.730	1.399	1.513	1.571	1.631
Other	0.873	1.069	0.530	0.449	0.478
Ongoing Rents & Events Loss	0.475	0.000	0.000	0.000	0.000
Capital Financing	1.528	1.208	0.000	0.000	0.000
Net Council position before Government funding changes	5.730	3.906	2.295	2.292	2.401
Business Rate Retention -estimated higher income	-1.000	0.000	0.000	0.000	0.000
Government funding	-0.579	-0.147	0.000	0.000	0.000
Annualised Budget Gap forecast	4.151	3.759	2.295	2.292	2.401
Cumulative	4.151	7.910	10.205	12.497	14.898

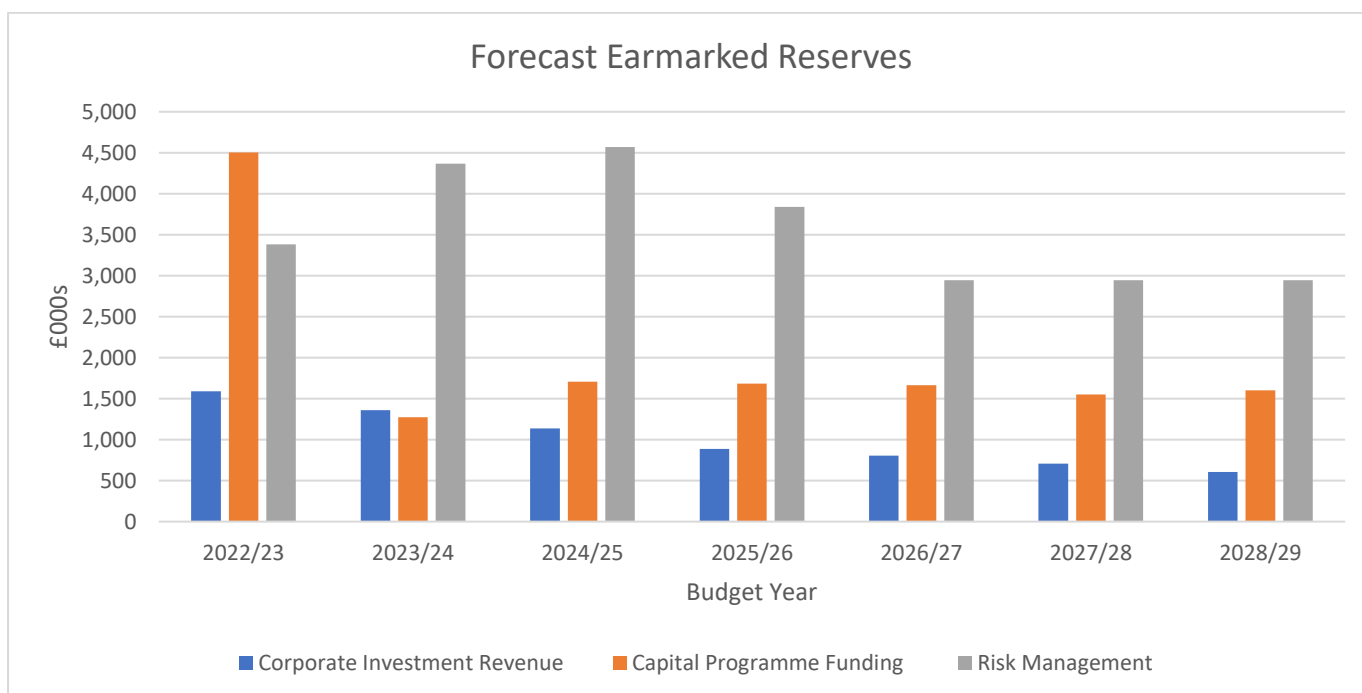
A more detailed schedule is shown in Appendix 4. The key explanation of the variations is below:

