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 all rose rapidly and are falling much slower than expected. This has placed considerable additional strain of an already stretched Local Government sector and has required the identification of further savings from budgets, following years of similar exercises. The cumulative impact is now manifesting in unprecedented levels of councils warning of, or issuing, Section 114 notices.

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 in formulating and developing these budget proposals and therefore I believe the Council is presented with a robust set of estimates for consideration.

2.4. With the impact of Covid and recent economic shocks Reserves had fallen in recent years to the point where managing within the existing budget envelope is essential and any release of reserves should be done so sparingly. Using comparative tools produced by CIPFA and OLOG's it is apparent that the Council's level of reserves during 2023/24 fell well below the average of similar councils. This would be cause for elevated focus and concern within this report had the Council not recently completed the sale of a substantial block of employment land at North Weald. The interest on the associated capital receipt is expected to significantly bolster the Council's balances and any planned future application of the Receipt should be cognisant of the need to rebuild general balances in the short-term. With the immediate benefit brought by the interest on the receipt balances are once again increasing and I am satisfied that the Council is both aware and mindful of this position. I am further satisfied that it has both robust mechanisms in place to monitor and manage spending and will return balances to their assessed minimum by the end of 2023/24.

2.5. I am aware of the contents of CIPFA's Resilience Index in relation to Epping Forest District Council and am satisfied that the Budget presented here has been developed consistent with data presented therein.

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 delayed conclusion of Audits is a sector wide issue and is associated with both Auditor capacity and the complexity of current Accounting Standards. We believe that the opinion on the Accounts for 2020/21 will be issued imminently with no significant issues identified. We expect the opinion for 2021/22 to follow shortly afterwards.

3.2. The delay remains a source of frustration and we continue to push the Auditors and the Government for a conclusion to the backlog. A consultation is expected any day which it is understood will set a long stop date of 30 September 2024 for all Audits prior to 2023/24 to be concluded. Whilst this is unlikely to resolve all historic issues or provide the reassurance sought on the accuracy of accounts, it will at least draw a line under the backlog and allow the sector to move forward. Balances and valuations will need to be determined for accuracy at the current date, rather than on audited brought forward balances and this is expected to have ongoing ramifications.

3.3. 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.

3.4. The Council has largely balanced its budgets in recent years through the generation of additional income. But over the last two years the size of the budget gap, created by volatile external economic factors, has meant the Council has also needed to identify significant efficiency savings, some services reductions and implement the maximum Council Tax increase for a district council. 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. These arrangements are overseen by the Council's Senior Leadership Team and reported to members. Budget reductions are built into individual service budget allocations and not held centrally, so that there is clarity and ownership over delivery.

3.5. 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 2024/25 was again iterative but reflected newly 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 higher inflation and borrowing costs have, by far, had the largest impact on budget development and in our understanding of the Council's long-term budgetary position. A resulting budget gap in excess of £3.5 million was predicted in September 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 again provided additional support in its December 2023 and then again following a separate announcement in January 2024. Closing a budget gap of this size has represented the largest financial challenge faced by Epping Forest District Council in recent years.

4.2. In dealing with the financial challenges faced by the Council, it has recognised the importance of sustainably balancing its budget at a structural level, which equates to ensuring that its regular income and expenditure match. The Council, late in its budget process, received a large capital receipt from the sale of land. This presented an opportunity to build the interest income on this receipt into its budget, negating the need for the majority of savings required to balance 2024/25. However, it chose not to adopt this strategy, recognising that this would only represent a 'stop-gap' solution which did not address the underlying structural challenges identified within the budget.

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

4.4. 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 Overview and Scrutiny Committee, all guided by advice from the Chief Executive, Chief Operating Officer, and Strategic Director, (the Council's S151 officer). The savings proposals have been developed iteratively over many months and have been considered by Cabinet and Committee at various stages to help formulate the optimum budget solution.

5. Key Assumptions

5.1. The largest assumptions are all associated with emerging cost pressures and investment income. These are primarily inflationary, pay, 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 created the largest budgetary pressure in 2023/24. The Bank of England believe these drivers have now peaked and inflation has rapidly reduced. It is expected that the cost of borrowing (and interest from investments) will eventually follow, but likely to be fall far more slowly than inflation. Whilst Inflation is now decreasing, it has taken longer than originally predicted and this has created sustained pressure on the budget which was not allowed for last year. The consolidated increase in costs has an ongoing impact on 2024/25 and this has driven much of the budget pressure to be accommodated. Wage inflation is also much lower than it was at the equivalent point last year but whether this is reflects into lower wage settlements remains a key assumption within this budget planning.

5.3. The budget includes provision for wage and contract inflationary increases at 3% and 3.5% respectively. Services have been awarded contract inflation in-line 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 will continue to fall through 2024/25.

5.4. The Council's waste contract is due to expire November 2024 and a decision was taken to provide an in-house service from that date. Either contracted out or internalised, it was 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 procuring some of the infrastructure associated with delivering this contract (Hub and Fleet), giving security, resilience, and certainty over key elements of the cost of the waste contract.

