

# Report to the Cabinet

**Report reference:** C-014-2023/24  
**Date of meeting:** 18th September 2023



**Portfolio:** Finance & Economic Development – Cllr. John Philip

**Subject:** Financial Planning Framework 2024/25 to 2028/29

**Responsible Officer:** Andrew Small (01992 564278)

**Democratic Services:** Vivienne Messenger (01992 564243)

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## Recommendations/Decisions Required:

1. To note the backdrop to the Financial Planning process for 2024/25 to 2028/29, including the Balance Sheet trajectory in the light of the 2022/23 budget outturn and the latest 2023/24 spending forecast; and
2. To agree the proposed approach to Financial Planning for 2024/25 to 2028/29, including the reporting and governance timetable summarised in *Appendix A*.

## Executive Summary:

Local Government finances nationally are coming under acute pressure as evidenced by a rising number of high-profile “Section 114 Notices” (effectively the local government equivalent of bankruptcy) being issued by Chief Financial (Section 151) Officers. *Financial Sustainability* is the ‘watchword’, with Epping Forest District Council (“the Council”) operating in that same environment and facing its own financial pressures; driven by a difficult economic backdrop, triggered – to a large extent – by a series of major external events.

In that context, the Council’s General Fund budget continues to be especially challenging. There are major financial pressures especially on Staff Salaries, Contracts and Financing costs, which are compounded by threats to Council income and funding streams. The cumulative effects are manifesting themselves in a substantial projected budget deficit, both in the short and medium-term.

Achieving a balanced General Fund budget for 2024/25 is therefore likely to be even more challenging than 2023/24 (which itself was the most difficult financial challenge that the Council has faced for many years) and the opportunity to use unallocated reserves, or potentially ‘re-purposed’ earmarked reserves is very limited.

The Housing Revenue Account (HRA) has been in better financial health for several years. However, the same cost pressures experienced by the General Fund are beginning to bite and Members will have another difficult choice in determining an appropriate rent increase for Council tenants in 2024/25; a below inflation increase could potentially hamper the delivery of the HRA Business Plan. Alternatively, there could be a case for doing that as local communities, including Council tenants, continue to struggle with the present cost of living crisis.

The Council adopted an ambitious Capital Programme for the General Fund and HRA in February 2023; comprising capital expenditure of £274.58 million over five years, it is focussed on a range of key priorities, including Qualis, Epping Leisure Centre and the Housing Development Programme. However, capital expenditure eventually has to be paid for from revenue resources in the long run and Financing costs continue to increase in line interest rates rises.

Given the usual pattern whereby the Local Government Finance Settlement is announced just before Christmas, definitive figures for 2024/25 may not be available until December 2023.

A tailored Financial Planning approach, which develops the 2024/25 Budget and updated Medium-Term Financial Plan (MTFP) through to 2028/29 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 2024.

### **Reason for Decision:**

To set a framework within which the Council can develop and set a balanced budget for 2024/25 and update its MTFP through to 2028/29, ensuring that corporate priorities continue to be delivered in a financially sustainable way.

## **1) INTRODUCTION AND BACKGROUND**

- 1.1 Local Government finances nationally are coming under acute pressure as evidenced by a rising number of high-profile “Section 114 Notices” (effectively the local government equivalent of bankruptcy) being issued by Chief Financial (Section 151) Officers. *Financial Sustainability* is the ‘watchword’, with Epping Forest District Council (“the Council”) operating in that same environment and facing its own financial pressures; driven by a difficult economic backdrop, triggered – to a large extent – by a series of major external events.
- 1.2 This report sets out a proposed approach to Financial Planning for the next five years (2024/25 to 2028/29) in the light of both (the financial impact of) external factors and the Council’s own (internal) financial drivers. The primary emphasis at this stage is the need to set a balanced budget for 2024/25; where known, emerging financial challenges are highlighted with a hint of potential scale where possible. This will help prepare Members for the months ahead in what will be an exceptionally challenging period.
- 1.3 The report also considers some other developments in local government financing that either will or could impact on the medium-term financial position.

## **2) GENERAL FUND FINANCIAL POSITION**

- 2.1 The current financial position and future prospects for the Council’s General Fund has evolved in recent years, initially in the context of extreme volatility and uncertainty triggered by the pandemic, followed by a brief period of relative stability and more recently the emergence of spiralling budget demand due high inflation and sharply increasing interest rates. Whilst causes and solutions are the subject of much debate, external worldwide events – well beyond the control of the Council – are undoubtedly a major factor.

