

# **COLCHESTER CITY COUNCIL**

## **2026/27 DRAFT BUDGET & MEDIUM-TERM FINANCIAL FORECAST (MTFF) TO 2029/30**

## 1.0 EXECUTIVE SUMMARY

- 1.1 This 2026/27 Budget Report and Medium-Term Financial Forecast (MTFF) to 2029/30 sets out the Cabinet's strategic priorities for residents and communities of Colchester for next year, and over the medium-term. We continue to be ambitious in delivery for our residents and community having to balance against maintaining a sustainable and resilient medium-term financial plan; mindful of the uncertain and complex environment within which we will find ourselves.
- 1.2 As a sector, we are facing unprecedented times; a reorganisation that will fundamentally change the way we work, coupled with a significant change to our funding regime from Central Government which has been anticipated for better part of the last decade and a half. There have been several Government announcements and consultations over the course of 2025. Most latterly, on 21<sup>st</sup> November the Government issued the "Local Government Finance Policy Statement Policy Statement 2026/27 to 2028/29" which set out the Government's proposals for the 2026/27 to 2028/29 multi-year Local Government Finance Settlement including details on the government's response to FFR (Fair Funding Reform) and other measures which will be delivered through the 2026/27 Provisional Local Government Finance Settlement.
- 1.3 On 26<sup>th</sup> November, the Chancellor of the Exchequer, Rachel Reeves announced the Autumn Statement/Budget. The broad aims of this budget are to cut borrowing and public debt, support health services and ease the cost of living burden for working families. Of particular note here are the "mansion" tax/surcharge and minimum wage increases. Updated valuations as part of the Business Rates reset have also now been made available. The Homelessness, Rough Sleeping and Domestic Abuse Grant will be included as part of Core Spending Power with amounts not confirmed until final Settlement in February 2026.
- 1.4 As both the Policy Statement and the Autumn Statement have only recently been provided, we include headlines with some further discussion in section 7 of this report and continue to work on the impact on the Council. It will be the Local Government Provisional Settlement provided some-time in mid-December which will inform us precisely of the financial impact on Colchester.
- 1.5 We are also currently unaware of our new unitary configuration, what we do know is that even though Colchester City Council will no longer exist come April 2028, is that we have all worked incredibly diligently and collaboratively in building this Draft Budget, to leave a strong legacy and placing our residents at the heart of everything we do. At present we do not anticipate MHCLG reopening the distribution mechanism underpinning the three-year settlement to accommodate Local Government Reorganisation (LGR). This means that where unitarisation doesn't result in authorities being split, the new Unitary Budget in 2028/29 will be the sum of all the combined predecessor authorities post-merger, as will be the case for Colchester. There is expected to be no further impact until funding formulae are revisited at some point in the future.

- 1.6 We commenced budget engagement due to the unknown future landscape which was key to enabling us to bring a substantive Draft Report to Scrutiny on 9<sup>th</sup> December, one and a half months earlier than previous years. A cornerstone of this budget has been to ensure as much involvement as possible from officers and Members; the more people we involve and engage with the better the outputs will be for all. Senior Leadership Board (SLB), Heads of Service (HoS), Finance team and other officers have worked closely and collaboratively with the Cabinet over many months to deliver this Draft Budget.
- 1.7 We have a burning platform; we must balance the 2026/27 budget, and we have a gap we need to close. We commenced with an indicative gap (last year's MTFF) and that has been added to by increasing cost and demand pressures for the services we provide. We also want to be as efficient as possible in the lead up to LGR and be ready for any unfavourable news from Central Government. In response, we have taken a multi-faceted approach to balance the budget, including the strategic use of Reserves in a considered and responsible manner to serve the best interests of our residents, whilst ensuring we leave a sustainable and resilient financial legacy. Our approach has always been and will continue to be one which minimises the impact on our residents and communities. Albeit we have taken some difficult decisions to deliver this budget, we have continually challenged ourselves to ensure that we have not taken decisions to adversely or enduringly impact front-line services.
- 1.8 This report also provides a Draft Capital Programme for 2025/26 to 2027/28 and an indicative programme for 2028/29 and beyond. This programme runs into the period where we will effectively cease to function as a City Council and become a unitary on 1<sup>st</sup> April 2028. Given the medium and long-term nature of capital, we believe it prudent that we set out our indicative Capital Programme for 2028/29 and beyond for the new Administration to consider, amongst its other priorities. Schemes have been prioritised, reprofiled, reduced or removed to create what we believe to be a deliverable and affordable Capital Programme. Opportunities to utilise other sources of funding have been factored into the proposed budget. We have also set out the proposed financing to provide assurances of affordability, also referenced alongside the availability of Reserves as set out in section 7.
- 1.9 The 30-year Housing Revenue Account (HRA) Business Plan was approved in July 2025, providing the basis on which to set the HRA 2026/27 Revenue and Capital budgets and long-term financial planning. It was recommended that the Business Plan be reviewed and updated every six months to ensure its viability and sustainability and, in this context, detailed work has been undertaken to update all the assumptions. This forms the basis for the Draft HRA Revenue and Capital Budgets from 2026/27 onwards. The HRA is important in not only ensuring we can provide excellent quality social housing to our residents who require our support in times of need, but it also forms part of our more permanent response to the Temporary Accommodation crisis we are facing in the City and nationally.

