

2024/25 Budget Proposals: Clarifications

Preparing the annual budget is a dynamic process with a range of events, some internal, some external, occurring right up until the full Council meeting to set the budget is held. In response to feedback from various sources and the release of the Final Local Government Finance Settlement for 2024/25. This Attachment provides clarifications on the following subjects:

- Late Items (non-adjusting).
- The updated Medium-Term Financial Forecast (MTFF) 2024/25 to 2028/29.
- The Reserves position; and
- The Treasury Management position.

1) **Late Items (non-adjusting)**

The draft budget proposals for 2024/25 presented to the Scrutiny Panel on 23rd January 2024 and the Cabinet on 24th January 2024, contained an assumed revenue saving of £8,800 in relation to the Leisureworld Café to be achieved through the discontinuation of the present service. Based on councillor feedback received, the Cabinet have decided to pause this proposal and review the matter in more detail. If the proposal is not implemented as originally planned, this would create an ongoing pressure of £8,800 beginning in 2024/25.

In the light of the consultation responses received on the provisional Settlement, the Government released further funding to local government in the final Local Government Finance Settlement for 2024/25 published on 5th February 2024. The additional funding included a guaranteed additional increase of 1.0% (from 3.0% to 4.0%) on “Core Spending Power” to all councils, including Colchester. This resulted in the Council receiving additional funding of £245,829 over and above that assumed in the proposals presented to Cabinet on 24th January 2024.

Both items are *not* reflected in the final budget proposals, which means that there could potentially be a small net surplus available if there are any minor adjustments required as the budget is debated and agreed, with any remaining balance being utilised as an additional contribution to reserves.

2) **Medium-Term Financial Forecast (MTFF) 2024/25 to 2028/29**

Questions of interpretation were raised by some Members at the Scrutiny Panel held on 23rd January 2024 regarding the updated Medium-Term Financial Forecast (MTFF) 2024/25 to 2028/29.

It is confirmed that the MTFF presented to the Panel (Agenda Item 12, Appendix C, Page 75) was correct, although the table presented on the evening has been relabelled and another line added for further information (see table below). For the avoidance of any doubt, Colchester City Council has a forecast structural revenue deficit of £2.771 million on its General Fund as of January 2024. This is the estimated sum required to be removed from the Council’s base budget over the four-year period 2025/26 to 2028/29 to balance the budget.

Colchester CC: Medium-Term Financial Plan (January 2024)						
2024/25 Budget: GENERAL FUND (Base Budget only)						
	Opening Budget (2023/24)	Estimated Budget Requirement 2024/25	Estimated Budget Requirement 2025/26	Estimated Budget Requirement 2026/27	Estimated Budget Requirement 2027/28	Estimated Budget Requirement 2028/29
	£000's	£000's	£000's	£000's	£000's	£000's
Employees	29,505	31,462	32,298	32,897	34,065	35,256
Premises	9,493	11,445	11,113	10,026	10,577	10,788
Transport	2,064	2,117	2,006	2,046	2,087	2,129
Supplies & Services	9,594	9,466	9,427	9,719	9,913	10,112
Third Party Payments	5,909	7,381	7,529	7,679	7,833	7,989
Transfer Payments	32,966	40,001	40,001	40,001	40,001	40,001
Capital Financing Costs	10,659	13,177	15,488	16,083	16,025	16,134
Gross Expenditure	100,190	115,049	117,862	118,452	120,501	122,410
Government Grant	(32,375)	(36,454)	(36,454)	(36,454)	(36,454)	(36,454)
Other Grants & Contributions	(5,896)	(4,604)	(4,804)	(5,004)	(5,004)	(5,004)
Customer & Client Receipts	(27,112)	(35,932)	(36,445)	(37,397)	(37,640)	(37,885)
Income-Interest	(6,943)	(9,956)	(9,956)	(9,956)	(9,956)	(9,956)
Inter-Account Transfers	550	550	550	550	550	550
HRA/NEPP Recharges	(3,679)	(3,694)	(3,694)	(3,694)	(3,694)	(3,694)
Net Expenditure	24,735	24,959	27,059	26,497	28,303	29,967
Funding:						
Council Tax	(13,936)	(14,411)	(15,249)	(15,859)	(16,494)	(17,154)
Business Rates	(6,456)	(6,975)	(7,111)	(7,249)	(7,390)	(7,534)
Collection Fund Adjustments	323	(584)	0	0	0	0
Council Tax Sharing Agreement (CTSA)	0	(350)	(350)	(350)	(350)	(350)
<i>Non-Specific Grants:</i>						
New Homes Bonus	(576)	(634)	0	0	0	0
CSP Funding Guarantee Government Grant	(1,685)	(1,940)	(1,940)	(1,940)	(1,940)	(1,940)
2023-24 Services Grant	(175)	0	0	0	0	0
Lower Tier Services Grant	0	0	0	0	0	0
Revenue Support Grant (RSG)	0	(218)	(218)	(218)	(218)	(218)
Contribution to/(from) Reserves	(2,230)	153	(200)	(200)	0	0
Total Funding	(24,735)	(24,959)	(25,068)	(25,816)	(26,392)	(27,196)
In-Year (Surplus)/Deficit	0	0	1,991	(1,310)	1,230	859
Structural (Surplus)/Deficit	0	0	1,991	681	1,912	2,771
Cumulative (Surplus)/Deficit	0	0	1,991	2,673	4,584	7,355