### 2022/23 Outturn

- 2.2 After the General Fund budget surplus of almost £1.0 million recorded in 2021/22, the 2022/23 financial year provided a sharp contrast; an overspend of £1.286 million was eventually recorded. Inflation was a particular problem in the year, especially on Staffing costs, with an average pay award in the region 5% eventually settled on compared to the 2.0% assumed in the budget (illustrating just how quickly inflation took hold in the economy in 2022). Although savings from Staff vacancies provided some respite, the situation was exacerbated by substantial income shortfalls from Planning Applications (due to the delayed adoption of the Local Plan) and Qualis loan margins (caused by slippage on the drawdown of loans and higher PWLB interest rates, leading to reduced margins for the Council on loans granted to Qualis).

### 2023/24 Quarter 1 Forecast

2.3 The 2023/24 financial year has not started well. At the Quarter 1 (Q1) stage, there is a forecast year-end budget deficit of £1.523 million on the General Fund. The most significant factor reflected in the Q1 forecast is increasing Interest Rates, as the Bank of England has continued its strategy of raising the Bank Rate – beyond that foreseen when the Budget was set in February 2023 – in response to stubborn inflation in the economy. The Council is a Net Borrower and higher interest rates are having a direct detrimental impact in a number of areas, especially on the revenue costs of the Council’s capital commitments, but also indirectly in other areas such as HRA Recharges. At the time of preparing this report, margins on Qualis loans have now reduced to below 1.0%. There are also substantial threats from additional Staffing costs (latest forecasts assume a pay award in the region of 5.0%, but this has been rejected by Unions; the budget assumes 4.0%) and a further shortfall on income from Planning Applications, with forecast receipts in the period April to June 2023 sluggish compared to budget expectations (following the adoption of the Local Plan in March 2023).

### 2024/25 Budget (and beyond)

2.4 Members will recall the most recent Medium-Term Financial Plan (MTFP) (2023/24 to 2027/28) adopted by the Council on 28th February 2023. The MTFP highlighted a significant cumulative budget deficit of £3.883 million by 2027/28, with a pressure of £2.389 million in 2024/25 reflecting the immediacy of the problem. The increased revenue costs of the Capital Programme and the assumed additional cost of new Waste Management contract are the major headlines.

2.5 The foregoing discussion clearly illustrates that the Council has a structural deficit that has to be addressed in order to set a balanced budget for 2024/25. Known major issues on the General Fund at this stage include the following:

- Staff Costs – the Council removed £2.632 million (before HRA recharges) in Staff costs from the base in developing the 2023/24 budget. This was successful in helping to achieve a balanced budget and helped to (permanently) finance an average pay award in the region of 5% for 2022/23. However, it will be more difficult to realise future savings from Staff costs with many of the easier opportunities now having been taken. As noted above, pay demands are already in excess of budget provision for 2023/24, and could go higher. Transformation, including Shared Services, has a significant role to play moving forwards.
- Contract Costs – the current Waste Management contract with Biffa is a major expense for the Council and is due to expire in November 2024. In July 2023, the Cabinet took the decision to pursue the future delivery of the Waste Management service through a wholly owned Council subsidiary (as opposed to another external contract). Although further details are to be determined at the time of reporting, it is anticipated that – regardless of the chosen future delivery option (including an externally procured service) – the cost of the service is likely to significantly increase in the future. The current MTFP (due to a mid-year contract date) assumes cost increases of £630,000 in 2024/25, followed by a further increase of £930,000 in 2025/26 (i.e., a total increase in base budget demand of £1.560 million over two years). Although the cost pressure is expected to be offset to an extent by procurement savings on Waste Vehicles, and the figures require substantial refinement, this is certainly a major cost pressure for the Council and a key strategic decision.

- Financing Costs – rising interest rates are a major problem. The borrowing rates that the Council is able to secure from the Public Works Loans Board (PWLB) are far less favourable than it has enjoyed for many years, which is especially detrimental to the loan margins that the Council can expect to receive from its loans to Qualis. For example, the Council is contractually committed to an on-lending rate of 6.0% on Development Loans; a higher rate would potentially threaten the viability of regeneration schemes. Initially this meant that the Council made significant margins on each advance (e.g., the initial advance – made in March 2021 – resulted in a margin of 4.02%), but these have dwindled in the light of sharply rising interest rates (e.g., the most recent advance – made in August 2023 – resulted in a margin of just 0.56%). The revenue costs of the wider Capital Programme are also a significant challenge now, including the Epping Leisure Centre, with an overall capital investment commitment of £33.1 million.
- Future General Fund Commitments – the most pressing concern facing Members at the moment is – wherever possible – helping and protecting their local communities from the threat posed by the economic crisis, but the medium and longer-term ambitions and priorities of the Council remain.