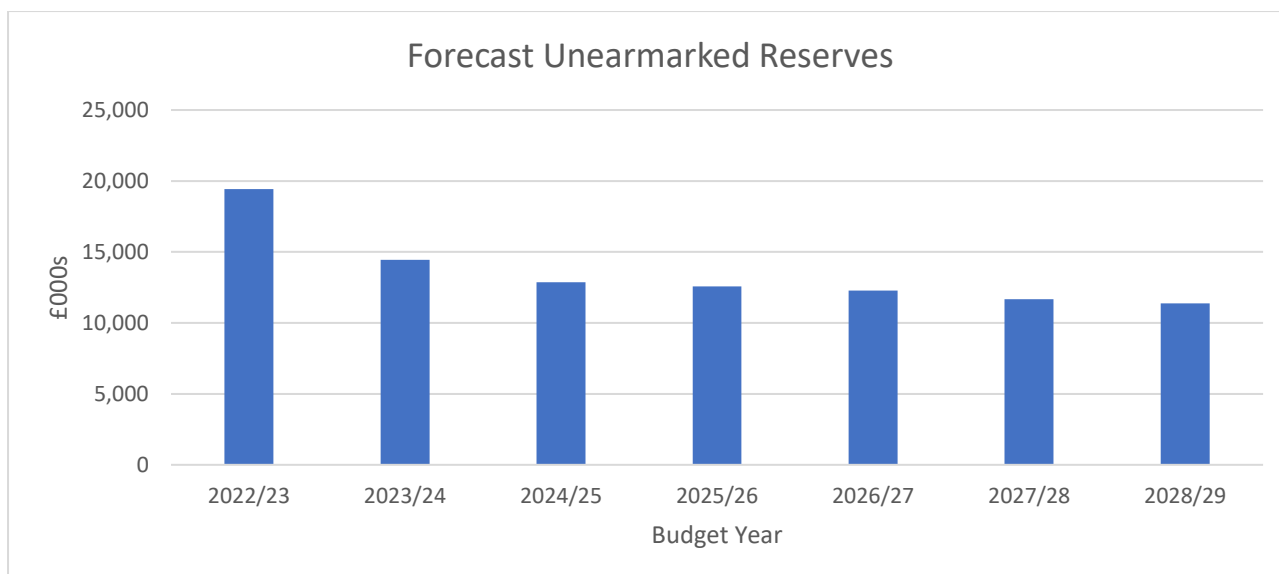
1. Inflation on Council costs remains a problem with the largest concern, staff pay, forecast to increase by 4% in 2024/25 and 3% thereafter. The pay award for 2023/24 was not fully covered by the budget so some £0.4m has been added into the forecast. It is important for the ongoing financial sustainability of the authority that estimates for pay awards are closer to actual awards. The consequence of pay awards above the budget, are higher use of reserves and also increases in budget shortfalls in later years.
2. Offsetting the cost of inflation are forecast increases in fees and charges prices and yields (assumed 3% average). Also, Council tax is assumed to increase annually by 3%.
3. Nationally, there is evidence of a growing housing crisis. Appendix 3 provides projections for temporary accommodation need. The types of temporary accommodation (TA) available and the size of the household will affect the cost. Last year's average cost for each household was around £9,000. The projections suggest an additional 149 households will need accommodation in 2024/25. Allowing for the overspend in 2022/23 and in 2023/24, this results in an additional £2.7m being added into the budget for 2024/25. Both numbers in TA and cost per case could of course vary significantly and this is discussed in Appendix 3 and in the risk section below.
4. The Council owns properties and receives rents. A worsening national economic environment has meant that rent income has fallen, in some cases on a permanent basis. Additionally, there is uncertainty around event income at Hylands. When rent income is temporarily reduced, reserves can be used to offset the losses. The forecast includes ongoing losses of income rent of £0.5m. The forecast allows for reserve use of £1.1m for temporary rent loss but this will be reviewed and amended as the budget work progresses.
5. The Council has recognised in all its previous financial forecasts that the revenue costs of financing the capital programme would rise over time and this should be considered a normal consequence of the City Council's activity. It was noted in the February 2023 budget report that the rising costs of the programme and higher interest rates would require the programme to be reviewed. It is essential to understand that the current financial forecast only includes **costs** for the Waterside scheme, the Council's largest capital project, but no allowance for capital **receipts** or ongoing **income** from the project. The approach to develop the site is being determined and will be subject to a Council decision at a later date, so the value of the financial benefits of the scheme are not yet identified. Projections of the overall revenue costs of capital financing after 2026/27 are frozen, so as not to overstate them in later years. This cost will be revised once the capital programme has been reviewed and the Waterside development plan has been approved.

6. The Business rate retention scheme is a complex method by which the Government shares with Local Authorities the growth in Business Rate income in their area. As previously reported to July Council, the current estimate is an additional £1m a year can be included in the 2024/25 budget. Officers remain confident in this projection, but it should be noted that business properties were revalued for 2023/24 and there remains some doubts about the impact of appeals on the amount of income the Council could retain.
7. Core Government funding is expected to increase by a similar amount as in 2023/24, and statements by ministers support this assumption. Homeless Prevention grant is also assumed to increase in 2024/25 on similar lines to the increases seen in 2023/24 (circa £300k), but there is less evidence to support this. However, the nationwide problems with rising temporary accommodation use suggest an increase in Government funding is probable.
8. There are other, non-inflationary pressures included in the forecast. These costs will be clarified in the budget for 2024/25 and should be taken as indicative. They mostly relate to staffing, including retention issues.

Reserves

The Council’s forecast reserves are shown in the graphs below. The Section 151 officer believes as the unearmarked reserve (general balance) is projected to remain above the minimum recommended level (£9m) it is therefore sufficient for the forecast period. But this is reliant on the working assumption that the 2024/25 budget will be balanced by a mix of measures and not overly reliant on reserve use. To help manage and understand financial risk, sums are transferred from the Unearmarked Reserve into Earmarked Reserves. A breakdown of the individual reserves is in Appendix 5.





Upside and Downside Risks to the Forecasts

A summary of the key known risks are:

- **Housing crisis:** the forecast of temporary accommodation could have a significant upward or downward error of hundreds of thousands of pounds. For example, with an expected cost of £10k per household per year, a 50-case load variance would generate a £0.5m forecasting error. There are, however, strong indications that new case costs could, in fact, rise significantly, perhaps to circa £17k average per TA home due to a shortage of accommodation. Appendix 2 identifies that Hastings Council has reported 1,000 households in temporary accommodation and the S151 officer of Hastings has warned of potential S114 notice as a result if cost savings or new income cannot be identified.
- **Timing of capital spend:** The Council's revenue forecast includes cashflow and financing costs based on estimated start and completion times of capital projects. Historic precedents suggest that the programme expenditure occurs later than forecast. This would mean lower revenue costs, which (given current interest rates) could amount to several hundred thousand pounds saved. As the capital programme is being reviewed, significant changes to financing costs are a real possibility.
- **Inflation (including utility costs):** The forecast assumes an easing of inflationary pressures. This is supported by economic forecasting. However, forecasts of energy costs are not robust and risks both to the upside or downside are a real possibility. Inflation of capital project costs also needs to be considered in more detail in the 2024/25 budget process.
- **Business rate retention:** The level of appeals by business against new valuations could have a short-term detrimental impact on the income the Council expects to obtain.
- **Government funding:** The forecast assumes small increases in funding. There is scope for the increases to be higher; it is considered less probable that funding will be reduced by government, given the widely reported financial difficulties authorities are reporting nationally.