3) Balance Sheet Reserves

Background and Introduction

At the time of reporting, the Council's Statement of Accounts for 2022/23 have not been published. However, the Statements are nearing completion, and an initial draft Balance Sheet has been prepared, which establishes the Council's baseline Reserves position as of 31st March 2023.

A summary forecast of General Usable Reserves is presented in the table below.

Earmarked Reserves															
	Balance at 31-Mar-23	Budgeted Usage 2024/25	Quarter 3 Budget Overspend 2023/24	Planned Movements 2023/24	Forecast Balance at 31-Mar-24	Budgeted Usage 2024/25	Planned Movements 2024/25	Forecast Balance at 31-Mar-25	Planned Movements 2024/25	Forecast Balance at 31-Mar-26	Planned Movements 2024/25	Forecast Balance at 31-Mar-27	Planned Movements 2024/25	Forecast Balance at 31-Mar-28	Planned Movements 2024/25
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
General Fund Reserve	(2,175)	-	-	-	(2,175)	-	-	(2,175)	-	(2,175)	-	(2,175)	-	(2,175)	-
Reserve to Support Future Year's Budget	(6,082)	900	1,287	1,521	(2,374)	-	-	(2,374)	-	(2,374)	-	(2,374)	-	(2,374)	-
Pension Fund Deficit Reserve	(3,214)	557	-	-	(2,657)	-	-	(2,657)	-	(2,657)	-	(2,657)	-	(2,657)	-
Revenue Grants Unapplied Reserve	(3,746)	200	383	177	(2,986)	200	-	(2,786)	200	(2,586)	200	(2,386)	-	(2,386)	-
Repairs and Renewals Reserve	(3,522)	800	31	(129)	(2,820)	-	-	(2,820)	-	(2,820)	-	(2,820)	-	(2,820)	-
Business Rates Reserve	(6,374)	323	-	-	(6,051)	-	-	(6,051)	-	(6,051)	-	(6,051)	-	(6,051)	-
Revolving Investment Fund Reserve	(2,086)	-	-	40	(2,046)	-	-	(2,046)	-	(2,046)	-	(2,046)	-	(2,046)	-
Capital Expenditure Reserve	(356)	-	-	(51)	(407)	-	-	(407)	-	(407)	-	(407)	-	(407)	-
Insurance Reserve	(755)	-	-	-	(755)	-	-	(755)	-	(755)	-	(755)	-	(755)	-
Strat Plan Delivery Reserve	(1,520)	(550)	-	550	(1,520)	(335)	60	(1,795)	-	(1,795)	-	(1,795)	-	(1,795)	-
Gosbecks Reserve	(93)	-	-	-	(93)	-	-	(93)	-	(93)	-	(93)	-	(93)	-
Other Reserves	(481)	-	-	-	(481)	-	-	(481)	-	(481)	-	(481)	-	(481)	-
CCC Sub-Total	(30,404)	2,230	1,701	2,108	(24,365)	(135)	60	(24,440)	200	(24,240)	200	(24,040)	-	(24,040)	-
Decriminalisation Parking Reserve	161	-	-	(147)	14	(18)	-	(4)	-	(4)	-	(4)	-	(4)	-
Total (incl NEPP)	(30,243)	2,230	1,701	1,961	(24,351)	(153)	60	(24,444)	200	(24,244)	200	(24,044)	-	(24,044)	-

