

10th July 2024

<b>Report of</b>	<b>The Section 151 Officer</b>	<b>Author</b>	<b>Andrew Small</b> (Andrew.Small@Colchester.gov.uk) <b>Chris Hartgrove</b> (Chris.Hartgrove@Colchester.gov.uk)
<b>Title</b>	<b>Financial Planning Framework 2025/26 to 2029/30</b>		
<b>Wards affected</b>	Not Applicable		

**1. Executive Summary**

- 1.1 There is substantial continued pressure on Local Government finances nationally; it is a situation echoed locally here at Colchester City Council.
- 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 internal and external financial pressures and the progress of the Council's 'Fit for the Future' (FFTF) Programme, which is designed to deliver substantial savings and additional income to balance the books, in a sustainable way, being mindful of rising service demand.
- 1.3 The primary emphasis at this stage is the need to set a balanced budget for 2025/26. And to that end to ensure; where known, emerging financial challenges are highlighted. With a hint of potential scale where possible. This will help prepare Members, earlier than is usual, for the months ahead and what will be another challenging period of challenge, review, and change.
- 1.4 After recording a small surplus on General Fund revenue in 2022/23, the Council faced substantial financial pressure through 2023/24 with a series of overspends reported to Members throughout the financial year. With spending and demand pressures in key service areas such as Homelessness being a notable factor.
- 1.5 The Council's reserve levels are relatively healthy at this stage, although they are a finite resource that can only be used once and must be protected to the extent required to manage financial risk in the future. However, they are likely to form a key part of the strategy in addressing the projected General Fund budget deficit of £1.991 million in 2025/26 (MTFF February 2024), thus providing a 'bridge' to the release of substantial savings (estimated at £2.675 million) in 2026/27 from the "Fit for the Future" Programme.
- 1.6 The Housing Revenue Account (HRA) is currently sound financially, with the balance on the HRA Reserve consistently above the required minimum of £1.6 million contained within the current 30-Year HRA Business Plan. However, it was recognised last year that circumstances have now changed. There a range of substantial financial challenges, and the Plan is consequently the subject of an ongoing detailed review. The updated Business Plan that will emerge from the review will ensure viability. By addressing the challenges of tougher regulation, the rising cost of repairs and maintenance and much higher interest rates, to ensure the long-term sustainability of the HRA.

- 1.7 The Council approved an overall Capital Programme of £263.074 million (including £205.365 million re HRA) for the five-year period 2024/25 through to 2028/29, which continues to reflect the Council's ambitions for Economic Growth and Housing especially. Increased external borrowing is an integral part of the financing strategy, especially on the HRA (although this is subject to review as noted above in Paragraph 1.5).
- 1.8 Given the usual pattern whereby the Local Government Finance Settlement is announced just before Christmas, definitive figures for 2025/26 may not be available until December 2024.
- 1.9 A tailored Financial Planning approach, which develops the 2025/26 Budget and updated Medium-Term Financial Forecast (MTFF) through to 2029/30 is therefore proposed, within a review and governance framework spanning over seven months; beginning with this report and culminating in Full Council setting a balanced budget in February 2025.

## **2. Recommended Decisions**

- 2.1 To note the backdrop to the Financial Planning process for 2025/26 to 2029/30; and
- 2.2 To agree the proposed approach to Financial Planning for 2025/26 to 2029/30, including the reporting and governance timetable summarised in **Appendix A**.

## **3. Reason for Recommended Decision**

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

## **4. Alternative Options**

- 4.1 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.
- 4.2 Members have the option to accept the recommended approach to Financial Planning, including the reporting and governance timetable, or suggest amendments.

## **5. Background and Introduction**

- 5.1 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. Colchester City 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 demands, and a fall over many years in the real term value of Government support.
- 5.2 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.

## 6. GENERAL FUND REVENUE POSITION

- 6.1 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

- 6.2 After the General Fund recorded a small revenue surplus of £0.163 million in 2022/23, the 2023/24 financial year provided a sharp contrast; significant overspends were forecast throughout the year, peaking at £1.916 million at the Quarter 3 stage (the final – Quarter 4 – position is being finalised at the time of preparing this report). Inflation was a particular problem again in the year, especially on Staffing Costs, with the eventual Pay Award for 2023/24 exceeding the Council's budget provision by approximately £600,000 (this additional cost is now embedded in the base budget so must be funded in the future too). There was also a significant overspend (of £1.216 million) on Homelessness/Temporary Accommodation. This is part of a national trend; for example, an article released by *Shelter* on 29th February 2024 highlights Government statistics showing that "rough sleeping has increased by more than a quarter for two years in a row", with 109,000 households in temporary accommodation ("up 10% in a year"). Income also fell short of expectations with notable pressures experienced in the Planning and Bereavement Services.
- 6.3 The realisation of embedded savings targets within the 2023/24 revenue budget also proved very challenging, a notable example was a targeted recruitment freeze, with an assumed yield of £0.5 million.
- 6.4 However, one significant positive in 2023/24 (which significantly mitigated the pressures noted above within the Service budgets) was a substantial underspend (approaching £2.4 million) on Capital Financing costs, due to the combined impact of a continued increase in interest rates and the completion of an internal review of Capital Financing costs.

