Attachment 2

Local Government Act 2003: Section 25

Chief Financial Officer's Statutory Report

1. Introduction

1.1. The Local Government Act 2003 (Section 25) requires that when a local authority is agreeing its annual budget and precept, the Council's Section 151 officer must report to it on the following matters:

- the robustness of the estimates made for the purposes of the calculations; and
- the adequacy of the proposed financial reserves.

1.2. CIPFA's Financial Management (FM) Code, published in October 2019 also makes this report a requirement

1.3. The Council must have due regard to the report when making decisions on the budget and precept.

1.4. This document concentrates on the General Fund budget, the Housing Revenue Account and Capital Investment Programme, but in addition it also considers key medium-term issues faced by the Council as set out in the Medium-Term Financial Plan (MTFP).

1.5. In expressing this opinion, I have considered the financial management arrangements that are in place, the level of reserves the Council has available, the budget assumptions, the overall financial and economic environment, the financial risks facing the Council and its overall financial standing.

2. Statement by the Council Chief Financial (S151) Officer

2.1. There are always financial challenges facing the Council but those we are currently facing are exceptional by any measure. Interest rates, energy prices and inflation have all risen massively, and completely unexpectedly, and are all largely attributable to the invasion of Ukraine by Russia and the resulting energy supply instability which stemmed from this action. Financial modelling is a central part of the Council's financial planning process, but this only deals with the balance of probabilities. No one could have foreseen the events of February 2022 nor the impact they would have on global and national economies. This has created an unprecedented financial funding gap which the Council has had to respond to.

2.2. Despite this challenge, the Council took a considered, comprehensive and inclusive approach to addressing the forecast financial gap. The solution has put a priority on maintaining core service delivery, maintaining balances, and developing robust financial plans which incorporate the expected continuing financial uncertainty.

2.3. As a result, I am satisfied that a prudent and considered approach has been employed to formulating and developing the budget proposals and I believe that the Council has been presented with a robust set of estimates for consideration.

2.4. I also believe that the Council has adequate reserves. However, as a result of the unexpected events of 2022, balances are likely to be lower (by the Council's own measure) than deemed appropriate for the challenges it faces during the forthcoming year. I am satisfied that the Council is both aware and mindful of this position and has both robust mechanisms in place to monitor and manage spending and has an adequate plan to return balances to their assessed minimum over a reasonable timeframe.

2.5. I am aware of the contents of CIPFA's Resilience Index in relation to Epping Forest District Council and there is nothing contained within it which causes me concern.

2.6. In arriving at this opinion, I have taken due account of the following matters.

3. Financial Management Arrangements

3.1. The Council's Accounts for 2020/21 remain unsigned by the Council's Auditors, thereby creating uncertainty as to the exact size of carried forward balances. The issues delaying conclusion are sector wide and are associated with Auditor capacity. We have been issued with a draft of the audit conclusion report which identified no significant issues. The delay remains a source of frustration and we continue to push the Auditors for a date for 'sign-off' to be concluded.

3.2. The Council has a sound system of budget monitoring and control, evidenced by the production of quarterly budget monitoring reports to Scrutiny and Cabinet within a reasonable timeframe from the period end. Where over-spends or under-spends are reported, management actions have been identified to minimise the impact and to enable early corrective action to be put in place where necessary.

3.3. The Council has largely balanced its budgets in recent years through the generation of additional income. This year, given the size of the budget gap the Council has also needed to identify significant efficiency savings and has included a small Council Tax increase. The Council has developed robust performance and project management arrangements to track the identification, delivery and capture of efficiency savings from service areas and projects and these are overseen by members of the Council's Senior Leadership Team and reported to members.

3.4. The Council's S151 officer sits at a level within the Council to have oversight on the Council's financial decision making and his views are appropriately sought.