It should be noted that a detailed review of the Council's reserves position is ongoing by the Council's Section 151 Officer in preparations for 31st March 2024 Balance Sheet. It is too early to be precise as to the outcome of that review, but it is already known that there are sufficient available unallocated reserves to increase the General Fund Reserve (adding a greater risk contingency) and also to potentially redesignate a range of other surplus reserves (e.g. in the Pension Fund Deficit Reserve in the light of an emerging Pensions surplus) towards priorities including the "Fit for the Future" (Transformation) Programme.

4) Treasury Management Strategy Statement (TMSS) 2024/25 (Abridged)

Background and Introduction

For a range of reasons, including a national backlog in external audit work and local resourcing difficulties in terms of technical accounting staff, the Council has struggled in recent years to publish its annual Statement of Accounts in accordance with statutory deadlines. At the time of preparing this abridged Treasury Management Strategy Statement (TMSS) for 2024/25, as noted above, the Statement of Accounts for 2022/23 have not been published. It has been possible though, with the support of our Treasury Management advisors, to produce some early estimates as to the Council's Treasury Management position and its trajectory – on some key measures – based on the 2024/25 draft Budget and updated MTFE (2024/25 to 2028/29). More detail will follow in a full TMSS expected to be published in April 2024.

Summary Treasury Position (12/02/24)

The Council's current Treasury position is summarised in the table below, which shows the position as of 12th February 2024, compared to the position on 31st March 2023.

TREASURY PORTFOLIO				
	actual	actual	current	current
	31.3.23	31.3.23	12.02.24	12.02.24
Treasury investments	£000	%	£000	%
Banks	7,500	23%	12,500	28%
Building societies - unrated	0	0%	0	0%
Building societies - rated	0	0%	0	0%
Local authorities	5,000	15%	10,000	23%
DMADF (H.M.Treasury)	0	0%	0	0%
Money Market Funds	20,000	62%	21,500	49%
Certificates of Deposit	0	0%	0	0%
Total managed in house	32,500	100%	44,000	100%
Bond Funds	0	0%	0	0%
Property Funds	0	0%	0	0%
Total managed externally	0	0%	0	0%
Total treasury investments	32,500	100%	44,000	100%
Treasury external borrowing				
Local Authorities	5,000	3%	5,000	3%
PWLB	132,100	87%	132,100	89%
Market	14,500	10%	10,500	7%
Total external borrowing	151,600	100%	147,600	100%
Net treasury investments / (borrowing)	-119,100	0	-103,600	0

The Council's integrated Treasury Management position has been relatively constant. Investments are currently £44.0 million in total but are expected to reduce to circa £10.0 million by 31st March 2024. External borrowing is only subject to a further £5 million maturity before year end.

Capital Programme Funding Projections 2024/25 to 2028/29

The Council's capital programme expenditure profile has been updated and includes a delay in delivering several schemes, impacting both the General Fund and HRA. The latest expenditure profile and projected funding is as follows.

