Appendix D

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 new 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.

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. Acknowledging that that Coronavirus Pandemic has brought a unique set of challenges, I am satisfied, in the circumstances, that the process employed for formulating and developing the budget proposals has resulted in a robust set of estimates being produced.

2.2. I am further satisfied that the Council has adequate Reserves and Balances and appropriate mechanisms in place to monitor and manage spending during this ongoing period of financial uncertainty.

2.3. 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.

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

3. Financial Management Arrangements

3.1. After some delays in concluding the Audit the Council received an unqualified opinion on the Council's financial statements for 2018/19 and an unqualified conclusion on the Council's arrangements for securing value for money. The delay was mainly the result of resourcing issues in the Council's Finance Team. These resourcing issues have been resolved but the Audit for 2019/20 has also yet to be concluded, this time associated with impacts of the Coronavirus Pandemic. It is believed that the Council is again on course to receive an unqualified opinion.

3.2. The Council Finance Team continues to work closely and positively with the Council's external auditor, Deloittes.

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. It has not been reliant on efficiency savings, cuts or Council Tax increases, but identification and capturing of efficiency remain a service management objective associated with the delivery of good value to the taxpayer. The Council is developing robust performance and project management arrangements to track the identification, delivery and capture of efficiency gains from projects and these are overseen by members of the Council's Senior Leadership Team and reported to members.

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 followed for 2021/22 was heavily impacted by the Coronavirus Pandemic and issues such as a lack of certainty, the organisation being focused on responding to the pandemic and staff illness all had an impact. In this respect the process was non-typical and had to be adapted to reflect the circumstances within which the Council was operating. As a result, the process lacked the detailed engagement with budget holders and process was not as granular as I would expect in a normal year.

4.2. It is reasonable to expect that the future demands on the Council and its focus will continue be impacted by the Pandemic. Whilst we can speculate what these might be, the actual impacts and therefore how the Council needs to respond, will not emerge until the Country emerges from the current response phase. Because of this uncertainty less focus has been directed to service planning or on new initiatives.

4.3. This absence of significant funding requests for new initiatives enabled the budget process to be a ‘lean’ process, and this is seen as a reasonable response to the uncertainties surrounding funding, income streams and funding pressures. However, the process adopted this year is seen as a one year only process, with a planned earlier start, greater engagement, more detail and a stronger emphasis on forward planning proposed for 2022/23.

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 Stronger Council Select Committee, all guided by advice from the Chief Executive, Chief Operating Officer and Strategic Director (the Council’s S151 officer).

5. Key Assumptions

5.1. The largest assumptions are all associated with the immediate and lasting impacts of Covid19 on the Council’s income streams and the extent to which the Government will continue to support Councils in mitigating these impacts.

5.2. Reduced income from core income sources, such as car parking and leisure centre income is expected to continue partially through 2021/22 but then are expected to recover as Covid19 restrictions hopefully ease. The speed and extent to which restrictions ease and the degree to which usage patterns return to levels predating the Pandemic will have a significant impact on the budget, as will the extent to which the Government mitigates the impact on Councils through central support. Generally, the short-term impacts are assumed to ease over the first few years of the MTFP but items, such as car parking, are never expected to fully recover to pre-Covid levels.

5.3. It is considered possible that some short-term reductions will morph into longer term impacts, as behaviour patterns change. These might be associated with parking, leisure or property rentals. It is impossible to predict these impacts at this point, and so financial planning reflects only that these represent a risk that needs to be kept under review.

5.4. Expenditure related pressures associated with Covid19 represent a lower immediate risk in the budget plans, but these may emerge as government support for individuals and businesses is removed as the pandemic eases. Beyond the short-term impacts, the lasting impacts on employment, retail, community and housing will gradually become apparent and the Council will need to respond to them. As with the longer-term risks to the Council’s income, this will form part of the ongoing revision and updating process for the Council’s Medium-Term Financial Plans.

5.5. Provisions have been made for inflation and pay in accordance with latest information and Government targets, but it is highlighted that these factors are also impacted by the wider economic uncertainty.

5.6. Applying these assumptions to the Medium-Term Financial Plan arrives at a series of gradually reducing deficits from 2022/23 onwards. Whilst there is still considerable uncertainty over the size of these deficits, at the levels assumed, these are considered manageable and point to ongoing 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 framework, 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 these groups 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 impact of Covid-19 on the local and national economy;
- The consequence of this on Business Rate income in future years;
- The impact of societal change on service demand and income;
- The yet unknown impacts of Brexit across all aspects of the Council's operations;
- The Council's new founded trading company (Qualis);
- Beyond 2021/22, the review of the HRA Business Plan will shape the Council's Council House building programme;
- The continued uncertainty in Local Government funding as a result of spiralling government debt together with delays to the Fair Funding Review and 75% Business Rate Retention proposals.

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.

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 final accounts for 2019/20 indicate available general balances at 31 March 2020 of £7.759 for the General Fund and £2.03 million within the Housing Revenue Account. The latest budget monitoring position for 2020/21, as at 31 December 2020, forecasts that this level will be diminished during 2020/21, by the costs and losses associated with Covid19; but now by an amount far less than assumed at the 3 and 6 month positions in the year. This is a consequence of the Government providing more financial support than initially assumed, some assumptions proving too pessimistic and a slowing down in normal service delivery as the Council responded to the Pandemic.

7.5. The budget proposals for 2021/22 include an assumed use of General Fund Balances of £1.35 million, thereby recognising that the majority of the current financial pressures are likely to be temporary in nature and are expected to recover. The alternative would be to reduce service expenditure or to increase Council Tax but given the assumption that the impacts are temporary and because Unallocated balances are higher than required, a judicious and reducing use of balances in considered prudent in the circumstances.

7.6. The considerable uncertainty, the larger number of assumptions and the wide range of these assumptions all made budget planning challenging this year. In this environment it is the Council's higher than minimum level of General Fund balances that give the Council assurance that the budget is robust and able to cope with large variations or further financial shocks

8. Financial Standing

8.1. The Council has complied fully with the requirements of the Prudential Code for Capital Finance in Local Authorities. The decision to agree the Prudential Indicators rests with the Council's Audit and Governance Committee and flows from the adoption by Council of the Capital Programme. It would usually be expected that Council would agree these alongside the Budget, but the condensed production timeframe has meant that the Prudential Indicators and Treasury Management Strategy Report will be presented to Audit and Governance in March 2021.

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 current, historically, low cost of borrowing helps with the affordability of these plans and the Treasury Management Strategy will seeks to fix borrowing costs at low levels, thereby providing future certainty and affordability.

8.3. 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.

8.4. 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 five seven years, public consultation and technical stakeholder engagement.

8.5. While the impact of COVID-19 resulted in a delay to the publication of the index this year, it is still able to provide a pre-COVID baseline, illustrating the financial resilience of authorities as they entered the pandemic.

8.6. The CIPFA Financial Resilience Index for Epping Forest (using 2019/20 data) shows the Council to be in average, to better than average financial health, across the range of indicators.