### 2024/25 Early Outlook

- 6.5 At the time of preparing this report, the Quarter 1 forecast for 2024/25 was in the early stages of preparation. It is therefore too early to make any meaningful judgements as to the forecast net General Fund revenue position for the year end. However – in the light of the unfolding overspend in 2023/24 – a range of mitigating features were purposely built into the 2024/25 budget (including the removal of unachievable savings targets), aimed at heading off financial pressures before they emerged in the first place. Whilst this will undoubtedly help the outturn for the financial year, 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 Colchester. However, on a brighter note, inflation does appear to be firmly under control, with the May 2024 CPI falling to 2.0%, matching the Bank of England's long-term strategy to contain inflation at that level. Lower inflation is expected to feed through to lower interest rates (possibly as early as August 2024), although both scenarios were foreseen in the updated MTFF adopted by the Council in February 2024.

### 2025/26 Budget (and beyond)

- 6.6 Members will recall the most recent Medium-Term Financial Plan (MTFF) (2024/25 to 2028/29) adopted by the Council on 21st February 2024. The MTFF highlighted a significant structural budget deficit of £2.771 million by 2028/29, with a pressure of £1.991 million in 2025/26 reflecting the immediacy of the problem (subject to comments in

Paragraph 6.8 below).

- 6.7 The “Fit for the Future” (FFTF) (transformation) Programme is key to resolving the Council’s ongoing revenue pressure. Within the current MTFF, the FFTF Programme is assumed to deliver £1.844 million in base budget savings in 2024/25, followed by £0.253 million in 2025/26, with a substantial step up (to £2.675 million) in 2026/27 (which includes assumed savings of £1.0 million from the Waste Strategy).
- 6.8 However, although more needs to be done (over and above FFTF), and the delivery of FTFF may yet lag on schedule, relatively healthy reserve levels (see Section 9 below), and a projected surplus (of £1.310 million) in the MTFF for 2026/27, does afford the Council a degree of flexibility and ‘buys time’ to allow the careful implementation of FFTF in a sustainable way.
- 6.9 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 Colchester. The General Election scheduled for 4th July 2024 (result unknown at time of issuing this report) 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 MTFF that the Council’s “Funding Guarantee Allocation” (FGA) will remain frozen at the 2024/25 level.
- 6.10 The Colchester City Council element of the Council Tax was increased in 2024/25 by 2.99% (£6.33 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.
- 6.11 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.

## **7. HOUSING REVENUE ACCOUNT POSITION**

- 7.1 The Housing Revenue Account (HRA) balance stood at £4.582 million on 31st March 2023 (compared to £4.555 million on 31st March 2022). The established 30-Year Business Plan assumes the maintenance of a minimum balance of £1.6 million.
- 7.2 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 Colchester rent increase being 7.7%), the sub-inflation increase adopted in 2023/24 resulted in a permanent resource reduction in the HRA.
- 7.3 The legal Rent Standard (April 2020) applies a formula of ‘September CPI+1.0%’; based on May 2024 CPI rate of 2.0% (latest available at time of preparing this report), which would result in a Rent Increase of 3.0%.
- 7.4 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.

- 7.5 The prospect of higher rents also has wider implications. Locally, most tenants are protected to some extent (either through the receipt of Housing Benefit or Universal Credit), but conversely many are not, of course. This potentially displaces some of the cost burden to central Government.
- 7.6 See Section 8 below for a discussion on the HRA Capital Programme, which is interlinked with the revenue position; a new 30-Year HRA Business Plan in particular, as well as directly impacting on capital investment plans, could also lead to a range of changed revenue assumptions.

## **8. CAPITAL PROGRAMME (GENERAL FUND & HRA)**

- 8.1 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.
- 8.2 In February 2024, the Council approved an overall Capital Programme of £263.074 million (including £205.365 million re HRA) for the five-year period 2024/25 through to 2028/29, which continues to reflect the Council's ambitions for Economic Growth and Housing especially. It also reflects extended (5-year) commitments to 'rolling investment' in Assets and IT (with the Capital Programme now fully aligned with the MTFP).
- 8.3 As a Council that continues to retain its own Housing Stock, the Council took on significant (HRA) debt as part of the self-financing arrangements introduced (nationally) in 2012. As reported to full Council in February 2024, external borrowing is expected to grow with the General Fund and the HRA projected to take on a further £57.6 million and £135.7 million respectively over the period 2024/25 to 2028/29. Although Members are reminded that future HRA borrowing will, in practice, be determined by the updated 30-Year HRA Business Plan, which is being prepared in 2024/25; this is looking again at the detailed viability of currently planned schemes in the light of changing circumstances (including – most notably – significantly higher interest rates).