Capital Programme:							
	24/25	25/26	26/27	27/28	28/29	Total 24/25 to 28/29	
	£	£	£	£	£		
General Fund Estimated Capital Spend	39,257,583	7,942,691	3,567,305	3,452,105	3,452,105	57,671,789	
Financed By:							
Grants	19,841,633	3,357,291	1,452,105	1,452,105	1,452,105	27,555,239	
S106 Contributions	3,162,991	1,130,000	-	-	-	4,292,991	
Capital Receipts	-	-	-	-	-	-	
Revenue	100,000	-	-	-	-	100,000	
Borrowing	16,152,959	3,455,400	2,115,200	2,000,000	2,000,000	25,723,559	
Total GF Capital Programme	39,257,583	7,942,691	3,567,305	3,452,105	3,452,105	57,671,789	
HRA Estimated Capital Spend	43,655,000	52,399,000	49,259,000	28,243,000	31,809,000	205,365,000	
Financed By:							
Major Repairs Reserve	6,000,000	6,190,000	6,447,000	6,684,000	6,818,000	32,139,000	
RCCO	2,459,000	3,405,000	2,887,000	3,286,000	3,635,000	15,672,000	
Grants	-	3,060,000	3,120,000	-	-	6,180,000	
RTB Receipts	5,894,000	3,658,000	1,998,000	2,038,000	2,078,000	15,666,000	
Borrowing	29,302,000	36,086,000	34,807,000	16,235,000	19,278,000	135,708,000	
Total HRA Capital Programme	43,655,000	52,399,000	49,259,000	28,243,000	31,809,000	205,365,000	
Total Borrowing (HRA & GF)	45,454,959	39,541,400	36,922,200	18,235,000	21,278,000	161,431,559	
Total Capital Programme (HRA & GF)	82,912,583	60,341,691	52,826,305	31,695,105	35,261,105	263,036,789	

For the period 2024/25 to 2028/29, total capital expenditure is projected to be £263.0 million, with £205.4 million of this sum projected to relate to the HRA with £135.7 million funded from new borrowing.

The General Fund capital programme over the same period is projected to be £57.6 million, with £25.7 million of this sum is projected to be funded from new borrowing.

Capital Financing Requirement 2022/23 to 2032/33

The increase in the Council's projected borrowing requirement is set out in the estimates for the rise in the Capital Financing Requirement (CFR). This measures the Council's underlying borrowing requirement for those assets, past and future, funded from borrowing (both externally by taking loans, and internally by using the Council's cash backed reserves and balances as a temporary surrogate for long-term borrowing).

CAPITAL FINANCING REQUIREMENT including PFI and finance leases											
	Actual	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
HRA CFR	145.2	162.4	191.7	227.7	262.6	278.8	298.1	298.1	298.1	298.1	298.1
GF CFR	72.6	84.6	97.8	97.8	96.4	95.0	93.5	89.9	86.3	82.8	79.9
Total CFR	217.8	246.9	289.5	325.6	359.0	373.8	391.5	387.9	384.3	380.9	378.0
External Borrowing	151.6	142.6	188.1	226.9	263.8	282.0	303.3	303.3	300.3	299.3	296.8
Other long term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Debt	151.6	142.6	188.1	226.9	263.8	282.0	303.3	303.3	300.3	299.3	296.8
Authorised Limit	405.0	405.0	415.0	425.0	425.0	425.0	425.0	425.0	425.0	425.0	425.0
Operational Boundary	375.0	375.0	390.0	400.0	400.0	400.0	400.0	400.0	400.0	400.0	400.0