4. Budget Process

4.1. The budget planning process for 2023/24 was iterative but reflected new identified financial pressures along with income generation and efficiency opportunities. All budget holders and the Cabinet were fully engaged in the process. The financial impacts associated with the Ukraine conflict have, by far, had the largest impact on budget development and in understanding the Council's long-term budgetary position. A resulting budget gap in excess of £4 million was predicted in September 2022 and subsequently closed through a series of activities undertaken over the following 3 months. Acknowledging the size of the financial challenge faced by local authorities, the Government eventually provided additional support in its December 2022 settlement announcement, largely offsetting the expected reduction identified within September's budget plans. Closing a budget gap of this size has represented the largest financial challenge faced by Epping Forest District Council in recent years.

4.2. A range of significant funding pressures and requests were identified. These have been assessed by officers and portfolio holders. Where central to continued service delivery or the achievement of corporate objectives these have been included in the proposals presented here.

4.3. The assumptions, calculations and proposals in this budget are the result of challenge and scrutiny by the Leader of the Council, Members of the Cabinet and the Stronger Council Select Committee, all guided by advice from the Chief Executive, Interim Strategic Director and Strategic Director (the Council's S151 officer). The proposals have been developed iteratively over many months and have been considered by Cabinet and Committee at various stages.

5. Key Assumptions

5.1. The largest assumptions are all associated with emerging cost pressures, primarily inflationary, interest rates, energy prices and the associated impacts on Council suppliers and contracts.

5.2. Energy supply instability associated with the Ukrainian conflict and supply chain issues pushing up inflation to recent record levels has created the largest budgetary pressures. This, and the Government increasing the headline cost of borrowing in response are pushing up wage demands, which in turn is driving inflation. The Bank of England believe these drivers have now peaked and expect to see inflation begin to reduce, eventually followed by the cost of borrowing. Whether inflation does fall and the rate at which it does so are key assumptions within budget planning.

5.3. The budget includes provision for wage and contract inflationary increases. Services have been awarded contract inflation inline with contract conditions and beyond that some indexation has been provided for, but services are still expected to absorb elements of non-wage and non-contract inflationary pressures within existing budgets where they can. Inflationary provisions are based on advice and Bank of England projections that inflation has peaked and will then gradually decline.

5.4. Reduced income from core income sources, such as car parking and leisure centre income have recovered but not fully to pre-pandemic levels. It is expected that some of the reduction on car parking income especially is permanent as working and lifestyle patterns have changed.

5.5. The Council's waste contract is due to expire November 2024 and the process for procuring a new contract has commenced. It is widely expected that the cost of the new contract will be significantly higher than the existing contract and provision has been made accordingly. The Council is actively seeking funding permission to build and procure some of the infrastructure associated with delivering this contract, giving security, resilience and certainty over key elements of the cost of the waste contract.

5.6. The Government provided only a one-year Finance Settlement for 2023/24 and has promised a further one-year settlement for 2024/25, for which no details have yet been provided. The Government 2023/24 settlement includes a range of funding streams, amounting to £1.265 million. The future of these funding streams is very uncertain, with the MTFP cautiously assuming that these will reduce to £1.064 million in 2024/25.

5.7. With General Fund Balances likely to be below the Council's assessed minimum at the end of 2022/23 the Budget provides for an element of the Government's one-year additional funding to be added to balances, together with a planned contribution in each of the MTFP years in order to build them back towards their target minimum

5.8. The Budget proposals include a significant amount of interest payable by Qualis. The budget assumes that Qualis will draw down the loans the Council has made available in accordance with expected timeframes. Any significant deviation from these plans is likely to have a material impact on the Budget.

5.9. The Council is required to charge repayments of sums borrowed to its General Fund in the form Minimum Revenue Provision (MRP). These sums are budgeted to increase as the Council's borrowing plans increase. The budget assumes that borrowing will be incurred in accordance with the investment plans set out in the Capital Programme, Capital and Treasury Management strategies. As with 5.6, if spending is delayed this will also have a material effect on the MRP charge required in year.