The new Corporate Plan, launched on 1st April 2023 and covering the four-year period up until 31st March 2027, sets out ambitious development and regeneration plans for the long-term benefit of the community and whilst some of these plans may need to be re-scheduled or altered in the current circumstances, a diverse range others will need to be financed including for example, (as well as the future sustainable delivery of the Waste Collection service noted above) the investment needs of Transformation and the Climate Change Action Plan.

- Local Government Finance Settlement – as is normal for this stage in the process, the details of the Local Government Finance Settlement for 2024/25 are very uncertain, with the draft Settlement announcement usually made in December ahead of the following financial year. However, there is some early intelligence emerging that –as part of its commitment to Levelling Up – the Government are perhaps edging towards ensuring that councils will receive a minimum 3% increase in Core Spending Power through a one-off Funding Guarantee Allocation (FGA) *before* any decisions on Council Tax increases). This perhaps provides some early degree of assurance, although a 3% increase needs to be set in the context of a CPI inflation rate of 6.8% (July 2023). The current MTFP projection assumes that the 2024/25 FGA will be maintained at the 2023/24 levels, with all other core grants ceasing with the exception of the Revenue Support Grant (RSG) at £135,230.

The Epping Forest District Council element of the Council Tax was increased in 2023/24 by 2.98% (by £4.69 on a Band D property) and still remains the lowest in Essex. Members will – yet again – have a difficult decision in setting the Council Tax for 2024/25 and will have to balance the conflicting demands of protecting local residents from further financial pressure during a ‘cost of living crisis’ and protecting local services.

The Government’s intended approach to Business Rates in 2024/25 appears stable for now following the implementation of the 2023 Revaluation, with a small ‘timing adjustment’ expected to the “Tariff” (currently £12.744 million in 2023/24).

- 2.6 In addition to known budget pressures (highlighted in Paragraph 2.5 above), there are some other significant risks that could materialise. This will exacerbate an already difficult situation, especially with regard to Other Income Streams. In particular, Commercial Property income has proved very resilient in recent years, but the threat of Economic Recession remains at the time of reporting, so future income streams are far from certain. Similarly Local Tax receipts are also threatened during times of economic difficulty. The 2023/24 budget assumed a rise of 10% in Local Council Tax Support (LCTS) cases and a Council Tax collection rate reduction from 98.0% to 97.5%; it is too early in the financial year to judge the accuracy or otherwise of that assumption.

- 2.7 Despite the major financial issues and risks highlighted above in Paragraph 2.6 above, there is some limited good news for the General Fund, with the prospects for Pension Contributions being more positive than they have been for several years. Higher interest rates have been driving higher discount factors, thus reducing the Net Present Value of Liabilities, and eliminating the previous Pension Deficit on 31st March 2023 Balance Sheet. The prospects for future Pension Contributions in the medium-term therefore appear promising.
- 2.8 Overall, it now appears certain that the updated MTFP 2024/25 to 2028/29 (due before Cabinet on 9th October 2022) will reveal a substantial – ‘seven figure’ – General Fund budget gap that will need to be eliminated in order to set a balanced budget for 2024/25; that gap will also drive a substantially weaker medium-term position compared to the one reported to Council in February 2023.