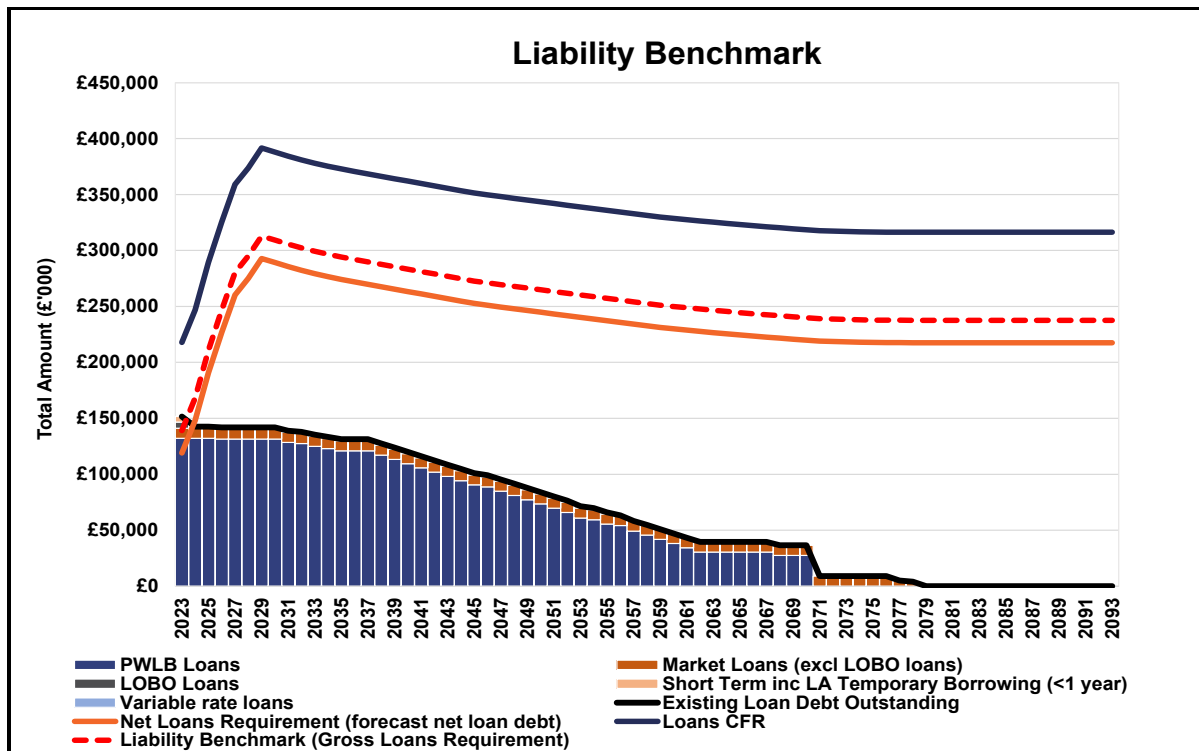
In the table above, the Council's CFR is projected to rise from £217.8 million as of 31st March 2023 to £378.0 million by 31st March 2033. £161.4 million in new external borrowing is anticipated from 2024/25 to 2028/29, whilst maturities within the prevailing debt portfolio are minimal. However, with interest rates, both short and longer dated, remaining elevated at present, officers – with the advice of Link – will remain vigilant in respect of identifying the optimum timing for new borrowing, continuing to borrow internally (it is estimated internal borrowing totalled £66.2 million as of 31st March 2023) where prudent to do so, and looking to manage any future refinancing risk by taking a mix of short and longer dated loans, primarily from local authorities and the Public Works Loan Board (PWLb) respectively.

Interest Rate Forecasts

Link and their colleagues at Capital Economics, have forecast that the Bank Rate will reduce from 5.25% to a low of 3.0%, whilst medium to long dated rates are expected to fall to a range of 3.5% to 4.1% over the next three years.

