

Report to the Cabinet

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2021



Portfolio: Finance, Qualis Client & Economic Development – Cllr Philip

Subject: Financial Planning Framework 2022/23 to 2026/27

Responsible Officer: Andrew Small (01992 564278)

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Recommendations/Decisions Required:

- (1) To note the backdrop to the Financial Planning process for 2022/23 to 2026/27, including the impact of the Covid-19 pandemic, declining General Fund reserves and emerging changes in local authority finance; and**
- (2) To agree the proposed approach to Financial Planning for 2022/23 to 2026/27, including the reporting and governance timetable summarised in *Appendix A*.**

Executive Summary:

Like most local authorities, the Council is facing increasing financial pressure, especially in the light of the Covid-19 pandemic.

Maintaining a balanced General Fund budget is becoming especially challenging in the light of a range of income, expenditure and funding pressures.

A declining balance on the General Fund Reserve reduces the available short-term options for managing budget gaps. Consequently, tackling a likely budget gap will need to be given a high priority if the Council is to set a balanced budget for 2022/23. Difficult choices will need to be made to ensure that net expenditure is brought into line with available funding.

The Housing Revenue Account (HRA) has generally experienced reasonably good financial health in recent years and was not affected by the Pandemic as much as the General Fund, but some key budget lines are coming under pressure now, including the cost of Void Repairs in particular.

The updated (40-Year) HRA Business Plan (anticipated in October 2021) will go a long way in helping to inform the future direction and priorities for the HRA.

An overall Capital Programme of £266.97 million (including £172.15 million re HRA) for the five-year period 2021/22 through to 2025/26 was adopted by the Council in February 2021, reflecting the Council's ambitions for increased Housing Development and Regeneration especially (primarily through Qualis).

General Fund borrowing has been steadily growing since 2019/20, with further plans to borrow in 2021/22 and beyond, most notably to meet the capital commitments in respect of the Council's regeneration aspirations, delivered via Qualis (which drives additional revenue streams to the Council, as well as enabling the delivery of key priorities).

The General Fund balance stood at £6.417 million on the Balance Sheet as at 31st March 2020. However, although the Council is set to reveal just a small overspend on its General Fund budget for 2020/21, due to a series of year-end accounting adjustments and reserve movements (e.g. to fund previous commitments to the District Development Fund – DDF), a remaining General Fund balance in the region of £4.0 million is anticipated, which is close to the recommended minimum contingency balance.

There remains ongoing uncertainty regarding future reforms to the local government finance system with, most notably, the Government widening its considered options for reforming Business Rates to include alternative taxes.

The overall prospects for the 2021 Comprehensive Spending Review – especially for lower tier authorities – do not appear positive, as the Chancellor wrestles with recouping the huge spending deficit created by the Pandemic.

Given the usual pattern whereby the Local Government Finance Settlement is announced just before Christmas, definitive figures for 2022/23 may not be available until December 2021.

A tailored Financial Planning approach, which develops the 2022/23 Budget and updated Medium-Term Financial Plan (MTFP) through to 2026/27 is therefore proposed, within a governance framework spanning five months; beginning with this report and culminating in full Council setting a balanced budget in February 2022.

Reasons for Proposed Decision:

To set a framework within which the Council can develop and set a balanced budget for 2022/23 and update its MTFP through to 2026/27, ensuring that corporate priorities continue to be delivered in a financially sustainable way.

1) INTRODUCTION AND BACKGROUND

- 1.1 Like most local authorities, the Council faces increasing financial pressure, especially in the light of the Covid-19 pandemic.
- 1.2 This report sets out a proposed approach to Financial Planning for the next five years (2022/23 to 2026/27) in the light of the Pandemic and the Council's updated financial position. The report also considers other changes in local government financing that either will or could impact on the medium-term financial position. The focus for Financial Planning is now as follows:

Corporate Strategy

- *Supporting the ongoing Covid-19 Recovery Strategy* – the emphasis has now shifted from tackling the immediate impacts of the Pandemic, through to returning services to normal and now – moving forwards – dealing with the long-term impacts (e.g. increased unemployment); essentially ensuring that short, medium and long-term financial strategy is able to support financial recovery and future capital needs, including investing in the practical and financial support required to rebuild the local economy; and

- *Supporting the delivery of the Corporate Plan* – maintaining a clear focus on the core principles in the adopted Plan, despite the impacts of the Pandemic and a more challenging financial position in the medium-term.