Actions arising from this report.

1. Given Homelessness projections are the major cause of the forecast budget gap, continual validation of the estimate will be necessary throughout the budget process.
2. An officer working group involving all disciplines across the Council has been created to generate an action plan to address and alleviate where possible the issues (including financial) resulting from growing homelessness (temporary accommodation). This will be an ongoing review, and the group will report on proposed actions later this year. However, it is not expected to materially resolve the financial issues for 2024/25.

3. Earmarked reserves should be maintained along the lines identified in Appendix 5 of this report to manage known material risks such as temporary loss of rent income. The reserves shown in the report are an initial consideration and the budget process may identify further changes. The earmarked reserves will be maintained by transfers from the general fund (unearmarked reserve). The existence of earmarked reserves gives Members a view of financial risks and known costs.
4. Review the capital programme spend and its estimated timing. This is needed to reduce or defer capital cashflow so minimise financing costs on the revenue budget.
5. Prepare a budget on the assumption that £4.2m of savings, efficiencies and additional income are needed to balance the 2024/25 forecast budget gap.
6. Continue to lobby Government for increases to funding.

List of Appendices: Background & Contents of the Report

The report contains:

Appendix 1 – Revenue Monitoring 2023/24

Appendix 2 – National Position - Local Authority Finances

Appendix 3 – Temporary Accommodation

Appendix 4 – Revenue Forecast

Appendix 5 – Reserves

Background papers: None

Corporate Implications

Legal/Constitutional: The Council is required to set a balanced budget. The Medium-Term Financial Strategy sets out the framework for this to be achieved.

Financial: A robust financial strategy is essential in the delivery of the Council's objectives over the medium term, ensuring decisions are taken with due regard to their financial consequences. Medium-term financial planning is a key element in determining the organisation's future resilience.

Potential impact on climate change and the environment: This will be considered as part of the detailed budget setting process.

Contribution toward achieving a net zero carbon position by 2030: As above.

Personnel: The financial strategy, and the development of detailed budget proposals, is supported by the Council's values and behaviour framework, which promotes a culture of responsibility and accountability.

Risk Management: Due regard to the Council's Principal Risk Register should be had when considering its budget plans, financial forecasts, and level of reserves. The production of, and adherence to, the Strategy mitigates the risk of financial failure. Challenges to the Council's financial position are reflected in the Principal Risk Register, while the financial impact of other risks are considered within the Principal Risk Register as appropriate.

Equality and Diversity: Equality Impact Assessments will be considered as part of the detailed budget setting process rather than at the strategic level, to enable comprehensive assessments to be undertaken where necessary.

Health and Safety: None

Digital: None

Other: None

Consultees:

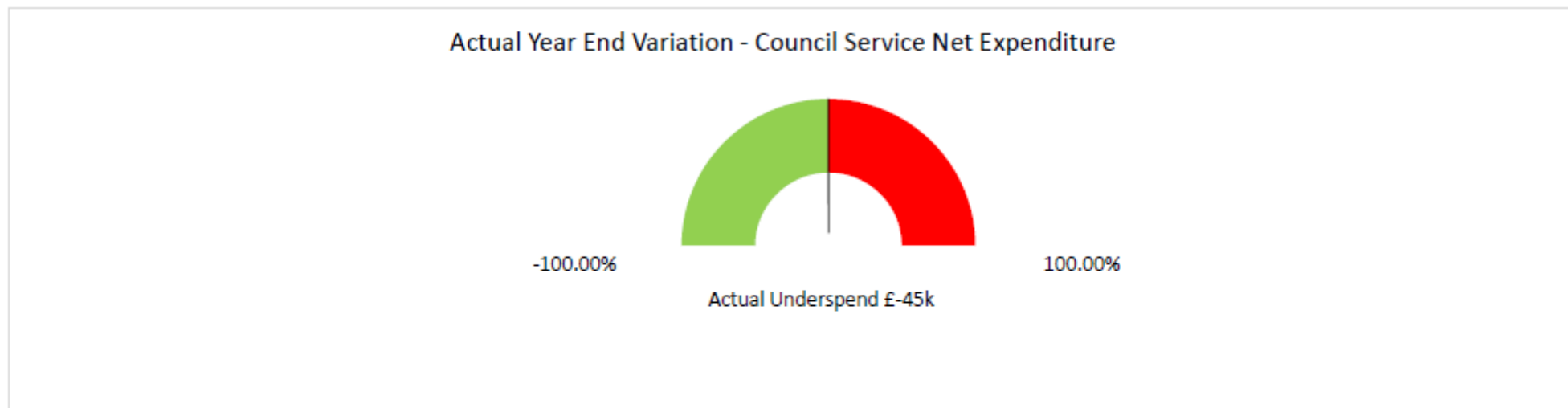
Cabinet Members, Chief Executive and Directors, Monitoring Officer

Relevant Policies and Strategies:

Our Chelmsford: Our Plan

Capital and Investment Strategy 2022/23

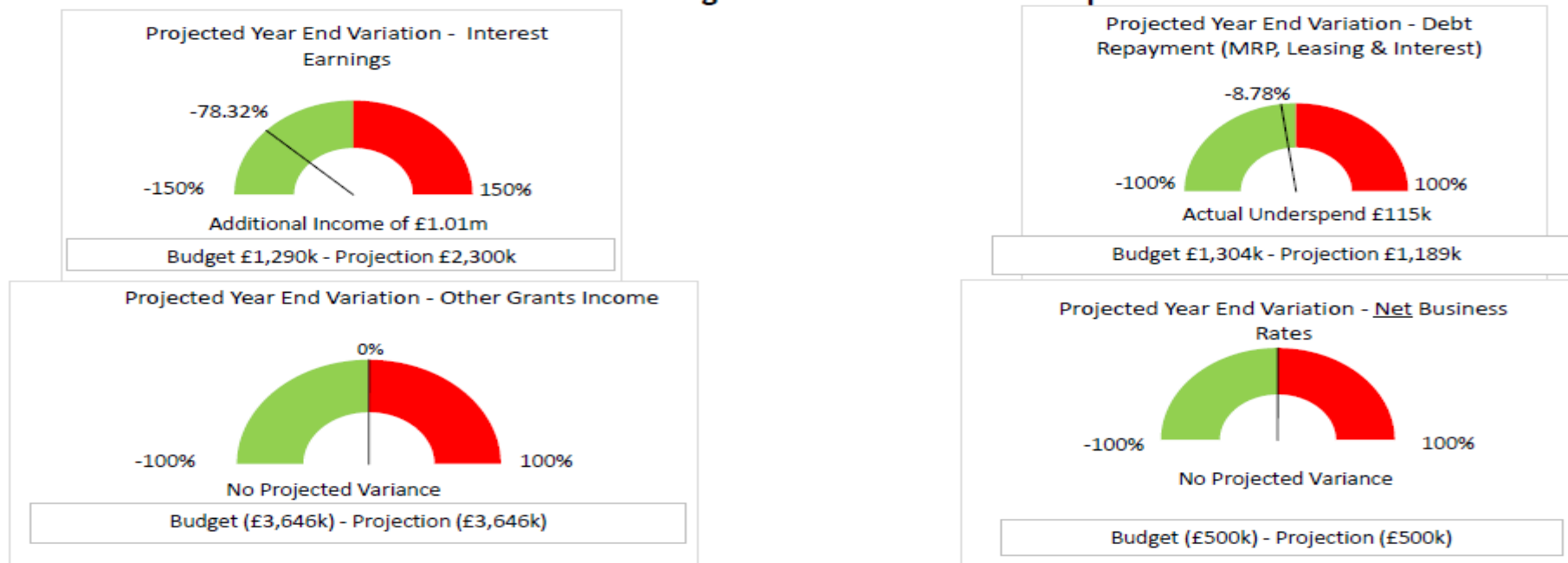
Chelmsford City Council Variances - Revenue Monitoring 2023/24



The figures are forecasts so will be subject to revision. Service managers working with Accountancy identify the most likely outturn position for income and expenditure which are aggregated into this report. Any ongoing changes to the forecast will need to be reflected in the 24/25 budgets. Please note where approval of additional expenditure has been made this will not show as variance. In the current year some £1,889k of additional expenditure has been approved (£1.66m relates to higher than budgeted pay award)

Note	Key Variations	Actions	Risks
1)	£1,321k net overspend on Temporary Accommodation made up of TA HB subsidy loss (£875k), CHP repairs (£224k), bad debt provision/write-offs (£265k), other TA (£43k). Based on expected caseload and inflationary pressures	A Housing working group has been set up to look at minimising TA and sourcing cheaper alternatives. TA forecasts could be materially different to the current forecasts and so this will continue to be monitored throughout the year.	Costs continue to rise due to increasing interest rates putting pressure on landlords' mortgages. TA forecasts prove to be optimistic rather than pessimistic and households in TA rise further
2)	£1,000k estimated underspend on electricity and gas due to lower prices than budgeted for	Gas and Electricity can now be purchased over a 2-year period to give more stability over pricing moving forwards for the Council. The saving will reduce reserve use in 2023/24. As the budget assumed £1.5m of energy costs would be funded from reserves.	Global factors can significantly impact on utility prices, there is considerable uncertainty around prices moving forwards, with upward or downward pressure both possible
3)	£247k underspent on vehicle fuel costs due to lower prices than budgeted for. However, the premium for HVO has increased against the budget	Continue to monitor fuel spend and prices, especially with HVO fuel being used from this year onwards. HVO fuel has now been purchased from September onwards	Global factors can significantly impact on fuel prices. There have been recent price rises.
4)	£320k overspent on leisure and heritage casual staff due to covering vacancies and sickness and increased levels of activities	Budget is being reviewed as part of the MTFs with an additional £260k is recommended to be added to the 2024/25 budget	Level continues to increase
5)	£400k estimated additional car parking income based off latest throughput figures for 2023/24	Continue to monitor customer throughput numbers and assess whether this gain is ongoing	Customer trends change compared to previous years or competitors out price Council car parks
6)	£421k additional income from IAA Foodwaste grant (£122k) and recycling sales and credits (£299k)	Monitor tonnages collected and prices achieved for sales of recycling commodities as these can fluctuate significantly	Inflationary pressure on prices
7)	£122k additional income from increased weddings and events at Hylands	Budget to be reviewed as part of 2024/25 budgets including review of fees and charges	Additional costs outweigh income
8)	£203k reduction in income from High Chelmer Shopping Centre due to £103k accrual difference from 2022/23, & an estimated £100k shortfall 23/24	Work with the new agent is ongoing to try and maximise income in future years	Customer trends continue to move away from high street shopping so potential negotiations on leases and reduced income from turnover rents
9)	£200k reduced income at Cem & Crem (made up of £300k loss on fees and charges, offset by an estimated additional £100k income on sales)	Analyse whether budgets need to be adjusted for reducing customer numbers	Customers choose alternative venues