Liability Benchmark

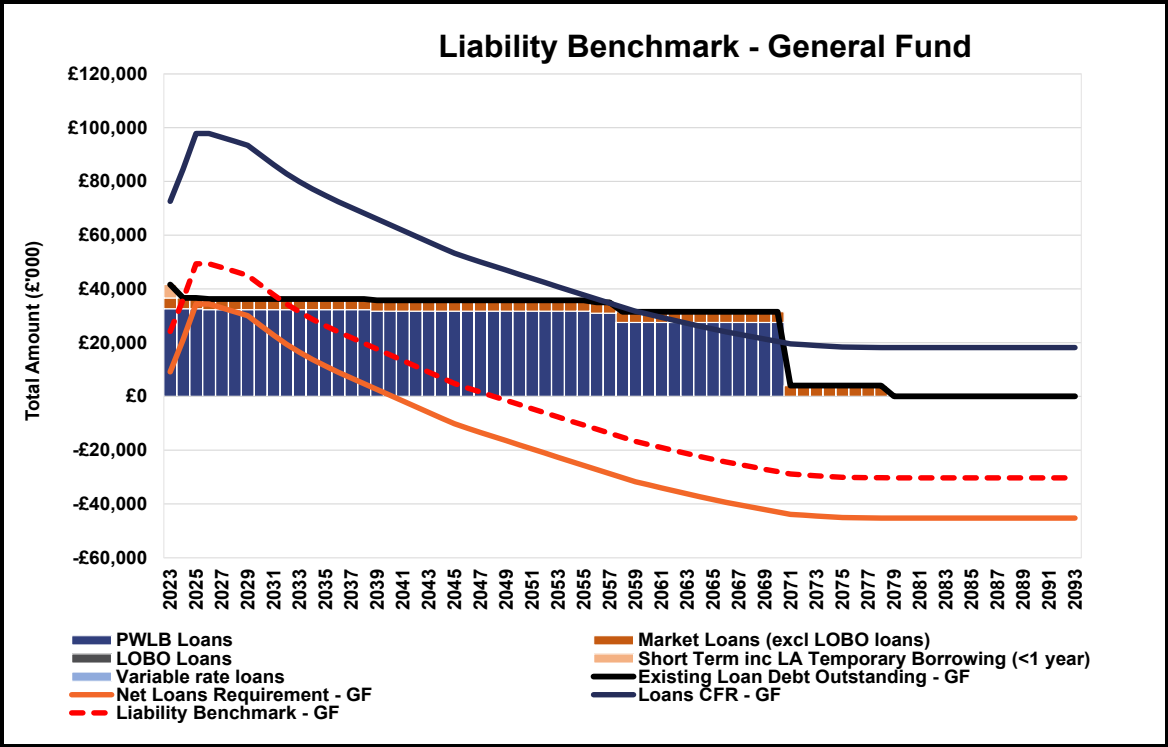
One of the key Prudential Indicators used by the Chartered Institute of Public Finance and Accountancy (CIPFA) to identify new borrowing pressures is the Liability Benchmark. The charts below illustrate the Council's net financing need in its entirety split between General Fund and the HRA. For the present, it assumes that the £66.2 million of internal borrowing can be maintained – subject to review. This is split £30.9 million General Fund/£35.3 million HRA. Where the HRA borrows from the General Fund an in-year recharge is made.



The chart above shows the potential level of external borrowing via the Loans CFR line (thick blue line). If capital schemes are deferred or delayed that line will be revised downwards. Moreover, because of the resilience of the Council's cash backed reserves and balances (further work is being undertaken to indicate how these may be reduced over future years) the Council is more likely to borrow up to the Liability Benchmark (the broken red line), which also assumes that the Council will maintain at least £20 million cash investments in the way of a liquidity buffer, split £15.0 million General Fund and £5.0 million HRA.

