

Report to the Cabinet

Report reference: C-024-2024/25

Date of meeting: 2 September 2024



**Epping Forest
District Council**

Portfolio: Finance & Economic Development – Cllr. Holly Whitbread

Subject: Financial Planning Framework 2025/26 to 2029/30

Responsible Officer: Chris Hartgrove 01992 564000 (Ext. 2532)

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Recommendations/Decisions Required:

- 1. To note the backdrop to the Financial Planning process for 2025/26 to 2029/30, including the Balance Sheet trajectory in the light of the 2023/24 budget outturn and the latest 2024/25 spending forecast; and**
- 2. To agree the proposed approach to Financial Planning for 2025/26 to 2029/30, including the reporting and governance timetable summarised in *Appendix A*.**

Executive Summary:

There is substantial continued pressure on Local Government finances nationally as evidenced by the rising number of high-profile “Section 114 Notices” (effectively the local government equivalent of bankruptcy) being issued by Chief Financial (Section 151) Officers. Epping Forest District Council (‘the Council’) is not in that position. But *Financial Sustainability* is the ‘watchword,’ with the Council operating in that same environment and facing its own financial pressures. Driven by a tough economic backdrop, triggered – to a significant extent – by a series of major external events. Compounded by rising demand, and a steady fall in the value of Government support over several years.

In that context, and despite the capital receipt received as part of the North Weald Airfield (NWA) land disposal, the critical need to deliver a sustainable General Fund revenue budget for the future, remains undiminished. The primary challenge is to remove the current reliance on the NWA capital receipt to support the base budget; this would free up the receipt for application towards the Council’s priorities as well as reducing the current vulnerability to reductions in interest rates.

Additional investment is also required in the revenue budget in order to maintain and build upon the benefits delivered by Council companies (Qualis and Terra Verde Services). The detailed development of TVS in particular – with the new Waste Collection service set to be launched on 4th November 2024 – has identified a need for further growth in the base budget in 2025/26 in order to secure the long-term future of the service for local residents as well as a range of other benefits, including increased value-for-money (VFM).

Achieving a *sustainable* balanced General Fund budget for 2025/26 is therefore a challenge, and the need to generate and protect Earmarked Reserves for investment priorities in the short to medium-term is essential.

The Housing Revenue Account (HRA) has been in better financial health for several years. However, the same cost pressures experienced by the General Fund have been affecting the HRA and Members will have another difficult choice in determining an appropriate rent increase for Council tenants in 2025/26.

In February 2024, the Council approved an overall Capital Programme of £200.91 million (including £140.42 million re HRA) for the five-year period 2024/25 through to 2028/29, which continues to reflect the Council's ambitions for increased Housing Development and Regeneration especially (primarily through Qualis). However, capital expenditure eventually has to be paid from revenue resources and Financing costs (despite a temporary lull triggered by the NWA capital receipt) have increased significantly in recent years and are expected to rise further in the medium-term.

Given the usual pattern whereby the Local Government Finance Settlement is announced just before Christmas (expected to continue, even with the newly elected Labour Government), definitive figures for 2025/26 may not be available until December 2024.

A tailored Financial Planning approach, which develops the 2025/26 Budget and updated Medium-Term Financial Plan (MTFP) through to 2029/30 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 2025.

Reason for Decision:

To set a framework within which the Council can develop and set a balanced budget for 2025/26 and update its MTFP through to 2029/30, ensuring that corporate priorities continue to be delivered in a financially sustainable way.

Report:

1) Background and Introduction

- 1.1 There is substantial continued pressure on Local Government finances nationally as evidenced by the rising number of high-profile “Section 114 Notices” (effectively the local government equivalent of bankruptcy) being issued by Chief Financial (Section 151) Officers. Epping Forest District Council (‘the Council’) is not in that position. But *Financial Sustainability* is the ‘watchword,’ with the Council operating in that same environment and facing its own financial pressures. Driven by a tough economic backdrop, triggered – to a significant extent – by a series of major external events. Compounded by rising demand, and a steady fall in the value of Government support over several years.
- 1.2 This report sets out a proposed approach to Financial Planning for the next five years (2025/26 to 2029/30) in the light of these circumstances. The primary emphasis at this stage is the need to set a balanced budget for 2025/26; where known, emerging financial challenges are highlighted to help prepare Members for the months ahead in what will be another challenging period.

2) General Fund Revenue Position

- 2.1 The current financial position and 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 to 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.