### **3) HOUSING REVENUE ACCOUNT FINANCIAL POSITION**

- 3.1 The Housing Revenue Account (HRA) balance stood at £4.552 million on 31st March 2023 (compared to £4.164 million on 31st March 2022). The 30-Year Business Plan (which will extend to 40 years upon completion of the Stock Condition Survey) assumes the maintenance of a minimum balance of £2.0 million; as at the 2023/24 Quarter 1 stage, this was on course to be achieved.
- 3.2 Rising inflation – as with the General Fund – presents a major challenge to the HRA, and potentially Council tenants too. In common with most housing authorities, Epping Forest District Council set the maximum allowable rent increase of 7.0% for 2023/24 in accordance with the Government Rent Cap (the established Rent Standard – that would have resulted in a higher increase – was suspended for 2023/24 due to the exceptionally high levels of inflation experienced during 2022). The legal Rent Standard (April 2020) applies a formula of ‘September CPI+1.0%’; based on July 2023 CPI rate of 6.8% (latest available at time of preparing this report), which would result in a Rent Increase of 7.8%. This would be the increase required to keep the HRA Business Plan on track.
- 3.4 Members of course have the option of choosing a lower increase, and – mindful of the potential impact on Council tenants – this is an option that will no doubt be given serious consideration. But will have to be weighed against rising staff costs and the increasing cost of Repairs and Maintenance, as well as the level of investment required to maintain the current Housing Development Programme.
- 3.5 The prospect of higher rents also has wider implications. Locally, over 60% of tenants are likely to be protected to some extent (either through the receipt of Housing Benefit or Universal Credit), but conversely approaching 40% will not, of course. This potentially displaces some of the cost burden to central Government. At the time of preparing this report, it is unclear whether the Government intends to cap rent increases again for 2024/25 (the Government cap for 2023/24 was announced as a one-off measure, but inflation has proved more stubborn than perhaps envisaged at that point in time).

### **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 2023, the Council approved an overall Capital Programme of £274.58 million (including £165.93 million re HRA) for the five-year period 2023/24 through to 2027/28. This compares to an overall Programme of £303.31 million set in February 2022 and continues to reflect 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 subsequent years, with further plans to borrow in 2023/24 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, given the acute financial pressures faced by the Council outlined in Section 2 above, Members may wish to review the current priorities in the Capital Programme, given the revenue cost implications; possible solutions might include re-scheduling or even removing some schemes altogether.

## **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. The Council has a formally established strategy to carry a minimum General Fund balance (contingency) of £4.0 million.
- 5.2 The General Fund balance stood at £3.219 million on 31st March 2023 (compared to £4.070 million on 31st March 2022). The reduced balance predominantly reflects the Budget overspend in 2022/23 (noted above in Paragraph 2.2); This is of course below the Council's adopted minimum contingency balance. As noted above (and reported elsewhere on this agenda), an overspend of £1.523 million on the General Fund budget for 2023/24 is forecast at Quarter 1 stage. If that forecast materialises at year end, the General Fund balance will fall significantly below the agreed minimum balance (to around £1.6 million, rather than £4.0 million).
- 5.3 In developing the MTFP, Members will also wish to consider an appropriate future level of reserves, especially in the light of the continued volatility in local government budgets. Unless there is justification for revising the Council's target minimum level of working balances downwards, the financial planning process will require a strategy to return the General Fund balance to £4.0 million. This might include achieving this over a phased timeframe if financial predictions allow.
- 5.4 The Council has relatively limited Earmarked Reserves on its Balance Sheet, with major balances such as those previously held on the "District Development Fund" (DDF) declining in recent years as funds have been spent and contributions reined back (the remaining balance as at 31st March 2023 was £224,000). Earmarked Reserves as the description implies, are not usually available for anything other than their designated purpose. However, all potential avenues will have to be explored in tackling the financial challenge. Therefore some 're-designations' might prove an enabler in reaching sustainable solutions, although it must be emphasised that reserves can only be spent once and should not be used to support ongoing revenue expenditure.

## **6) PREPARING THE MEDIUM-TERM FINANCIAL PLAN**

- 6.1 The next stage in the Financial Planning Framework (FPF) process for 2024/25 to 2028/29 is the preparation of an updated Medium-Term Financial Plan (MTFP) to Cabinet on 9th October 2023. This will provide more specific and numeric detail as to the financial position. It will provide a broad outline forecast through to 31st March 2029 and identify the budget deficit that the Council has to address in achieving long-term financial sustainability. Moreover, the MTFP will reveal the estimated scale of the budget gap that needs to be addressed in order to set a balanced budget for 2024/25, allowing Cabinet to consider available options, and instruct officers, in preparing an initial draft balanced budget for Cabinet on 4th December 2023.

## 7) SUPPORTING STRATEGIES

7.1 There are two other mandatory strategies that require updating as part of the 2024/25 Financial Planning cycle as follows:

- Capital Strategy – this is a mandatory requirement originally introduced by CIPFA's 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. Updated strategies were then prepared and adopted for 2021/22 and 2022/23 (covering an expanded Capital Programme and the Qualis initiative). A new Capital Strategy was adopted for 2023/24, which reflected CIPFA's updated Prudential Code released in late 2021; refinements included some adjustments to the Prudential Indicators within the 2017 Code. The 2024/25 requirements are expected to remain unchanged at this stage (compared to 2023/24); and
- Treasury Management Strategy (TMS) – the Council now has substantial levels of borrowing and is therefore exposed to financial risks such as changing interest rates (especially relevant following recent rate rises, with potentially further increases anticipated). The successful identification, monitoring and control of financial risk is therefore central to prudent financial management; the TMS is a key document, which helps to achieve that. The current – 2023/24 – TMS was prepared in accordance with CIPFA's updated Treasury Management Code (2021 Edition). The 2024/25 requirements are expected to remain unchanged at this stage (compared to 2023/24).

