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 many financial challenges currently facing the Council and the financial future is the least certain that it has been for a long time; planning in such an environment is uniquely difficult. Yet, despite this, I am satisfied that a prudent and considered approach has been employed for formulating and developing the budget proposals. As a result, I believe that the Council is presented with a robust set of estimates.

2.2. I also believe that the Council has adequate Reserves, but its Balances are likely to be lower than it deems appropriate for the challenges it faces during the forthcoming year. However, 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.

2.3. 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 the Council received an unqualified Audit opinion on its financial statements for 2019/20 and an unqualified conclusion on the Council's arrangements for securing value for money. However, this process identified errors going back to 2018/19 which required a material adjustment to General Fund balances. Consequently, the Council started 2021/22 with a General Fund Balance only marginally above its assessed minimum.

3.2. Unfortunately, the Council's Accounts for 2020/21 have still not be signed off by the Council's Auditors thereby creating uncertainty as to the exact size of carried forward balances. The Council's Finance Team is now almost fully staffed and increasingly the delays in completing the Audit are due to resourcing issues with the Council's Auditors (Deloitte). The previous year's restatement of balances emphasises the need for the Accounts to be prepared and Audited in a timely fashion so that financial decisions can be made with certainty of its financial position.

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 savings remain a service management priority associated with the delivery of good value to the taxpayer and the need to balance the MTFP. 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 for 2022/23 was iterative but reflected pressures and opportunities identified with the full engagement of all budget holders. The Covid19 pandemic continued to impact on development and understand of the Council's long-term budgetary position. The short-term support provided by the Government during 2020/21, and to a lesser extent in 2021/22, masked some of the underlying structural changes to the budget, and these had to be addressed in formulating the proposals for 2022/23. The ending of these Government support arrangements helped to create a budget gap of £1.5 million. Closing this gap was the largest challenge in producing a balanced budget proposal.

4.2. The process was more robust than the Pandemic influenced budget development process of last year with more time available to understand the issues and to develop proposals.

4.3. 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.

4.4. 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). 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 but also associated with a better understanding the longer-term impacts of Covid19.

5.2. Factors associated with energy price increases, Brexit and supply chain issues have created the largest budgetary pressures. These have impacted on the headline rate of inflation, which is now at its highest for 30 years. Together with gradually increasing interest rates this is expected to materialise in higher wage settlements.

5.3. The budget includes provision for wage and contract inflationary increases. Services are expected to absorb non-wage and non-contract inflationary pressures within existing budgets. Inflationary provisions are based on advice and Bank of England projections that inflation will peak in the next few months and then gradually reduce. There is considerable uncertainty within this assumption, but the budget assumes that any cost pressure in excess of that provided here will also be contained within service budgets.

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 Government provided only a one-year Finance Settlement for 2022/23 pending the implementation of a revised allocation methodology from 2023/24 aligned to its 'Levelling Up' agenda. The Government 2022/23 settlement includes a range of additional, but explicitly temporary funding streams in the settlement for 2022/23 which amount to nearly £700,000. The MTFP assumes these do not continue into 2023/24 and this creates a funding gap in that year.

5.6. With General Fund Balances likely to be below the Council's assessed minimum at the end of 2021/22 the Budget provides for an element of the Government's one-year additional funding to be added to balances in order to build them back towards their target minimum.

5.7. 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.

5.8. 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.

5.9. Applying these assumptions to the Medium-Term Financial Plan arrives at a series of deficits in each of the years from 2023/24 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 Covid19;
- The unknown impact of economic factors and pressures, specifically inflation.
- The Council's trading company (Qualis);
- Government Funding - as it has yet to publish its distribution methodology for 2023/24 onwards but it is speculated that this will see a redistribution at a national level consistent with its 'Levelling-Up' white paper and this may see south-east and London councils doing less well. Whilst it is indicated that transitional arrangements will apply, 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 at low rates, 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 final accounts for 2019/20 identified a significant overstatement of unallocated balances arising from an adjustment to the amount of Retained Business Rates partly going back to 2018/19. Following restatement, the revised General Fund balance at stood at £4.017 million as at 31 March 2021 and £2.105 million within the Housing Revenue Account.

7.5. As the Budget for 2021/22 was prepared and agreed using the higher, pre-audit, number the budget proposals included an assumed (affordable) one-off use of General Fund Balances of £1.35 million to cover Covid19 costs which were expected to be temporary in nature.

7.6. The latest budget monitoring position for 2021/22, as at 31 December 2021, forecasts a small overspend in year which will further add to the use of balances in 2021/22.

7.7. Combined these may result in a potential draw on General Fund Balances of up to £1.7 million during 2021/22, which would leave unallocated balances of only £2.3 million. This is well below the Council assessed minimum level of £4 million and will need to be addressed as a matter of importance. Recognising this, the budget proposals include a planned contribution of £330,000 to unallocated balances in 2022/23 and further contributions will be required over the MTFP period to bring balances back up.

8. Financial Standing

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 gradually increasing in response to economic factors, but they 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.

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. The CIPFA Financial Resilience Index for Epping Forest (using 2020/21 data) shows the Council to have higher than average borrowing amongst district councils but with a sustainable level of reserves.

Andrew Small CPFA
Strategic Director & Section 151 Officer
February 2022