Financial Strategy

- *Re-establishing Financial Sustainability* – ensuring that the Council's financial strategy continues to adjust to the financial shock caused by the Pandemic and decreasing reserve balances, and that financial sustainability is restored; this entails maintaining a Balance Sheet as strong as it can be with significant risks identified and mitigated wherever possible; and
- *Improving Financial Control* – the continued implementation of improved and streamlined financial planning, management and reporting processes is an integral part of addressing the recent difficulties experienced within the Council's Finance function. This is delivering step-change improvements in financial control, but more remains to be done, which is essential to successfully navigating a more challenging financial environment ahead. It is also an important step towards achieving compliance with CIPFA's Financial Management Code (effective from 1st April 2021).

2) GENERAL FUND FINANCIAL POSITION

- 2.1 The 2020/21 financial year was a tough one for the Council due to the profound – and widely reported – impacts of the Pandemic. However, due to additional Government Support in the region of £3.0 million, a relatively small budget deficit – broadly in line with the previously reported Quarter 3 projection of £0.313 million – is anticipated (final outturn figure being determined at time of preparing this report).
- 2.2 However, due to a range of other factors, including year-end accounting adjustments and reserve movements (explained below in Section 5), the balance on the Council's General Fund Reserve is expected to be close to its agreed minimum contingency balance of £4.0 million as at 31st March 2021. This reflects a decline of around £2.0 million in the year.
- 2.3 This consequently heightens pressure on the 2021/22 Budget which includes a planned contribution of £1.350 million from the same reserve. The latest anticipated balance on the General Fund Reserve is – to a large extent – a consequence of agreed accounting adjustments to the Council's 2019/20 Statement of Accounts (considered by the Audit and Governance Committee and approved by full Council in July 2021); the need for the accounting adjustments was identified subsequent to the setting of the 2021/22 Budget in February 2021.
- 2.4 The Quarter 1 Budget Monitoring Report for 2021/22 is currently being prepared, so precise forecasts are still emerging. However, in the circumstances, officers will be working towards achieving a 'managed surplus', with a view to offsetting – as far as possible – the planned contribution from the General Fund Reserve and protecting the agreed minimum contingency balance.
- 2.5 Nevertheless, it is a challenging context in which the updated Medium-Term Financial Plan (MTFP) will need to be developed, and the longer-term financial impacts of the Pandemic on income, expenditure and funding currently remain uncertain. Some income streams may never recover to pre-pandemic levels.

- 2.6 There are also a range of emerging service-based spending and income pressures which will need to be explored and understood as part of developing the budget, which may add further pressure to the equation. These will be explained further in future reports as their impact is better understood. Equally opportunities, such as those surrounding Qualis will also need to be factored in.
- 2.7 It therefore appears likely that a significant budget gap will need to be eliminated to deliver a balanced General Fund budget for 2022/23 as well as revealing any underlying gap that needs to be eliminated in order to achieve longer-term financial sustainability.

3) HOUSING REVENUE ACCOUNT FINANCIAL POSITION

- 3.1 The Council's Housing Revenue Account (HRA) Reserve as at 31st March 2021 successfully maintained its minimum £2.0 million balance assumed within Council's original 30-Year HRA Plan (which is being updated at the time of preparing this report).
- 3.2 Whilst the HRA has generally been in reasonably good financial health in recent years and was not affected by the Pandemic as much as the General Fund, some key budget lines are coming under pressure now. The cost of Housing Repairs especially is becoming challenging and Void Repairs in particular, which have been a cost pressure for some time. The transfer of the Housing Repairs service to Qualis in October 2020 is a key part of the solution, although wider challenges exist in terms of Stock Condition uncertainties (a key driver of future cost) and Capital Charges (driven by the Capital Programme).
- 3.3 The updated (40-Year) HRA Business Plan (anticipated in October 2021) will go a long way in helping to inform the future direction and priorities for the HRA and will be invaluable in terms of developing the 2022/23 Budget and pave the way for the updated MTFP through to 2026/27.