## **Options:**

The report sets out the Council's updated financial context and represents the beginning of the 2024/25 budget preparation process. The information disclosed – including financial statistics – is for illustrative purposes only and solely for noting.

Members have the option to accept the recommended approach to Financial Planning, including the reporting and governance timetable, or suggest amendments.

## **Resource Implications:**

The resource implications in this report are substantial, although not quantified in detail at this stage. The Council has a major budget gap in its General Fund revenue account, both in the short and medium term. Further details – including detailed estimates – will be presented to the Cabinet meeting on 9th October 2023. Net expenditure must be brought into line with available funding both in the short-term (to set a balanced budget for 2024/25) and the medium-term (to achieve financial sustainability).

## **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, 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 at this stage. 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:**

Draft Statement of Accounts 2022/23 (published 2nd June 2023)

Quarter 1 Budget Monitoring Report 2023/24

## **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.



### Proposed Financial Planning Framework 2024/25 to 2028/29

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 2023 with this report and culminating in late February 2024 with full Council adopting a balanced budget for 2024/25.

Date	Committee	Report	Purpose
18th September 2023	Cabinet	Financial Planning Framework 2024/25 to 2028/29 (including updated financial context).	Allowing Members to consider proposals for an updated Financial Planning Framework. Also sets out updated financial context.
9th October 2023	Cabinet	Updated MTFP 2024/25 to 2028/29 (General Fund & HRA) (including Budget Strategy 2024/25).	Members to consider first iteration of updated MTFP for 2024/25 to 2028/29.
		Capital Programme Update (General Fund & HRA) update 2023/24 to 2027/28.	Members to consider currently adopted five-year Capital Programme and provide guidance on developing a revised Programme for 2024/25 to 2028/29.
24th October 2023	Overview & Scrutiny Committee	Updated MTFP 2024/25 to 2028/29 (including Budget Strategy 2024/25).	Members to scrutinise updated MTFP (including Budget Strategy) and Capital Programme.
		Capital Programme Update (General Fund & HRA) update 2023/24 to 2027/28.	
4th December 2023	Cabinet	Draft Budget 2024/25, and updated MTFP (2024/25 to 2028/29).	Members to consider detailed draft budget proposals for 2024/25, including Fees and Charges included therein.
		Draft Capital Programme (GF & HRA) 2024/25 to 2028/29.	
		Draft Fees and Charges 2024/25.	

<b>Date</b>	<b>Committee</b>	<b>Report</b>	<b>Purpose</b>
23rd January 2024	Overview & Scrutiny Committee	Draft Budget 2024/25, and updated MTFP (2024/25 to 2028/29).	Members to scrutinise draft proposals, providing feedback for Cabinet.
		Draft Capital Programme (GF & HRA) 2024/25 to 2028/29.	
		Draft Fees and Charges 2024/25.	
5th February 2024	Cabinet	Final Draft Budget 2024/25, and updated MTFP (2024/25 to 2028/29).	Members to review latest Budget & MTFP proposals, making recommendation to full Council.
		Final Draft Capital Programme (GF & HRA) 2024/25 to 2028/29.	Members to approve Fees and Charges proposals for year ahead.
		Final Fees and Charges 2024/25.	Decisions to take account of scrutiny feedback and public consultation.
15th February 2024	Audit & Governance Committee	Draft Capital Strategy 2024/25 to 2026/27.	Members to consider strategies, making comments and recommendations to full Council.
		Draft Treasury Management Strategy 2024/25.	
20th February 2024	Full Council	Budget Report 2024/25, including updated MTFP 2024/25 to 2028/29.	Full Council to consider and decide upon the Budget for 2024/25, and relevant linked and supporting strategies. Includes setting the Council Tax on behalf of all preceptors.
		Capital Programme (GF and HRA) 2024/25 to 2028/29.	
		Capital Strategy 2024/25 to 2026/27.	
		Treasury Management Strategy 2024/25.	