2023/24 Outturn

- 2.2 After the General Fund recorded a revenue deficit of £1.286 million in 2022/23, the 2023/24 financial year provided a sharp – and welcome – contrast, with a revenue surplus of £0.918 million recorded, predominantly due to the Google capital receipt received for the land disposal at North Weald Airfield (NWA) in December 2023; this was the driver behind a budget surplus of £1.309 million in Net Interest costs. However, the year was not without its financial pressures, with budget deficits anticipated in both Quarter 1 and Quarter 2 (prior to the NWA capital receipt), which reflected a substantial shortfall in income from Planning Applications, which was unrelenting (ending the year £0.965 million overspent). The 2024/25 budget recognised the structural nature of the deficit, with the income expectation on Planning Applications purposely reduced by £600,000.

2024/25 Early Outlook

- 2.3 The Quarter 1 forecast for 2024/25 was reported to the Overview & Scrutiny Committee on 30th July 2024 and is also presented elsewhere on this agenda. The forecast reflects a positive start to the year with a year-end surplus of £0.225 million anticipated to emerge by 31st March 2025. However, despite the significant reduction in assumed income from Planning Applications (£600,000 as presented in Paragraph 2.2 above) for 2024/25, and a significant increase in statutory Planning Fees with effect from 6th December 2023, a further budget deficit (of £0.321 million) from this source is forecast.
- 2.3 In addition, pay demands for 2024/25 (from Unions) are already significantly more than the original budget assumption of 3.0%; there is therefore a risk to established budgets if a local settlement of a similar magnitude is reached in Epping. However, inflation does appear to be firmly under control, with the May and June 2024 CPI rate settling at 2.0%, matching the Bank of England’s long-term strategy to contain inflation at that level. As expected, lower inflation is beginning to feed through to lower interest rates, with the Bank of England announcing a cut in the Bank Rate (from 5.25% to 5.00%) for the first time in more than 4 years, although both scenarios were foreseen in the updated MTFP adopted by the Council in February 2024.

2025/26 Budget (and beyond)

- 2.4 Members will recall the most recent Medium-Term Financial Plan (MTFP) (2024/25 to 2028/29) adopted by the Council on 20th February 2024. The MTFP presented a balanced position for 2025/26, with a budget deficit of £0.921 million re-emerging in 2026/27; the balanced position for 2025/26 is unusual and reflects the assumed retention of the NWA capital receipt. However, the February 2024 MTFP was a tentative projection based on available intelligence at the time and the Council still needs to give detailed consideration as to the future application of the North Weald Airfield capital receipt.
- 2.5 During the current period of relatively high interest rates, the receipt has materially improved the Council's financial resilience. But the underlying financial challenges facing the sector have not been solved and the pressure remains to continually push forward for with an efficiency and transformation agenda. Any failure in continuing to address the challenges can temporarily be masked by reliance on the interest earnings from the capital receipt, but this makes the Council reliant on the receipt. The negative side of becoming reliant being that the Council cannot then spend the receipt on delivering its priorities and becomes vulnerable to interest rate reductions, which would reduce the Investment income. The Council's strategy to avoid reliance on the receipt is the Transformation Programme ("Fit for the Future"); it is essential to deliver on this strategy if short-term (reactive) budget reductions (cuts) are to be avoided.
- 2.6 Careful consideration also needs to be given to Qualis, the Council's delivery arm, which financially supports the Council by over £2.0 million per annum through margins on Council lending. To date, Qualis has been investing in delivering new residential and commercial assets, all of which require substantial capital spending before sales receipts are realised.
- 2.7 The economy has experienced two major shocks during first 4 years of Qualis's existence. This has hit profitability in the early development of the company (as well as the whole sector in which it operates). Loan margins agreed with Qualis are also adding pressure to the financial model, at a time when profits are being squeezed.
- 2.8 This year (2024/25), Qualis will commence sales of properties from within its new developments, which will be critical in determining the success of the current development approach. As part of the Council's budget development, and of the Qualis refresh of their Business Plan, the impact of the pressure created as a result of economic conditions will also need to be considered.
- 2.9 In addition, the Council's decision to bring its Waste and Recycling Collection service back in-house with effect from 4th November 2024, is reflected in the creation of an arms-length delivery vehicle, "Terra Verde Services Limited" (TVS). The creation of TVS secures the long-term future of the service for local residents as well as bringing a range of other benefits, including increased value-for-money (VFM). However, it is an initiative that has required substantial investment in the Council's revenue budget, which was – to a large extent – reflected in the budget for 2024/25 and revenue projections for 2025/26. However, the detailed development of the new service in recent months has identified the likely need for further revenue investment in the base budget (potentially in the region of £1.0 million), which will need to be factored in, in developing the 2025/26 budget.
- 2.10 The final Local Government Finance Settlement for 2024/25 (published on 5th February 2024), included a guaranteed additional increase for 2024/25 of 1.0% (from 3.0% to 4.0%) on "Core Spending Power" to all councils, including Epping. The 4th July 2024 General Election result, which led to a change in Government, adds to the uncertainty as to what the Settlement will look like for 2025/26 and beyond. So far, it is cautiously assumed within the MTFP that the Council's "Funding Guarantee Allocation" (FGA) will remain frozen at the 2024/25 level.