4) CAPITAL PROGRAMME (GENERAL FUND & HRA)

- 4.1 The Capital Programme plays a vital part in delivering the Corporate Plan, since long-term investment plays an essential role in realising the Council's ambitions for the district. The cost of the Capital Programme is spread over the lifetime of investments, so does not have such an immediate impact on the revenue budget position. However, there are revenue consequences to the Capital Programme.
- 4.2 In February 2021, the Council approved an overall Capital Programme of £266.97 million (including £172.15 million re HRA) for the five-year period 2021/22 through to 2025/26. This represented a significantly increased financial commitment compared to previous years and reflects the Council's ambitions for increased Housing Development and Regeneration especially (primarily through Qualis).
- 4.3 The Council borrowed to fund the General Fund element of the Capital Programme for the first time in 2019/20. Borrowing has further increased in 2020/21, with further plans to borrow in 2021/22 and beyond (meeting the capital commitments in respect of Qualis is the biggest factor; although this drives additional revenue streams to the Council).
- 4.4 However, following a recent revision to PWLB lending terms introduced by the Government (aimed at ensuring that local authorities continue to focus investment in Housing, Infrastructure, and Public Services), the Council is no longer able to secure PWLB funding for *purely* commercial investments (either directly, or indirectly, through Qualis). Current borrowing plans for Qualis are primarily focused on Regeneration, although the Council still retains the ability to raise funds from other (non-PWLB) sources.

5) BALANCE SHEET/RESERVES

- 5.1 The Council maintains reserves as a safety net to allow for unforeseen circumstances and reserve levels are a key measure of financial sustainability over the medium-term. There is no statutory definition of the minimum level of reserves; the amount required is a matter of judgement and informed by the Section 151 Officer. On 25th February 2021, the Council resolved to carry a minimum General Fund balance of £4.0 million.
- 5.2 The General Fund balance stood at £6.417 million on the Balance Sheet as at 31st March 2020. However, although – at the time of preparing this report – the Council is set to reveal just a small overspend on its General Fund budget for 2020/21 (an excellent outcome given the financial challenges presented by the Pandemic), due to a series of year-end accounting adjustments and reserve movements (most significantly the funding of previous commitments to the District Development Fund – DDF), a remaining General Fund balance in the region of £4.0 million is anticipated (i.e. very close to the recommended minimum contingency balance).
- 5.3 In developing the MTFP, Members will also wish to consider an appropriate future level of reserves, especially given the previous commitment to support the 2021/22 General Fund budget with a planned contribution of £1.350 million.
- 5.4 Unless there is justification for revising the Council’s target minimum level of working balances downwards, it is possible that the financial planning process may require a strategy to return the General Fund balance to £4.0 million, in the event that a managed surplus of sufficient size cannot be achieved in 2021/22 as described in Paragraph 2.4. This might include achieving this over a phased timeframe if financial predictions allow.

6) FUTURE FINANCIAL CONTEXT

- 6.1 For the past six years, local authority funding has been subject to a national settlement originally announced in 2016; 2019/20 was due to be the final year of a four-year settlement. However – due to Brexit – the key elements of the four-year settlement were rolled forward into 2020/21. This was further rolled forward into 2021/22 – due to the Pandemic – and it now appears likely that 2022/23 will follow a similar course.
- 6.2 During this time, the Government has also been planning to put in place significant changes to the local government finance system, but these have yet to be introduced. By common consensus, parts of the current finance system are broken or flawed. In particular, the Pandemic has cast doubt on originally planned reforms centred on greater local Business Rates Retention (BRR).
- 6.3 A consequence of these repeated delays is that the actual levels of Business Rates collected by local authorities have become increasingly decoupled from their “Baselines” (target levels), which were set in 2013. The forthcoming “reset” of the system could therefore see significant changes in Baselines meaning, for those authorities whose rates are significantly above baseline levels, a sharp “cliff edge” reduction in funding.
- 6.4 Any reset is a significant threat to Epping Forest as this Council has benefited significantly from Business Rates growth (including a profitable pooling arrangement with the other Essex authorities) since the introduction of the current BRR regime.