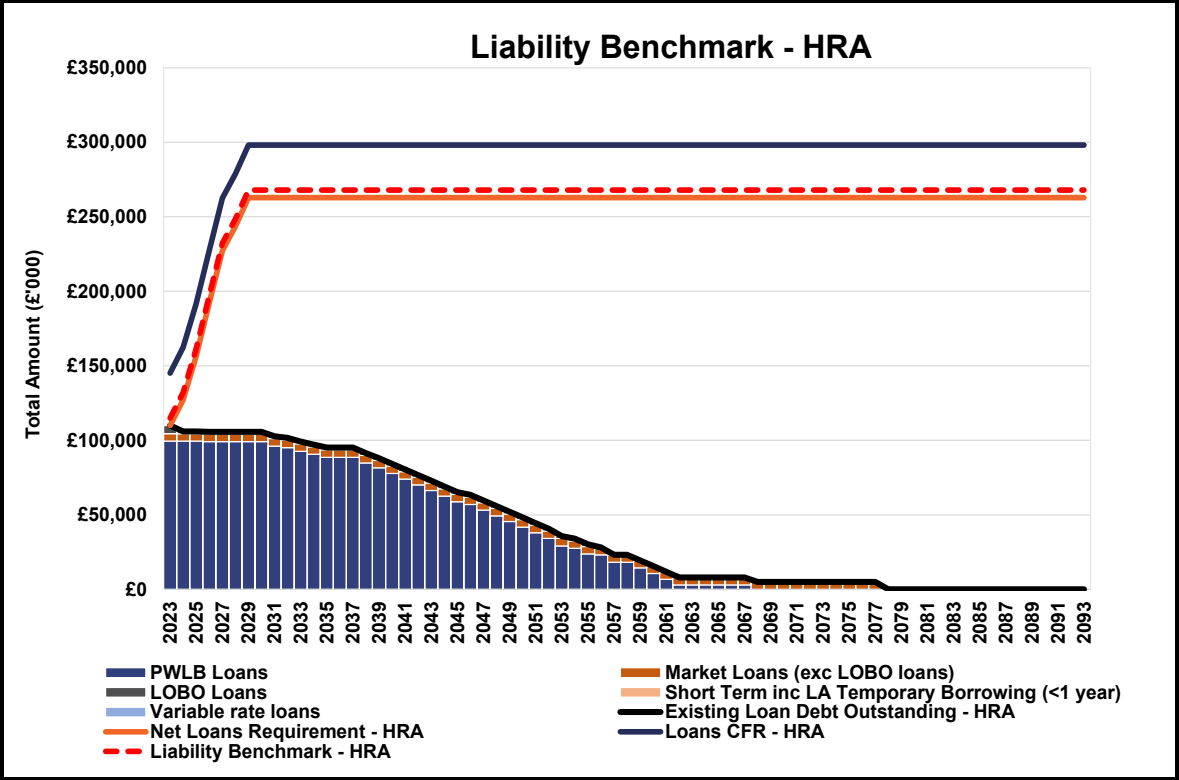
In the charts below, the Liability Benchmark is split between the General Fund and HRA. For ease of illustration, the underlying assumption is that the bulk of the Council's cash backed reserves and balances pertain to the General Fund. Accordingly, because the General Fund Capital Programme is relatively small at present, and because prudent Minimum Revenue Provision (MRP) is being made in each financial year, the CFR only increases marginally in the near-term to a peak of £97.8 million in 2024/25 and then drops back to £79.9 million by 2032/33, as the indicator only allows for the inclusion of approved schemes but requires the 50 year schedule of MRP charges to revenue (which reduces the CFR as applied in year) to be included over the full duration of the chart.

However, because of internal borrowing assumptions, actual General Fund borrowing is not expected to exceed £50 million as a maximum (GF Liability Benchmark, broken red line) even after providing for a liquidity buffer of £15 million.



Conversely, the HRA is subject to a considerable rise in its CFR from an estimate of £145.2 million as of March 2023 to a peak of £298.1 million. There is no requirement to provide MRP on the HRA.

With internal borrowing assumed to be a continuously circa £35.0 million (subject to review), the HRA Liability Benchmark peaks at £268.0 million, inclusive of a liquidity buffer of £5.0 million.



Planned HRA Review 2024/25

A detailed review of the Council's 30-Year HRA Business Plan is scheduled for 2024/25. It will be a far-reaching review that will consider a wide range of factors potentially affecting the balance in investment between the current housing stock and future developments/acquisitions. Ultimately, the updated Business Plan will ensure the long-term viability of the HRA, including its capital investment plans. Although the outcome of that review is currently uncertain, it is possible to gain some assurance regarding the 2024/25 draft HRA Budget and updated MTFE through to 2028/29. In particular, the forecast Interest Rate Cover Ratios (ICRs) are as follows.

Financial Year	Forecast ICR	Benchmark
2024/25	1.21	1.25
2025/26	1.34	1.25
2026/27	1.27	1.25
2027/28	1.32	1.25
2028/29	1.34	1.25

A minimum ICR Benchmark of 1.25 is applied the table above, which effectively provides 100% cover for expected debt financing costs with an additional 25.0% contingency buffer to protect against the risk of reductions in the operating surplus. This level is consistent with similar local authority housing providers and registered social landlords, the latter of which uses the strength of this ratio to raise borrowing from market lenders.

TMSS Conclusion

The Council has maintained a robust financial position over many years, and the strength of the Balance Sheet has ensured that prudent levels of internal borrowing can be undertaken. Nonetheless, the scale of the increase of borrowing, as identified in the current HRA Business Plan, and illustrated in the Liability Benchmark charts, confirms that the planned review of the HRA in 2024/25 is a prudent move, with a more in-depth review of long-term affordability and sustainability a high priority.