Other General Fund Budget Items of Income and Expenditure



Note	Key Variations	Actions	Risks
1)	£1,010k additional estimated income from interest earnings due to higher cash balance than predicted and several additional Bank of England base rate rises compared to the budget	The VAT refund from HMRC has now been paid, increasing cash balances in the year, and further rate rises have continued to push up the Council's interest earnings	Income is expected to fall as the capital programme draws down invested cash. Higher capital costs reduce interest earnings further. Interest rate projections remain volatile.
2)	£115k underspent on MRP, Leasing and Interest paid due to a more effective application of borrowing between short- and long-term assets. Also, lower expected spend in 2022/23.	Monitor the capital programme and delay any spend, when possible, to reduce the revenue impact on the Council	Interest rates continue to rise, and capital schemes overspend, resulting in higher MRP and interest costs
3)	Business Rates Note - It is expected that the Council will retain more income than the £500k budgeted above. Latest estimates for 2023/24 indicate that £2m additional income could be earned.	It is proposed to transfer any income above the £500k level to an earmarked reserve to cover the risk of business rate retention income fluctuations in future years.	Incorrectly identifying the ongoing impact of the Business Rate Retention scheme.

Use of Reserves

Projected Year End Variation - Contribution/Use of Earmarked Reserves

Reduced Use of £1.304m

Changes in the use of earmarked reserves are often offset by changes in the expenditure in the service accounts.

The original budget was a £2,608k use of Earmarked reserves. Additional use of earmarked reserves has been approved so the latest budget for 23/24 is a use of £2,808k. This covers specific spend such as on utilities, fuel, insurance and pension deficiency payments.

The projection is a reduced use of £1.304m, which is made up of £1m reduced use of the utility costs reserve and £304k reduced use of the fuel reserve. Both of these are shown as variations at the service level above.

The supplementaries reserve is set at £200k for 23/24, with the entirety used up in the figures above. Further supplementaries have been committed to take the total supplementary estimates to £367k for the financial year.

SUMMARY

The service budgets for 23/24 total just over £28.1m. These are currently projected to be underspent by £0.04m, which is made up of the following key variations:
 £1,321k overspent on TA costs
 less £1,000k estimated underspend on utilities
 £400k estimated additional car parking income

Non-service variations are made up of projected additional interest earnings of £1,010k, reduced debt financing costs of £115k, and reduced use of earmarked reserves of £1.304m, resulting in an additional use of the General Fund Balance of £134k.

The full £200k supplementary reserve balance has been committed for 23/24, and so any further supplementary estimate budget requests will have to be funded from the General Fund Balance if approved.

Several of the variations look to be ongoing for budget purposes and so will need to be considered as part of the 24/25 budget process, with Housing costs in particular being of concern for the forward forecast.

Projected Year End Variation - Contribution/Use of General Fund Balance (reserve)

Additional Use of £134k

The original budget for 23/24 is a £0.624m use of the General Fund Balance. The pay award and additional supplementaries not funded by earmarked reserves have been added in, resulting in a latest budgeted use of £2.313m.

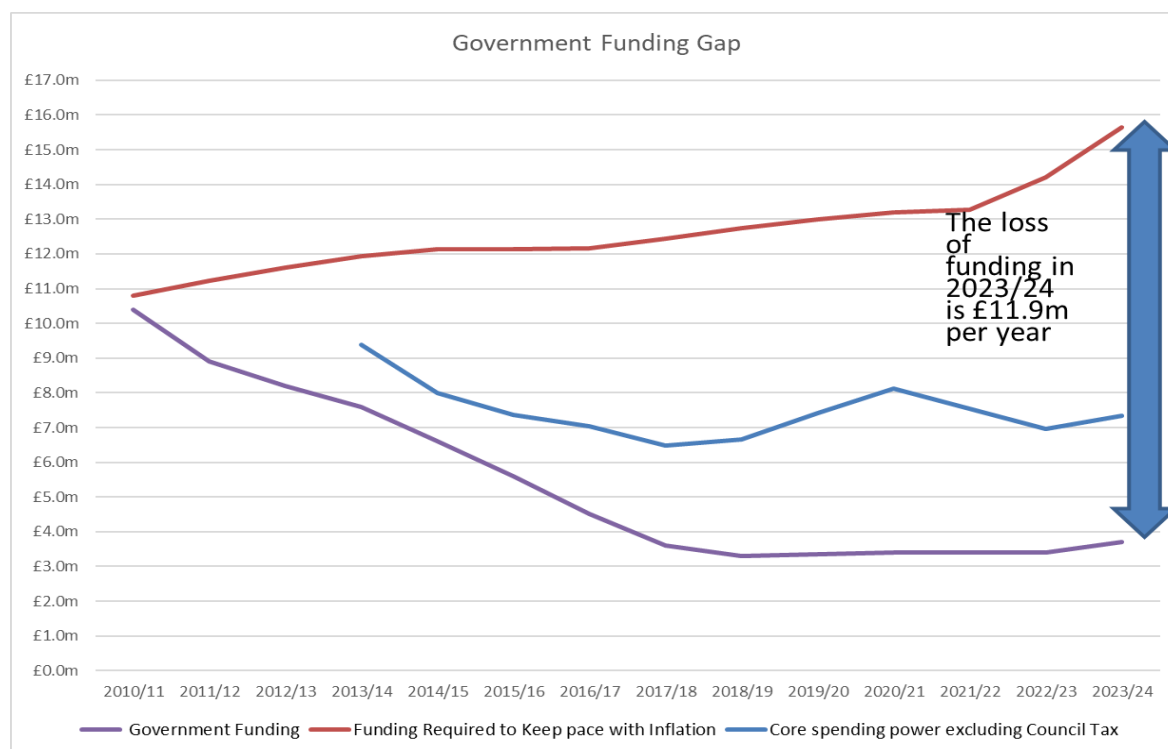
The total projected use of the General Fund Balance for 23/24 is £2.448m, an additional use of £0.134m compared to latest approved budget. Compared to the original budget this is the use of an extra £1.824m .