- 6.5 More recently, the Government has sought to deliver a “fundamental review” of Business Rates by March 2021, having held a ‘call for evidence’ from July to October 2020. The review focused on reducing the burden on Ratepayers, suggesting that, whatever the outcome, the intention is for the tax to have a lower yield, which consequently means local government would have fewer resources, unless other taxes are raised to fill the void. The review suggested two possibilities:
- Capital Values Tax (CVT) – the CVT is closely comparable with Business Rates, and could potentially replace it entirely (in terms of overall yield); and
 - Online Sales Tax (OST) – the OST is only seen as a partial replacement, due to the overall quantum of online retail sales.
- 6.6 The ongoing impact of the Pandemic led to the outcome of the review being postponed until later in 2021, most likely alongside the 2021 Comprehensive Spending Review (CSR) in the Autumn.
- 6.7 The Council will also have to continue to exercise caution in reviewing and updating its MTFP due to the potential impacts of the “Review of Relative Needs and Resources”. Within the overall local government landscape, the pressures on upper-tier authorities – responsible for delivering social care services – has had a higher profile than those faced by lower tier authorities like Epping Forest District Council.
- 6.8 Finally, the overall prospects for the 2021 CSR – especially for lower tier authorities – do not appear positive, as the Chancellor wrestles with recouping the huge spending deficit created by the Pandemic. The Covid-19 related funding streams are now being wound down and it is uncertain whether any legacy funding at all will remain for 2022/23. Meanwhile the ‘usual’ variables remain to be determined such as the Council Tax Referendum Limit and the future of specific grants (e.g. further details on the planned withdrawal of New Homes Bonus).
- 6.9 Given the usual pattern whereby the Local Government Finance Settlement is announced just before Christmas, definitive figures for 2022/23 may not be available until late December 2021.

7) PREPARING THE MEDIUM-TERM FINANCIAL PLAN

- 7.1 The MTFP must balance the post-pandemic financial pressures with the requirement to deliver the Corporate Plan. The Council’s Corporate Plan 2018 – 2023 was adopted in December 2017 and links the key external drivers influencing Council services, with a set of corporate aims and objectives, grouped under three corporate ambitions:
- Stronger Communities
 - Stronger Place; and
 - Stronger Council.
- 7.2 It is essential to retain focus on strategic priorities, as the local community recovers from the Pandemic. Whilst revenue resources are constrained, the Council still has some limited scope to use the Capital Programme, which impacts the revenue budget over a longer time period, to deliver certain priorities. This could for example mean a stronger focus on regeneration projects, which create local employment. Although, following a substantial expansion of the Capital Programme for 2021/22, there is increasing pressure to offset its revenue impact in the form of efficiency savings in 2022/23, whilst retaining a commitment to low or no Council Tax increases. It will be a difficult balancing act.

8) SUPPORTING STRATEGIES

8.1 There are two other mandatory strategies that require updating as part of the 2022/23 Financial Planning cycle as follows:

- Capital Strategy – a mandatory requirement introduced by CIPFA’s updated Prudential Code in 2017. It is a rolling three-year strategy that gives a high-level overview of how Capital Expenditure, Capital Financing and Treasury Management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability. The Council adopted its inaugural Capital Strategy in 2019/20. An updated Strategy, with effect from 2021/22 has subsequently been prepared and adopted, which reflects further developments (notably an expanded Capital Programme and the Qualis initiative). Further refinements to the Prudential Indicators included within the document are required to ensure (especially), that the very latest Qualis developments are accurately reflected; and
- Treasury Management Strategy (TMS) – an annual requirement in accordance with CIPFA’s Treasury Management Code (2017 Edition). The Council is increasing its borrowing levels and is therefore exposed to financial risks such as changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to prudent financial management; the TMS is a key document, which helps to achieve that.