- 2.11 The Epping Forest District Council element of the Council Tax was increased in 2024/25 by 2.99% (£4.85 on a Band D property). Members will – yet again – have a difficult decision in setting the Council Tax for 2025/26. Raising it by a similar sum would help balance the books and protect local services.
- 2.12 The Government's intended approach to Business Rates in 2025/26 appears stable for now following the implementation of the 2023 Revaluation. The Council continues to manage (and benefit from) the Business Rates Retention (BRR) system as a committed member of the Essex Business Rates Pool.

3) Housing Revenue Account Financial Position

- 3.1 The Housing Revenue Account (HRA) balance stood at £4.797 million on 31st March 2024 (compared to £4.551 million on 31st March 2023). The 30-Year Business Plan assumes the maintenance of a minimum balance of £2.0 million; as at the 2024/25 Quarter 1 stage, this was on course to be achieved.
- 3.2 Rising inflation (especially on Repairs and Maintenance) – as with the General Fund – has been a major challenge to the HRA in recent years, and potentially Council tenants too. In common with most housing authorities, the Council set the maximum allowable rent increase of 7.0% for 2023/24 in accordance with the Government Rent Cap (the established Rent Standard was suspended for 2023/24 due to exceptionally high levels of inflation experienced in 2022) and, although the Rent Standard was reinstated for 2024/25 (with the adopted Epping rent increase being 7.7%), the sub-inflation increase adopted in 2023/24 resulted in a permanent resource reduction in the HRA.
- 3.3 The legal Rent Standard (April 2020) applies a formula of 'September CPI+1.0%'; based on the June 2024 CPI rate of 2.0% (latest available at time of preparing this report), this would result in a Rent Increase of 3.0%.
- 3.4 Members of course have the option of choosing a lower increase, but this would not help viability given rising staff costs and the increasing cost of Repairs and Maintenance, as well as the level of investment required to maintain the current Housing Investment Programme.

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 2024, the Council approved an overall Capital Programme of £200.91 million (including £140.42 million re HRA) for the five-year period 2024/25 through to 2028/29. This compares to an overall Programme of £274.58 million set in February 2023 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 (even with the NWA capital receipt) further plans to borrow in 2024/25 and beyond to meet the capital commitments of Qualis being the biggest factor, although this drives additional revenue streams to the Council).

4.4 However, given the underlying 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 £4.0 million on 31st March 2024 (compared to £3.219 million on 31st March 2023). The increased balance predominantly reflects the Budget surplus recorded in 2023/24 (noted above in Paragraph 2.2); This of course meets (but not exceeds) the Council's adopted minimum contingency balance. As noted above (and reported elsewhere on this agenda), an underspend of £0.225 million on the General Fund budget for 2024/25 is forecast at Quarter 1 stage, which would protect that balance and support a year-end contribution of £2.116 million into the newly created "Transformation Revenue Reserve" (TRR) in accordance with the commitments in the adopted 2024/25 budget.

5.3 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 2024 was £0.215 million). 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 2025/26 to 2029/30 is the preparation of an updated Medium-Term Financial Plan (MTFP) to Cabinet on 7th October 2024. This will provide more specific and numeric detail as to the financial position. It will provide a broad outline forecast through to 31st March 2030 and identify the scale of the financial challenge that the Council has to address in achieving long-term financial sustainability. Moreover, the MTFP will pinpoint the challenge in setting a balanced budget for 2025/26, allowing Cabinet to consider the available options, and instruct officers, in preparing an initial draft balanced budget for Cabinet on 9th December 2024.

7) Supporting Strategies

7.1 There are two other mandatory strategies that require updating as part of the 2025/26 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 (and further ‘refreshed’ for 2024/25), which reflected CIPFA’s updated Prudential Code released in late 2021; refinements included some adjustments to the Prudential Indicators within the 2017 Code. The 2025/26 requirements are expected to remain unchanged at this stage (compared to 2024/25); 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 – 2024/25 – TMS was prepared in accordance with CIPFA’s updated Treasury Management Code (2021 Edition). The 2025/26 requirements are expected to remain unchanged at this stage (compared to 2024/25).