The majority of the additional General Fund Balance use from the original to latest budget is because of the 23/24 pay award.

As mentioned to the left, any further supplementaries that are approved throughout the financial year, will come from the General Fund Balance as the Supplementaries Reserve of £200k has been fully committed already.

National Position - Local Authority Finances

1) Budget problems driven by Central Government funding since 2010/11



The graph shows Government funding from 2010/11 uplifted by inflation to arrive at a notional red line of what funding would have been. However, since 2010/11 funding has been cut. The blue line is the Government’s preferred measure of Council funding (Core Spending Power). The more ‘like for like’ comparison is the purple line, which shows Government funding but excludes New Home Bonus and S31 grants both of which the Government has identified as likely to be lost in funding reviews. The estimated loss is £11.9m per year, for comparison, the Council generates some £15m from Council tax annually. The real terms cut in grant funding has been offset over the period by the Council increasing fees and charges locally, savings, efficiencies and identifying new income streams (previously, this included acquiring commercial property).

2) New Pressures

Recent budget reports have highlighted the large detrimental effect inflation has had on the Council’s budget inflation remains a significant ongoing concern for all Councils.

More recently, the financial problems at local authorities have now become national headline news. Increasing numbers of local authorities are declaring themselves in a position where their budget gaps have reached levels beyond their ability to balance. Nationally Councils are making clear that efficiency savings as an option have almost run out and those identified in 2023/24 have proven difficult or impossible to deliver. Many more have warned that their need to issue a S114 notice is only a few years away, based on their current forecasts. Councils declaring S114 have reserves that are not sufficient to support the budget shortfalls even in the short term.

Different cost pressures are being cited by Councils to explain their large deficits:

- Debt levels of unsuccessful commercial investment strategies. This explains most of the S114 notices formally declared e.g., Thurrock and Woking. The size of the debts and failure, demonstrated by debt levels many multiples of their annual budgets.
- Inflation (including pay costs)
- Social care seems to be the most common reason cited for upper tier councils.
- Homelessness which is affecting large metropolitan councils and districts. In March 2023 Birmingham City Council reported a 17% increase in households in Temporary Accommodation from the previous year (with Manchester City increasing by 28% and Cornwall council by 44%). Hastings District Council has sold assets to offset the cost of over 1000 households in temporary accommodation and the S151 Officer has warned that a S114 notice is possible.

According to a survey by the Special Interest Group of Municipal Authorities (Sigoma, which represents 47 local authorities in the North, the Midlands and on the South Coast), at least 30% of them are considering declaring effective bankruptcy this year or next by issuing a S114 notice.

Although there is no public list of authorities with financial problems, the Government is monitoring many authorities, thought to be more than 120.

Examples of the reported financial warnings issued by Councils are:

- **Kent County Council:** reported a forecast overspend of £67.4 million for 2022/23, and said it was facing “unprecedented financial challenges” due to rising demand for services, inflation costs, wage rises, and funding cuts. The council said that without additional government support, it could be forced to issue a S114 notice within the next year or so.
- **Guildford Borough Council:** issued a S114 notice in July 2023. The council blamed the COVID-19 pandemic, which reduced its income from fees and charges, business rates, and council tax, and increased its expenditure on homelessness and other services.
- **Hastings Borough Council:** The council warned that it was at risk of issuing a S114 notice in May 2023, after it forecast a budget deficit of £7.5 million for 2023/24. The council cited the COVID-19 pandemic, which affected its tourism and leisure income, as well as the high cost of temporary accommodation for homeless households.
- **Southampton City Council:** announced that it was considering issuing a S114 notice due to an estimated budget shortfall of £55.9 million for 2023/24. The council attributed the financial pressure to the COVID-19 pandemic, which reduced its income from parking, leisure, and commercial activities, and increased its spending on social care and public health.
- **Bradford Metropolitan District Council:** revealed that it was facing a potential S114 notice in July 2023, with a projected a budget gap of £30 million for 2023/24. The council blamed the COVID-19 pandemic, which affected its income from business rates and council tax, as well as the rising demand and cost of social care services.
- **Shropshire Council:** insisted that the unitary is not close to issuing a S114 notice. However, the council is facing a £37.6m overspend this year, with demand in some services up to twice as much as its budget estimates. The problem is mostly due to adult social care and children’s services, but also notable in housing (temporary accommodation).

