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 Framework (MTFF).

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 always financial challenges facing the Council but those we are currently facing are exceptional by any measure. Interest rates, energy prices and inflation all rose rapidly and are falling much slower than expected. This has placed considerable additional strain of an already stretched Local Government sector and has required the identification of further savings from budgets. This follows years of similar savings exercises. The cumulative impact is now manifesting in unprecedented levels of councils warning of, or issuing, Section 114 notices.

2.2. Despite this challenge, the Council took a considered, comprehensive, and inclusive approach to addressing the forecast financial gap. The solution prioritised the continued delivery of core services, maintaining balances, and developing robust financial plans which incorporate the expected continuing financial uncertainty.

2.3. As a result, I am satisfied that a prudent and considered approach has been employed in formulating and developing these budget proposals and believe that the Council is presented with a robust set of estimates for consideration.

2.4. Delays in completing a backlog of final accounts has been an issue of real concern for the Council over the past year, particularly due to the lack of reassurance and the element of doubt created over the level and adequacy of the Council's reserves and balances. The issue is common in local government and pertains to wider problems with the Accounting and Auditing Framework. To provide reassurance, the Finance Team have undertaken considerable work to move our understanding forward. Whilst the issue of backlogged Audit remains unresolved a high degree of confidence over the level of balances now exists, which I consider sufficient to provide S151 reassurance to Council within this statement.

2.5. Using comparative tools produced by CIPFA and OFLOG's it can be determined that the Council's reserves are at an average level when compared with similar councils and whilst risks and uncertainties exist, the level of reserves held by the Council are deemed sufficient to provide against any reasonably foreseeable financial event. I am further satisfied that it has both robust mechanisms in place to monitor and manage spending and to anticipate and understand the financial risks facing the Council.

2.6. I am professionally obliged to have regards to CIPFA's Resilience Index in relation to Colchester City Council. Unfortunately, the delays in completing final accounts and the associated Government Returns have meant that this data could only partially be updated for 2023/34 by CIPFA. From the information that is available, together with a broad understanding of where the Council would sit within the comparative data and the benefit of information now provided by OFLOG, I am satisfied that the Budget presented here has been developed cognisant of the information contained therein and does not highlight any significant concerns. The Finance Team will continue to work with CIPFA and others as a priority to bring the information up to date.

2.7. In arriving at this opinion, I have taken due account of the following matters.

3. Financial Management Arrangements

3.1. The Council's Accounts for 2020/21 remain unsigned by the Council's Auditors, thereby creating uncertainty as to the exact size of carried forward balances. The delayed conclusion of Audits is a sector wide issue and is associated with both Auditor capacity and the complexity of current accounting standards. I believe that there is no realistic prospect of the opinion on the Accounts for 2020/21 being issued anytime soon.

3.2. The delay remains a source of considerable frustration and we continue to push the Auditors and the Government for a conclusion to the backlog. A consultation has recently been launched which proposes setting a long stop date of 30 September 2024 for all Audits prior to 2023/24 to be concluded. Whilst this is unlikely to resolve all historic issues, nor provide the reassurance sought on the accuracy of accounts, it will at least draw a line under the delays and allow the sector to move forward. Balances and valuations will need to be determined for accuracy as at the current date, rather than on audited brought forward balances.

3.3. The Council has a sound system of budget monitoring and control, evidenced by the production of quarterly budget monitoring reports to Governance and Audit 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. But over the last two years the size of the budget gap, created by volatile external economic factors, has meant the Council has also needed to identify significant efficiency savings, some services reductions and implement the maximum Council Tax increase for a district council. The Council has developed robust performance and project management arrangements to track the identification, delivery, and capture of efficiency savings from service areas and projects and these are overseen by members of the Council's Senior Leadership Team and reported to members. Budget reductions are now built into individual service budget allocations and not held centrally, so that there is clarity and ownership over delivery.

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 2024/25 was again iterative but reflected newly identified financial pressures along with income generation and efficiency opportunities. The budget has also revisited core assumptions around future levels of Government Grant and the availability of Reserves to support spending plans. All budget holders and the Cabinet were fully engaged in the process. The financial impacts associated with higher inflation and costs of borrowing had the largest impact on budget development and in the understanding of the Council's long-term budgetary position. A resulting budget gap of £2.4 million was predicted and subsequently closed through a series of activities undertaken over the following 3 months. Acknowledging the size of the financial challenge faced by local authorities, the Government again provided additional support in its December 2023 announcement and then again in a separate announcement in January 2024 (amounts confirmed 5 February and proving too late to reflect in the budget proposals). When added to the £5 million savings target faced by the Council in 2023/24, the cumulative impact of closing a further budget gap of this size has represented the largest financial challenge faced by Colchester City Council in recent years.