## **9. BALANCE SHEET RESERVES**

- 9.1 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. But the Council now has (with effect from 2024/25) a formally established strategy to carry a minimum General Fund balance (contingency) of £3.0 million (adopted in February 2024).
- 9.2 The General Fund balance stood at £2.175 million on 31st March 2023 (compared to £2.161 million on 31st March 2022), although the Council has substantial other Earmarked Reserves (including some unallocated funds potentially available for transfer back to the General Fund balance). At the time of preparing this Financial Planning Framework, the detailed allocation and profiling of reserves is under review and will be reflected in the Council's closing Balance Sheet for 2023/24 (publication anticipated 31st July 2024). It is anticipated that sufficient available reserves will be available to bring the General Fund balance up to the minimum contingency level of £3.0 million as of 31st March 2024, but nevertheless a series of overspends (e.g. the forecast General Fund overspend for 2023/24 – at the Quarter 3 stage – was £1.916 million) is progressively putting a tighter squeeze on (finite) reserves.

## **10. PREPARING THE MEDIUM-TERM FINANCIAL FORECAST**

- 10.1 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 (MTFF) to Cabinet on 4th September 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 budget deficit that the Council must address in achieving long-term financial sustainability. Moreover, the MTFF will reveal the estimated scale of the budget gap that needs to be addressed to set a balanced budget for 2025/26, allowing Cabinet to consider available options, and instruct officers, in preparing an initial draft balanced budget for Cabinet on 27th November 2024.

## **11. SUPPORTING STRATEGIES**

- 11.1 There are two other strategies that require updating as part of the 2025/26 Financial Planning cycle as follows:

- Capital Strategy – this is a 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’s most recent Capital Strategy was adopted by the Council in February 2022, alongside an updated 4-year Capital Programme (2022/23 to 2025/26). However – following the (one-off) decision not to adopt an updated Capital Programme in February 2023 (prior to the commencement of the 2023/24 financial year) – pending a detailed review and reset of the Capital Programme, it was not possible to prepare a reliable updated Capital Strategy for 2023/24. An updated (and overhauled) Capital Strategy (effective from 2024/25) will be presented to the Governance & Audit Committee in September 2024; although later in the cycle than recommended best practice, the new Strategy will be strengthened to include the full requirements of CIPFA’s updated Prudential Code released in late 2021 (including further detail on Asset Management, and Service and Commercial Investments). A ‘refreshed’ Capital Strategy for 2025/26 will be presented and adopted in February 2025; the required content is expected to remain unchanged at this stage (compared to 2024/25); and
- Treasury Management Strategy (TMS) – the Council has significant levels of borrowing and is therefore exposed to financial risks such as changing interest rates (particularly relevant following recent rate rises). 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 (presented to the Governance & Audit Committee on 18th June 2024) was prepared in accordance with CIPFA’s updated Treasury Management Code (2021 Edition) and an updated Investment Strategy (reflecting the final outturn for 2023/24) is to be presented to the Governance & Audit Committee in September 2024. The 2025/26 requirements are expected to remain unchanged at this stage (compared to 2024/25).

## **12. Equality, Diversity and Human Rights implications**

- 12.1 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.

### **13. Standard References**

- 13.1 There are no direct Publicity, Human Rights, Community Safety or Health and Safety implications because of this report.

### **14. Strategic Plan References**

- 14.1 The Budget proposals will be developed within the framework of the Council's ambitions, as set out within the agreed Strategic Plan. These are balanced against the Statutory requirement of presenting a balanced budget and delivering core Statutory Services. The Budget will be aimed at achieving the optimum combination of these factors.

### **15. Consultation**

- 15.1 The proposed Financial Planning Framework in this report will be presented to the Scrutiny Panel on 9th July 2024 for consideration and comment, prior to consideration by Cabinet on 10th July 2024. Furthermore, as the proposals are further developed, detailed consultation, both internally and externally, within the statutory Budget Setting framework are an in-built feature, reflecting the Council's continued commitment to engagement, openness, and transparency.

### **16. Publicity Considerations**

- 16.1 Decisions on local taxation and on the level of services provided will be set out within the Budget proposals for 2025/26 once developed; they are likely to have direct impact on most residents. Standard publicity media will be utilised to ensure that the impact of the eventually agreed Budget is widely communicated and the reasons for proposals are understood.