Legal and Governance Implications:

The proposals contained within the report will ensure compliance with the statutory Budget Setting process. This includes the required Governance elements (summarised below in **Appendix A**).

Safer, Cleaner and Greener Implications:

There are no direct SCG implications contained within the report, although the implications will be considered in the detailed development of Budget proposals.

Consultation Undertaken:

None. The proposals in the report require further development. Consultation at a later stage is an in-built feature of the proposed Financial Planning approach and timetable.

Background Papers:

None.

Risk Management:

The consideration of risk will form an integral part of the development of the proposals in the report. In particular, the MTFP is based on a series of estimates and assumptions that are informed by varying forms of intelligence (some certain, some uncertain); that process, including any residual risk in the decision-making process will be clearly indicated.

Appendix A

Proposed Financial Planning Framework 2022/23 to 2026/27

The timetable below proposes a tailored approach to Financial Planning in challenging circumstances, including the required legal and governance arrangements, spanning a five-month period; beginning in mid-September 2021 with this report and culminating in late February 2022 with full Council adopting a balanced budget for 2022/23.

Date	Committee	Report	Purpose
13th September 2021	Cabinet	Financial Planning Framework 2022/23 to 2026/27 (including updated financial context)	Allowing Members to consider proposals for updated Financial Planning framework. Also sets out updated financial context.
11th October 2021	Cabinet	Updated MTFP 2022/23 to 2026/27 (General Fund & HRA) (including Budget Strategy 2022/23)	Members to consider first iteration of updated MTFP for 2022/23 to 2026/27
		Capital Programme Update (General Fund & HRA) update 2021/22 to 2025/26.	Members to consider currently adopted five-year Capital Programme and provide guidance on developing a revised Programme for 2022/23 to 2026/27.
16th November 2021	Stronger Council Select Committee	Updated MTFP 2022/23 to 2026/27 (including Budget Strategy 2022/23)	Members to scrutinise updated MTFP (including Budget Strategy) and Capital Programme
		Capital Programme Update (General Fund & HRA) update 2021/22 to 2025/26.	
6th December 2021	Cabinet	Draft Budget 2021/22, and updated MTFP (2022/23 to 2026/27)	Members to consider detailed draft budget proposals for 2022/23, including Fees and Charges included therein
		Draft Capital Programme (GF & HRA) 2022/23 to 2026/27	
		Draft Fees and Charges 2022/23	

Date	Committee	Report	Purpose
17th January 2022	Audit & Governance Committee	Draft Capital Strategy 2022/23 to 2024/25	Members to consider strategies, making comments and recommendations to full Council
		Draft Treasury Management Strategy 2022/23	
18th January 2022	Stronger Council Select Committee	Draft Budget 2022/23, and updated MTFP (2022/23 to 2026/27)	Members to scrutinise draft proposals, providing feedback for Cabinet.
		Draft Capital Programme (GF & HRA) 2022/23 to 2026/27	
7th February 2022	Cabinet	Final Draft Budget 2021/22, and updated MTFP (2022/23 to 2026/27)	Members to review latest Budget & MTFP proposals, making recommendation to full Council.
		Final Draft Capital Programme (GF & HRA) 2022/23 to 2026/27	Members to approve Fees and Charges proposals for year ahead.
		Final Fees and Charges 2022/23	Decisions to take account of scrutiny feedback and public consultation.
24th February 2022	Full Council	Budget Report 2022/23, including updated MTFP 2022/23 to 2026/27	Full Council to consider and decide upon the Budget for 2022/23, and relevant linked and supporting strategies. Includes setting the Council Tax on behalf of all preceptors.
		Capital Programme (GF and HRA) 2022/23 to 2026/27	
		Capital Strategy 2022/23 to 2024/25	
		Treasury Management Strategy 2022/23	