4.2. In dealing with the financial challenges faced by the Council, it has recognised the importance of sustainably balancing its budget at a structural level, which equates (in financial terms) to ensuring that its regular income and expenditure match. To achieve this, it has developed a transformation programme with aim of reducing the Council's net expenditure whilst protecting or improving services.

4.3. A range of significant funding pressures and requests were identified. These have been assessed by officers and portfolio holders. Where these pressures are central to continued service delivery or the achievement of corporate objectives, they 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 Scrutiny Committee, all guided by advice from the Chief Executive, Deputy Chief Executive and Chief Operating Officer. The savings proposals have been developed iteratively over many months with considerable member engagement in multiple forums at various stages to help formulate the optimum budget solution.

5. Key Assumptions

5.1. The largest assumptions are all associated with emerging cost pressures. These are primarily inflationary, pay, the partial delivery of savings targets, borrowing costs, energy prices and increased demand for core services, such as homelessness.

5.2. Energy supply instability associated with the Ukrainian conflict, together with supply chain issues and the Government's response, pushed up inflation unexpectedly and rapidly creating the largest budgetary pressure in 2023/24. This has also fed through to the wider economy and put pressure on household incomes. The Bank of England believe these drivers have now peaked and inflation has rapidly reduced over the past few months. It is expected that the cost of borrowing (and interest from investments) will eventually follow, but likely to fall far slower than inflation. Whilst Inflation is now decreasing, it has taken longer than originally predicted and this has created sustained pressure on the budget which was not allowed for last year. This consolidated increase in costs has an ongoing impact on 2024/25 and has driven much of the budget pressure needing to be accommodated. Whilst inflation is now much lower than it was at the equivalent point last year, it remains to be seen whether this is reflects in lower wage settlements within this budget planning.

5.3. The budget includes provision for wage and contract inflation increases at 3% and 3.5% respectively. Services have been awarded contract inflation in-line with contract conditions and some indexation has been provided for services, but a general expectation remains that services will absorb elements of non-wage and non-contract inflationary pressures where they can. Inflationary provisions are based on advice and Bank of England projections that inflation will continue to fall through 2024/25.

5.4. The pressure on household incomes has manifested in a significant rise in homelessness and associated demand for temporary accommodation, placing unexpected pressure on the 2023/24 budget. This same pressure has been witnessed across the Country and the Council has been actively lobbying for additional Government support. The budget for 2024/25 includes additional provision for Homelessness costs, and assumes demand stays at the current elevated level.

5.5. The Government again provided only a one-year Finance Settlement for 2024/25 with additional support to assist councils struggling with inflationary and demand pressures. There remains no clarity over longer term funding prospects with the planned 'Fairer Funding' review having now been delayed for many years and seeming less and less deliverable within the current local government funding landscape. The Government's 2024/25 settlement again includes a range of additional, potentially temporary funding streams and the MTFF assumes these continue (at least in total) but that the amounts do not increase across the MTFF period. This assumption reflects the recent trend of some growth announced by Government, using Core Spending Power as the preferred measure. The Government has indicated that any change to current funding arrangements will come with more than 12 months' notice and with transitional arrangements and so the assumption used are considered reliable in the short to medium term.

5.6. The Finance Team have been working to establish a reliable position on Reserves. This entails working through each reserve to understand its purpose and future demands against it. It also requires a deeper understanding of all the current financial risks facing the Council to understand the adequacy of reserves in totality. This work is ongoing and needs to be annually updated and reviewed as part of financial planning. As part of this work specialist advice has been commissioned on technical reserves. Work on the Business Rates Retention Reserve has indicated that this reserve is expected to grow over the next few years as the Council benefits disproportionately from the recent national revaluation of Business Rates. This benefit is largely not reflected in the revenue budget because of the overdue 'reset' of the Business Rates system, which has the potential to remove all this gain. Revenue reliance on Business Rate gain would represent a significant risk to the Council and avoiding this justifies its exclusion. Instead, actual additionality will be added to the Business Rates Retention Reserve and will be available for one-off applications. This is likely to provide a considerable cushion against unplanned and unexpected risks which increases the overall confidence in these budget proposals.