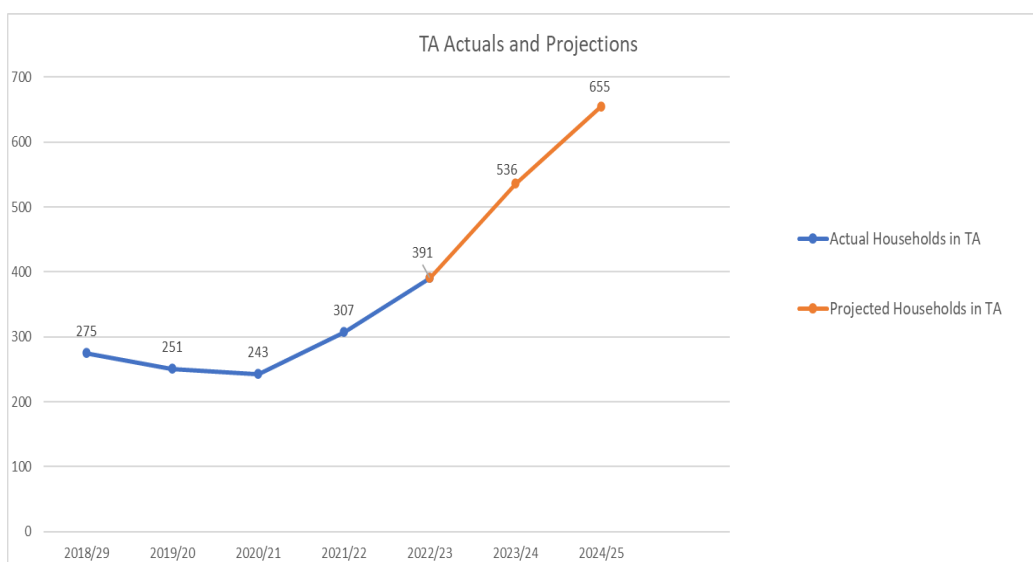
Chelmsford City Council has robust management and has no need to consider a S114 notice. However, the Council does have in common a forecast growing financial and operational risk from temporary accommodation. The actions and priority of the Council will be tackling that difficult problem whilst it’s impact on the Council’s finances is still manageable.

The Council continues to be experiencing an increase in demand for Temporary Accommodation (TA). The Council is obliged to assess households who present themselves as homeless and then determine whether there is a statutory duty to house them. It is complex matter but In simple terms, if that duty exists, households will be placed in temporary accommodation by the Council and it can take up to three years, to find suitable accommodation, to enable the Council to fully discharge its legal duty.

The increasing demand for temporary accommodation is due to economic factors such as affordability in the private rented sector, the largest cause of homelessness being private sector ‘no fault’ evictions. There are insufficient properties at low / affordable rents in Chelmsford (or nationally) to meet demand. The supply of affordable housing from social housing new builds or churn of existing social housing properties is insufficient to meet demand. The result is that the Council has a significant and growing number of households in TA.

The Council must manage tenants in TA and the Council cannot recover the full cost via the housing benefit system. So, in 2022/23, on average every household in TA cost the Council around £9,000 per annum. Unfortunately, a shortage of properties and economic conditions mean the Council’s cost per household in TA is rising. Recent sampling of cases has identified average costs of £17,000 per household per year for TA properties. Further work is needed to determine the most robust estimate of cost per case for the 2024/25 budgets. It should be noted that the Council receives funding for TA from the Government based on notional rent calculation (LHA rate) using 2011 rent levels. It would be really helpful to all Councils if the Government used today’s rates to set housing benefit. However, even that would not provide enough money to meet the rent cost of **any** property in Chelmsford. The Council is lobbying for greater and fairer funding.

The rising cost of TA was reported to July Cabinet and Council in the Budget Framework Medium-Term Financial Strategy 2024/25 report. The report noted that the additional costs would be significant. Appendix 1 of this report identifies the latest expected additional cost of £1.3m in 2023/24 (current year) for TA costs. Other changes in the Housing budgets (including additional grant funding from the Government) bring this total expected additional cost in 2023/24 down to £0.8m, although much of this difference is due to one-off additional funding. Caseloads are expected to rise into 2024/25 and later years. The likely continued ongoing growth in TA numbers means that a further £2.8m is thought to be needed to fund TA cost in 2024/25, with further cost increases in the years after.



The projections of the number of households in temporary accommodation is based on estimates of households moving into TA and then allowing for any household moving out of TA through either discharge into the private sector or registered providers of housing (like CHP) or households who find their own solutions. The caseload is then multiplied by the average expected cost of housing households in TA per accommodation type to arrive at an annual cost. There are a significant number of variables to project and

the Council has little control over those variables, so the forecasts will be revised during the budget process and will have a high risk of forecasting error. The forecast for 2023/24 budgets estimated that 427 households would be housed in TA by the end of March 2024, whereas the latest forecast from Housing is a figure of 536, showing the difficulty in forecasting accurately.

Additional households in TA also result in increasing pressures on staff resources to manage these tenants and properties, therefore putting further financial pressure on the Council through increased employee costs.

The above forecast can be summarised into £m's and simplified into the form below.