### Key Elements of this Report and Next Steps

- 1.10 The key elements of this report include:
- The Council's Strategic Priorities and Local Government Reorganisation **(section 2)**
  - Overview - Developing the Council's 2026/27 Budget and Medium-Term Financial Forecast (MTFF) to 2029/30 **(section 3)**

- Engagement for Budget Setting (**section 4**)
- Fit for the Future (FFF) Programme and Integration with the 2026/27 Savings Programme (**section 5**)
- How we are organised (**section 6**)
- Financial Strategy and 2026/27 Revenue Budget (**section 7**)
- Draft Capital Programme 2026/27 to 2030/31 (**section 8**)
- Council's Financial Performance for Quarter 2, 2025 (**section 9**)
- Housing Revenue Account (HRA) Revenue and Capital (**section 10**)
- Schedule of Tables and Annexes (**section 11**)

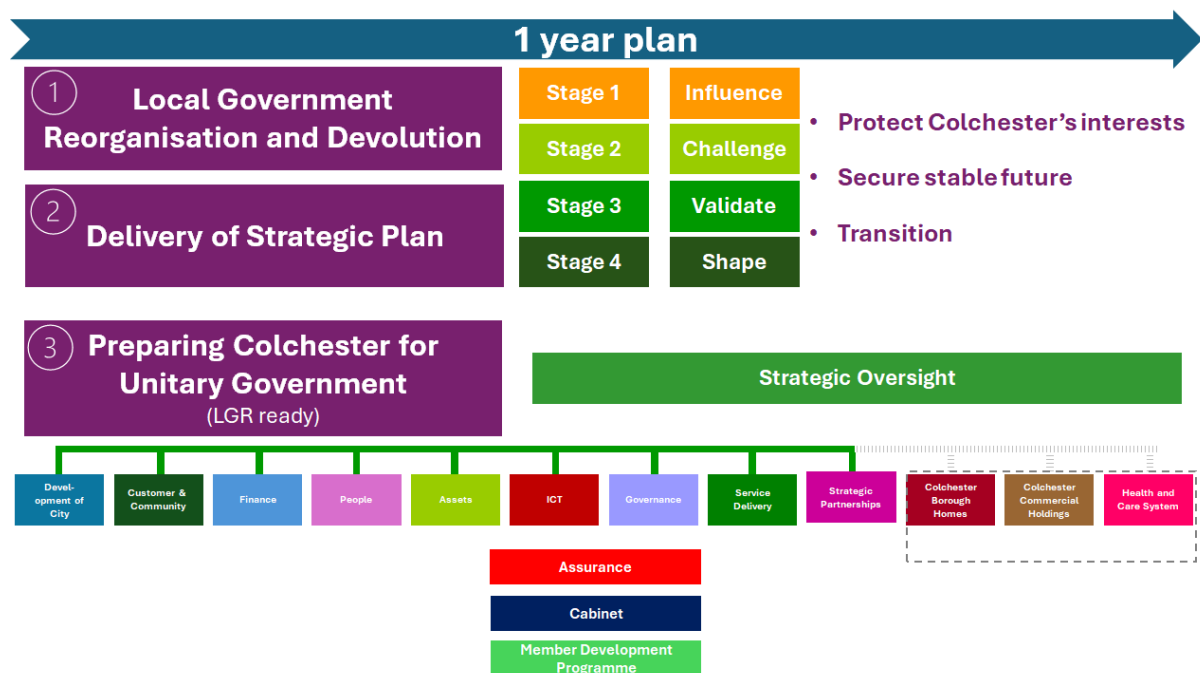
This Draft 2026/27 Budget and Medium-Term Financial Forecast (MTFF) to 2029/30 is presented this evening to Scrutiny (9<sup>th</sup> December) and to Cabinet tomorrow 10<sup>th</sup> December, with Final to Cabinet on 28<sup>th</sup> January 2026 and Full Council for approval on 26<sup>th</sup> February 2026.