5.5. The Government again provided only a one-year Finance Settlement for 2024/25 with additional support to assist councils struggling with inflationary and demand pressures. There remains no clarity over longer term funding prospects with the planned 'Fairer Funding' review having now been delayed for many years and seeming less and less deliverable within the current local government funding landscape. The Government's 2024/25 settlement again includes a range of additional, potentially temporary funding streams and the MTFP assumes these continue (at least in total) but that the amounts do not increase across the MTFP period. This assumption reflects the recent trend of some growth announced by Government, using Core Spending Power as the preferred measure.

5.6. The Council received a large capital receipt in return for the sale of employment land released under the Local Plan. The Receipt is significant and the interest on it materially affects the General Fund Budget of the Council, potentially mitigating or reducing the need to identify difficult budget savings. However, as a one-off receipt, its benefit to the Council is limited and will fluctuate with decisions on how the Receipt is used and is expected to reduce with forecast reductions in interest rates. In formulating its budget, the Council has sought not to rely on this receipt so as to avoid making difficult choices and has instead focused on continuing to address the underlying sustainability of the budget. This approach is strongly endorsed in this Section 25 Statement for its forward looking, robust approach to the financial challenges facing the council. No assumptions have been made within the Budget on any planned use of the Receipt beyond budgeted obligations arising from the sale.

5.7. Without the Receipt from the partial sale of North Weald airfield General Fund Balances were forecast to end 2023/24 well below the Council's assessed minimum. Responding to this the Council had make provision within the draft budget proposals to return balances up to their assessed minimum via planned contributions. However, the interest generated by the Receipt, together with an improvement in the revenue position at Quarter 3, has reversed the overspend and the General Fund in now forecast to end 2023/24 with balances above the Council's assessed minimum level. The final budget proposals assume no further contributions to General Fund Balances.

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 and their approved 4-year Business Plan. 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 increases. 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. If spending is delayed this will also have a material effect on the MRP charge required in year.

5.10. Incorporating the benefit of expected interest generated from the Sale Receipt of North Weald Airfield the Medium-Term Financial Plan projects a balanced position for 2025/26 and then returns to a series of deficits in each of the years thereafter. As previously stated, reliance on interest income derived from the sale receipt fails to deal with the underlying sustainability issues within the budget. To address this the Council has proposed a programme of transformation initiatives entitled 'Fit for the Future' intended to reduce the Council's net expenditure whilst maintaining or improving services. Interest income is assumed in the Budget proposals, but it is expected that the Fit for the Future Programme will deliver savings to replace these in 2025/26 and beyond. Interest income will be used in 2024/25 to create funding to deliver the transformation programme.

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 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, expenditure, local taxation receipts and in the wider Local Government funding environment.

6.3. Key amongst the current and future risks are:

- The unknown impact of economic factors and pressures, specifically inflation, pay and interest rates.
- The contribution from the Council's trading company (Qualis).
- Government Funding - as it has yet to publish its distribution methodology for 2025/26 onwards. The Government has stated it remains committed to a review of the Grant distribution formula and it is speculated that this will see a redistribution at a national level consistent with its 'Levelling-Up' agenda should this happen. Whilst it is indicated that transitional (one-year) arrangements will continue to apply through 2025/26, this still represents a key risk to the MTFP.
- The Council's planned borrowing commitments and retrospective changes to the accounting framework which surrounds this.
- Delivery of the Council's transformation programme, 'Fit for the Future.'

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 Quarter 3 budget monitoring position for 2023/24, forecasts an underspend compared with significant forecast overspends in the preceding 2 reported quarters. The reversal in the position is predominately associated with forecast interest earned on the sale receipt in the final quarter, together with some improvement in underlying services budget. Whilst the negative factors which has resulted in the underlying overspending during 2023/24 have been factored into the budget for 2024/25, without the benefit of the sale receipt, the General Fund Balance position would have fallen far below the minimum set by the Council. The draft budget proposals included provision to redress this deficit, but the interest from the sale receipt has now remedied the position and returned Un-allocated balances to a satisfactory level. Given the unprecedented financial pressures facing local government at the moment and the number of councils at risk of issuing S114 notices, it is important that the Council protects its minimum levels of Unallocated Balances against financial risks and shocks.

8. Capital Plans and the Prudential Code

8.1. The Council complies with the requirements of the Prudential Code for Capital Finance in Local Authorities. The Prudential Indicators are considered by the 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 currently 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 expected to decrease after the sharp rise experienced in the past couple of years. The Treasury Management Strategy seeks to fix borrowing costs at low levels, and borrowing will predominantly be taken short term until rates are deemed to have fallen to their expected short-term minimum, as opportunity allows.

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 2022/23 data) shows the Council to have higher than average borrowing amongst district councils and lower than average unallocated reserves. As set out within this report, unallocated balances are now expected to return to their minimum levels as at the end of 2023/24 and borrowing costs are being addressed with reduced assumptions contained within the Capital Programme and increased availability of Capital Receipts which potentially reduces dependency on borrowing.

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