5.10. Applying these assumptions to the Medium-Term Financial Plan arrives at a series of deficits in each of the years from 2024/25 onwards. Whilst there is still considerable uncertainty over the size of these deficits, at the levels assumed, these are considered manageable with the appropriate decisions and actions. This points to continued sustainability in the Council's financial plans.

6. Key Risks

6.1. The Council has a well-developed and robust risk identification and monitoring framework. Together with the budget monitoring arrangements, the risk management processes have ensured that all ongoing pressures and risks are explicit, understood and considered within the budget development process.

6.2. Throughout the development of the budget those responsible have been made aware of the current and future risks both on service income and expenditure, local taxation receipts and in the wider Local Government funding environment.

6.3. Key amongst the current and future risks are:

- The medium and long-term impacts of the Ukrainian conflict.
- The unknown impact of economic factors and pressures, specifically inflation and interest rates.
- The level of General Fund Balances
- The contribution from the Council's trading company (Qualis).
- Government Funding - as it has yet to publish its distribution methodology for 2024/25 onwards but it is speculated that this will see a redistribution at a national level consistent with its 'Levelling-Up' agenda. Whilst it is indicated that transitional (one-year) arrangements will continue to apply through 2024/25, this still represents a key risk to the MTFP.
- The result of the HRA stock condition survey.
- The Council's planned borrowing commitments.

6.4. It is in this context that the budget contains additional contingencies, reserves and balances to ensure that the Council is adequately planning for and mitigating the impact of any such risks which may become real. Risks associated with borrowing are hedged by ensuring repayment profiles are realistic and interest rates are fixed, thereby giving certainty over future affordability.

7. Level of Reserves and Balances

7.1. Reserves are defined in Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992. This requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their budget requirement.

7.2. Reserves are an essential part of the Council's financial strategy and provide protection against the significant risks the Council faces and represent a funding resource for Council backed initiatives. The continued provision of adequate reserves is essential. Without these, the Council might need to reduce current spending to accommodate unexpected event.

7.3. Council reserves fall into two categories; Earmarked and Un-allocated. Earmarked are held aside for a specific purpose or against a general area of risk or opportunity. Un-allocated have no specific purpose other than general contingency, such as the General Fund Balance.

7.4. The latest budget monitoring position for 2022/23, as at 31st December 2022, forecasts a overspend in year, associated with unexpected costs materialising during 2022/23 due to the impacts of higher inflation, energy costs and interest rates, which will require a use of balances equal to approximately £1.3 million.

7.5. This is expected to result in a potential unallocated General Fund Balances of £2.96 million at 31st March 2023. This is well below the Council assessed minimum level of £4.0 million and the budget proposals presented here address this as a matter of importance. The budget proposals include a planned contribution of £262,620 to unallocated balances in 2023/24 and then further contributions over the MTFP period bringing balances back up to assessed minimum level by the end of the planning period.

8. Capital Plans and the Prudential Code

8.1. The Council has complied fully with the requirements of the Prudential Code for Capital Finance in Local Authorities. The Prudential Indicators are considered by the Council's Audit and Governance Committee prior to being adopted by Council as part of Budget setting.

8.2. That Council has an ambitious Capital Programme reflecting its priorities towards new Council House building, town centre regeneration and leisure. These are heavily dependent on borrowing and the revenue costs of this proposed borrowing have been factored into the Budget and the Medium-Term Financial Plan. The long-term costs of borrowing are now increasing in response to economic factors, but they still remain comparatively low, and this helps with the affordability of these plans. The Treasury Management Strategy seeks to fix borrowing costs at low levels, thereby providing future certainty and affordability.

9. Financial Standing

9.1. CIPFA's Financial Resilience Index is a comparative analytical tool that may be used by Chief Financial Officers to support good financial management and provide a common understanding of their financial position against those of others.

9.2. The Index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by extensive financial resilience work undertaken by CIPFA over the past seven years, public consultation and technical stakeholder engagement.

9.3. The CIPFA Financial Resilience Index for Epping Forest (using 2021/22 data) shows the Council to have higher than average borrowing amongst district councils but with a sustainable level of reserves.

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