5.7. 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 increases. The budget assumes that borrowing will be incurred in accordance with the investment plans set out in the Capital Programme. If spending is delayed this will also have a material effect on the MRP charge required in year. The budget includes a review of affordability and expected delivery of the capital programme, given revised market conditions, removing some of the under delivery which has been a feature of recent years.

5.8. The Council necessarily set ambitious savings targets for 2023/24 in the face of unprecedented budgetary pressures. Some of these proved challenging to deliver, creating pressure on in year budgets. To move away from reactionary annual savings to the Council has proposed a medium-term programme of transformation initiatives entitled 'Fit for the Future.' This programme is intended to reduce the Council's net expenditure, whilst maintaining or improving services. To ensure success and to provide capacity, funding has been identified through the review of reserves referred to earlier. The programme initially has financial targets set over 3 years and these are reflected in the budget proposals. As would be expected, higher certainty exists on the precise nature and deliverability of the savings in 2024/25, than in later years. Governance and project management arrangements are being put in place to ensure delivery. Progress will be reviewed and reflected in ongoing budget development.

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 unknown impact of economic factors and pressures, specifically inflation, pay and interest rates.
- The contribution from the Council's trading company and the current unwinding of certain of these entities.
- Government Funding - as it has yet to publish its distribution methodology for 2025/26 onwards. The Government has stated it remains committed to a review of the Grant distribution formula and it is speculated that this will see a redistribution at a national level consistent with its 'Levelling-Up' agenda should this happen. The Government has indicated that any review will not now be considered until after the next election. It is expected that temporary (one-year) arrangements will continue to apply through 2025/26, this still represents a key risk to the MTFP.
- The performance of commercial transactions, such as Turnstone.
- Delivery of the Council's transformation programme, 'Fit for the Future.'
- I am satisfied on Short to Medium Term viability of the HRA but longer-term affordability of HRA plans, including Capital Spending, needs to be reviewed and reassessed through a planned full review of the HRA Business Plan during 2024/25.

6.4. The Council has agreed to the hibernation of certain trading companies. The full accounting entries required to complete this by the end of 2023/24 are being worked through with technical input from specialists in company law and commercial and local government accounting. These entities have incurred costs to date against the expectation of future profits. With no realistic prospect of delivering short term profits due to changes in market conditions and risk appetite, the Council will need to realise and write-off these costs. Based on current trading information it is expected that this cost will be in the range of £2 to £2.5 million but will only be fully understood once the technical work has been completed. These costs are unavoidable, but it is important to note that the Council has adequate reserves to cover expected maximum write-offs.

6.5. It is in the context of these, and the wider risks, facing the sector that it is recommended that the Council increases its minimum unallocated balances to £3 million. The budget contains provision to do this and has additional contingencies, reserves, and balances to ensure that the Council is adequately planning for and mitigating the impact of any such risks should they be realised. Risks associated with borrowing are hedged by ensuring repayment profiles are realistic and interest rates are fixed at lowest opportune levels, 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. This report has explained in earlier sections the ongoing work to refine the Council's understanding of its reserves and the proposals to increase it unallocated balances against the wider risks facing council finances. Against this, I have high confidence that the combined earmarked and unallocated balances, when considered together and against the risk profile of the Council, are adequate.

8. Capital Plans and the Prudential Code

8.1. The Council has complied with the requirements of the Prudential Code for Capital Finance in Local Authorities. Delays in producing final accounts have impacted on producing these reports. The Prudential Indicators are to be considered by the Council's Audit and Governance Committee.

8.2. That Council has an ambitious Capital Programme reflecting its priorities towards new Council House building and town centre regeneration. All plans have recently been reviewed for affordability and deliverability. Capital spending is largely dependent on borrowing and the revenue costs of this proposed borrowing have been factored into the Budget and the Medium-Term Financial Framework. The long-term costs of borrowing are now expected to decrease after the sharp rise experienced in the past couple of years. The Treasury Management Strategy will seek to fix borrowing costs at lower levels, and borrowing will predominantly be internalised or taken short term until rates are deemed to have fallen to their expected short-term minimum where the opportunity allows.

9. Financial Standing

9.1. 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.

9.2. 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 seven years, public consultation, and technical stakeholder engagement.

9.3. The CIPFA Financial Resilience Index for Colchester City Council, (using 2022/23 data) is only partially available because of delays in completing the Accounts for 2022/23. As explained in paragraph 2.6 had it been available, I do not believe it would highlight any significant concerns.

Andrew Small CPFA
Section 151 Officer
February 2024