Revenue Budget Projection - High Level Summary						
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3	Housing Temporary Accommodation	2.730	1.399	1.513	1.571	1.631
4	Other	0.874	1.069	0.530	0.449	0.478
5	Ongoing Rents & Events Loss	0.475	0.000	0.000	0.000	0.000
6	Capital Financing	1.528	1.208	0.000	0.000	0.000
	Net Council position before Government funding	5.731	3.906	2.295	2.292	2.401
7	Business Rate Retention -estimated higher income	-1.000	0.000	0.000	0.000	0.000
8	Government funding	-0.579	-0.147	0.000	0.000	0.000
	Annualised Budget Gap forecast	4.152	3.759	2.295	2.292	2.401
	Cumulative	4.152	7.910	10.205	12.497	14.898

In the table above, the revenue forecast shows a £5.731m shortfall before taking into account changes in Government funding. The net gap of £4.152m is challenging but should be bridgeable by savings, efficiencies, income gains and reductions in capital financing costs.

There is considerable detail behind the forecast and for purposes of clarity it is felt better to provide general comments on the reasons for the variances which has been produced in the main body of the report.

Usable Reserves Projections

	2023/24 Budget (plus forecast)					2024/25 (Forecast)				2025/26 (Forecast)				2026/27 (Forecast)			
	£000s	budget	Forecast	Budget Transfers	£000s	£000s	Transfers	£000s	£000s	£000s	Transfers	£000s	£000s	£000s	Transfer	£000s	£000s
Earmarked																	
Corporate Investment Revenue																	
Cultural Support 'Fund'	92	-35			57	57			57	57			57	57			57
Local Development Framework	1,034	-200			388	1,222		-225	997	997		-250	747	747		-80	667
Growth fund	19		50	-69	0	0			0	0			0	0			0
Carry forwards & Supplementary estimate Reserve	146		-346	200	0	0	300	-300	0	0	300	-300	0	0	300	-300	0
Housing Initiatives	150		-150		0	0			0	0			0	0			0
DPO Reserve	79				79	79			79	79			79	79			79
Hylands House Reserve	3				3	3			3	3			3	3			3
Master Plan Income	65			-65	0	0			0	0			0	0			0
	1,588	-235	-446	454	1,361	1,361	300	-525	1,136	1,136	300	-550	886	886	300	-380	806
Capital Programme Funding																	
Project Evaluation Resrve	285		-100		185	185	115		300	300			300	300			300
Sinking Fund for let property	0	50			50	50		50	100	100		50	150	150		50	200
Infrastructure fund	1,258		-611		647	647	353		1,000	1,000			1,000	1,000			1,000
New : capitalspend that is infact revenue (potential)					0	0			0	0			0	0			0
Chelmsford development	2,959		-2,569		390	390		-85	305	305		-70	235	235		-70	165
	4,502	50	-3,280	0	1,272	1,272	468	-35	1,705	1,705	0	-20	1,685	1,685	0	-20	1,665
Risk Management																	
Insurance	910	-50			860	860			860	860			860	860			860
Pension deficiency	2,245	-534	-149	-655	907	907	183		1,090	1,090			1,090	1,090		-534	556
Park and Ride	229				229	229			229	229			229	229			229
Vehicle Fuel Reserve	0	-304	304	604	604	604	-280	-24	300	300			300	300			300
Uility Costs Reserves	0	-1,535	1,000	2,303	1,768	1,768	-233	-535	1,000	1,000			1,000	1,000			1,000
New: Car parking income Equalisation Reserve					0	0			0	0			0	0			0
New: rent income Equalisation Reserve	0				0	0	1,091		1,091	1,091		-730	361	361		-361	0
	3,384	-2,423	1,155	2,252	4,368	4,368	761	-559	4,570	4,570	0	-730	3,840	3,840	0	-895	2,945
Total Earmarked Reserves	9,474	-2,608	-2,571	2,706	7,001	7,001	1,529	-1,119	7,411	7,411	300	-1,300	6,411	6,411	300	-1,295	5,416
Unearmarked																	
General Fund & Contingency	19,428	-624	-1,824	-2,706	14,275	14,275	-1,529	-45	12,701	12,701	-300	12,401	12,401	-300		12,101	
	19,428	-624	-1,824	-2,706	14,275	14,275	-1,529	-45	12,701	12,701	-300	0	12,401	12,401	-300	0	12,101
Total other reserves	28,902	-3,232	-4,395	0	21,275	21,275	0	-1,164	20,111	20,111	0	-1,300	18,811	18,811	0	-1,295	17,516

Commentary on Reserves

The reserves are split into categories reflecting their purpose. The largest categories are.

- Risk Management to cover specific risks and costs which have been identified during financial planning. It is proposed to keep fuel and utility reserves as further price volatility is a real possibility. Additionally, the budget process is likely to require two new additional reserves to cover temporary lost income during car park re-development and a reserve to cover temporary lost income or rent-free periods when tenancies end on Council commercial property.
- Unearmarked Reserve. This is to cover the unknown or unquantifiable financial risks. The Section 151 officer has previously recommended a minimum target level of £9m. The forecast identifies that target is comfortably met in all years. The reserve declines in value after 2023/24 mostly due to transfers to earmarked reserves and an annual allowance for funding supplementary estimate requests.

Reserve Position Beyond 2026/27

In summary the reserves reduce slightly in later years due to use on funding elections, Local Plan, and assumptions about one-off supplementary estimate expenditure.

Full Review of Reserves

This will be undertaken as part of the budget when financial risks and costs are further clarified.