### **17. Financial implications**

- 17.1 As set out in the report.
- 17.2 No changes are necessary to the 2020 Financial Regulations. The eventual resource implications flowing from this report will be substantial, although not quantified in detail at this stage. The Council has a budget gap in its General Fund revenue account in the short and medium term. Further details – including detailed estimates – will be presented to Cabinet meeting on 4th September 2024. Net expenditure must be brought into line with available funding both in the short-term (to set a balanced budget for 2025/26) and the medium-term (to achieve financial sustainability).

### **18. Health, Wellbeing and Community Safety Implications**

- 18.1 Health, Wellbeing and Community Safety considerations will be explored and considered in respect of each key component part of the Budget as it is developed.

### **19. Health and Safety Implications**

- 19.1 None.

## **20. Risk Management Implications**

20.1 The consideration of risk will form an integral part of the development of the proposals in the report. In particular, the MTFF 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.

## **21. Environmental and Sustainability Implications**

21.1 All budget measures are assessed for their environmental impact, reflecting the Council's commitment to be 'carbon neutral' by 2030. Environment and Climate Change is an essential cross-cutting theme in the Council's recovery planning and a core theme of the Strategic Plan.

## **Appendices**

- ***Appendix A – Proposed Financial Planning Framework 2025/26 to 2029/30***

## **Background Papers**

None.



### 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 mid-July 2024 with this report and culminating in late February 2025 with full Council adopting a balanced budget for 2025/26.

Date	Committee/ Audience	Report/Event	Purpose
9th July 2024	Scrutiny Panel	Financial Planning Framework 2025/26 to 2029/30 (including updated financial context).	Presents the context for the forthcoming budget development process, allowing Members to scrutinise the proposals for an updated Financial Planning Framework to be considered by Cabinet on 10th July 2024.
10th July 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, taking account of the comments of the Scrutiny Panel held on 9th July 2024.
4th Sept. 2024	Cabinet	Updated MTFF 2025/26 to 2029/30 (General Fund & HRA) (including Budget Strategy 2025/26).	Cabinet to consider first iteration of updated MTFF 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 <i>currently adopted</i> five-year Capital Programme and provide guidance on developing a revised Programme for 2025/26 to 2029/30.
17th Sept. 2024	Scrutiny Panel	Updated MTFF 2025/26 to 2029/30 (including Budget Strategy 2025/26).	Members to scrutinise updated MTFF (including Budget Strategy) and Capital Programme.
		Capital Programme Update (General Fund & HRA) update 2024/25 to 2028/29.	
Nov. 2024 (TBC)	All Members	All Member Budget Workshop (Part 1)	Member engagement session to share updated MTFF, and early messages and emerging proposals from the 2025/26 Budget development process (and take feedback).

Date	Committee/ Audience	Report/Event	Purpose
Nov. 2024 (TBC)	Leaders Alumni	Leaders Alumni	Focussed engagement session with senior politicians to share updated MTFF, and early messages and emerging proposals from the 2025/26 Budget development process (and take feedback).
27th Nov. 2024	Cabinet	Initial Draft Budget 2025/26 (balanced), and updated MTFF (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.	
Dec. 2024 (TBC)	Council Taxpayers	Financial context and emerging Budget proposals 2025/26 presentation/event/survey (timing and format TBC).	Capturing the views of local Council Taxpayers in accordance with statutory requirements.
Dec. 2024 (TBC)	Business Ratepayers	Financial context and emerging Budget proposals 2025/26 presentation/event (timing and format TBC).	Capturing the views of local Business Ratepayers in accordance with statutory requirements.
28th Jan. 2025	Scrutiny Panel	Updated draft Budget proposals 2025/26, and updated MTFF (2025/26 to 2029/30).	Members to scrutinise draft (Revenue and Capital) Budget proposals 2025/26, providing feedback for Cabinet consideration.
		Updated draft Capital Programme (GF & HRA) 2025/26 to 2029/30.	
		Draft Fees and Charges 2024/25.	

Date	Committee/ Audience	Report/Event	Purpose
29th Jan. 2025	Cabinet	Final draft Budget proposals 2025/26, and updated MTFF (2025/26 to 2029/30).	Cabinet to review final Budget & MTFF 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 and public consultation.
Feb. 2025 (TBC)	All Members	All Member Budget Workshop (Part 2)	Member engagement session to share further updated MTFF and 2025/26 Budget proposals.
25th Feb. 2025	Governance & Audit 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.	
26th Feb. 2025	Full Council	Budget Report 2025/26, including updated MTFF 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.	