Reason for Decision:

To set a framework within which the Council can develop and set a balanced budget for 2025/26 and update its Medium-Term Financial Plan (MTFP) through to 2029/30, ensuring that corporate priorities continue to be delivered in a financially sustainable way.

Options:

The report sets out the Council's updated financial context and represents the beginning of the 2025/26 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.

Scrutiny Comments:

None at this stage. The updated MTFP 2025/26 to 2029/30 (including Budget Strategy 2025/26) and Capital Programme 2024/25 to 2028/29 is scheduled for presentation to the Overview & Scrutiny on 29th October 2024. Relevant comments made at that meeting will be taken forward for consideration by Cabinet on 9th December 2024.

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 in the medium term. Further details – including detailed estimates – will be presented to the Cabinet meeting on 7th October 2024. 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:

Quarter 4 Budget Monitoring Report (Provisional Outturn) 2023/24 (Cabinet 28th May 2024).
Draft Statement of Accounts 2022/23 (published 28th May 2024).
Quarter 1 Budget Monitoring Report 2024/25 (Overview & Scrutiny Committee 30th July 2024).

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.

Equality:

Consideration will be given to equality and diversity issues in respect of any budget changes that may emerge during the development of budget. This will be done in line with agreed policies and procedures including production of Equality Impact Assessments where appropriate.

Proposed Financial Planning Framework 2025/26 to 2029/30

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 early September 2024 with this report and culminating in late February 2025 with full Council adopting a balanced budget for 2025/26.

Date	Committee	Report/Event	Purpose
2nd Sept. 2024	Cabinet	Financial Planning Framework 2025/26 to 2029/30 (including updated financial context).	Presents the context for the forthcoming budget development process, allowing Cabinet to consider proposals for an updated Financial Planning Framework.
7th Oct. 2024	Cabinet	Updated MTFP 2025/26 to 2029/30 (General Fund & HRA) (including Budget Strategy 2025/26).	Cabinet to consider first iteration of updated MTFP for 2025/26 to 2029/30, including the embedded Budget Strategy.
		Capital Programme Update (General Fund & HRA) update 2024/25 to 2028/29.	Cabinet to consider currently adopted five-year Capital Programme and provide guidance on developing a revised Programme for 2025/26 to 2029/30.
29th Oct. 2024	Overview & Scrutiny Panel	Updated MTFP 2025/26 to 2029/30 (including Budget Strategy 2025/26).	Members to scrutinise updated MTFP (including Budget Strategy) and Capital Programme.
		Capital Programme Update (General Fund & HRA) update 2024/25 to 2028/29.	
9th Dec. 2024	Cabinet	Initial Draft Budget 2025/26 (balanced), and updated MTFP (2025/26 to 2029/30).	Cabinet to consider (initial) draft (Revenue and Capital) budget proposals for 2025/26, including Fees and Charges included therein.
		Initial Draft Capital Programme (GF & HRA) 2025/26 to 2029/30.	
		Draft Fees and Charges 2025/26.	
28th Jan. 2025	Overview & Scrutiny Panel	Updated draft Budget proposals 2025/26, and updated MTFP (2025/26 to 2029/30).	Members to scrutinise draft (Revenue and Capital) Budget proposals for 2025/26, providing feedback for Cabinet consideration.
		Updated draft Capital Programme (GF & HRA) 2025/26 to 2029/30.	
		Draft Fees and Charges 2025/26.	

Date	Committee	Report/Event	Purpose
3rd Feb. 2025	Cabinet	Final draft Budget proposals 2025/26, and updated MTFP (2025/26 to 2029/30).	Cabinet to review final Budget & MTFP proposals, making recommendation to full Council.
		Final draft Capital Programme proposals (GF & HRA) 2025/26 to 2029/30.	Cabinet to approve Fees and Charges proposals for year ahead.
		Final Fees and Charges 2025/26.	Decisions to take account of scrutiny feedback.
6th Feb. 2025	Audit & Governance Committee	Draft Capital Strategy 2025/26 to 2027/28.	Members to consider supporting strategies, making comments and recommendations to full Council.
		Draft Treasury Management Strategy 2025/26.	
20th Feb. 2025	Full Council	Budget Report 2025/26, including updated MTFP 2025/26 to 2029/30.	Full Council to consider and decide upon the Budget for 2025/26, and relevant linked and supporting strategies. Includes setting the Council Tax on behalf of all preceptors.
		Capital Programme (GF and HRA) 2025/26 to 2029/30.	
		Capital Strategy 2025/26 to 2027/28.	
		Treasury Management Strategy 2025/26.	
		Council Tax Setting Report 2025/26.	