*Please note that due to rounding to £'ms in many cases, numbers may not add precisely throughout this report.*

## **2.0 THE COUNCIL'S STRATEGIC PRIORITIES AND LOCAL GOVERNMENT REORGANISATION (LGR)**

- 2.1 As a sector, we are facing unprecedented times; a reorganisation that will fundamentally change the way we work and have worked for many decades (Local Government Reorganisation [LGR]) and a fundamental change to the way we are funded from Central Government (Fair Funding Reform [FFR]), one which has been anticipated for better part of 15 years. At the time of writing the Finance Policy Statement and Autumn Statement have only just been delivered. We discuss these in more detail in section 7 and are continuing to work through the impacts but more importantly we await the outcome of our new funding arrangements through the local government settlement, which will inform us the financial impacts on Colchester.
- 2.2 We are unaware of exactly when we are likely to receive our provisional settlement but have been told it will be as per previous years which means mid-December, crucially we don't exactly know how much our funding will be impacted. We have planned as best we can; commencing early and developing what we believe to be realistic (as opposed to pessimistic or optimistic) working assumptions, gathering intelligence, testing theories with neighbouring authorities and speaking with technical experts, but we still don't know for sure until we actually receive our settlement, no-one does. This has been the standard way of setting budgets in local government for many years now which has created challenge and uncertainty added to the fact that we only receive one-year settlements, has made forward planning difficult.
- 2.3 Setting next year's budget (2026/27) is no different, however the possibility of reduced funding levels for many local authorities because of FFR has heightened expectations of a significant negative trajectory. An element of our settlement which we welcome and will provide some certainty is that it will be multi-year settlement so we can more effectively plan for the next three years; timely given the advent of LGR.

- 2.4 The Cabinet, SLB, Members generally, supported by many officers and industry experts, have spent many months of this year discussing LGR. Much time and effort expended by those most senior in the Council attending working groups and forums with fellow Essex colleagues to agree a way forward. The amount of information that needed to be gathered, consumed, challenged, and validated was unparalleled especially given the pace required. The Cabinet and SLB however have taken their responsibilities very seriously and collaborated closely with our neighbours whilst also keeping our staff abreast of proceedings; cognisant of leaving a solid and enduring legacy for the residents of Colchester.
- 2.5 Given Colchester is the largest city in North-East Essex we are well positioned to take a leading role, but we know that the best results are achieved when we work collaboratively and transparently and will continue to do so. The Council submitted a business case to MHCLG on 26th September 2025, this is followed by a two-month consultation period with residents on our new unitary configuration will be announced around March 2026. We are already working in shadow arrangements with our North-East colleagues and will be ramping up this work post March 2026 and in the lead up to vesting day, 1st April 2028. There is much to do but the commitment from both the Cabinet and Senior Leadership Board is steadfast with LGR at the heart of the Cabinet's Strategic Plan; ensuring we are LGR ready.
- 2.6 Our Chief Executive set out her vision for how the Council should come together to make certain we completely align the delivery of our strategic priorities with LGR, so we are all working towards the same vision and fully supporting the Cabinet. The Chief Executive's One Year Plan was presented to Leadership in May and was endorsed. It is detailed in the graphic below along with our key priorities in the lead up to LGR.



2.7 The key priorities of Our One Year Plan are as follows:

- **LGR Ready** - A business case submitted in September with cross-party support, for Colchester City Council and Northeast Essex, with the prospect Colchester and the new Unitary Authority will be financially sustainable, with transition plans well advanced by year end and ready for Devolution May 2026.
- **Housing and homelessness** - Progressing the Local Plan, and Garden Community, embedding the new HRA settlement. Building our capacity to manage and mitigate growing homelessness. Securing agreement on CNGS South and 100% affordable housing.
- **Delivering a Better City** - Town Deal and levelling up projects delivered to schedule. Community facility and playparks improvements and estates repairs, fixes, and sales likewise. A development and delivery Plan for Team Colchester Regeneration.
- **Retaining Ambition, Vision, Sense of Place** - A family of organisations working with health and other partners, able to respond to the most pressing needs of the most vulnerable, working to improve the life chances of many, making the City a better place, to live, work or visit.
- **Building Capacity and Capability** - Valuing what we do well. Addressing areas of improvement, such as ICT, Finance, audit, and project delivery and forecasting. LGR [and Peer Challenge] Ready.

### 3.0 DEVELOPING THE 2026/27 BUDGET AND MEDIUM-TERM FINANCIAL FORECAST TO 2029/30

- 3.1 This 2026/27 Budget Report and Medium-Term Financial Forecast (MTFF) to 2029/30 delivers the continuation of ambitious, sustainable, and resilient medium-term financial plans; balanced alongside an uncertain external landscape, with the preceding section setting the context and backdrop to its preparation.
- 3.2 This report sets out how the Council will use its funding to deliver its priority objectives and core services over the next four years; next year precisely as we must set a balanced budget and in future years more indicatively especially from 2028/29 when we will cease to exist and become a new Unitary Authority. These priority objectives sit at the core of the budget process, leading our approach to allocating resources and developing investment plans, as evident in our Capital Programme.
- 3.3 Although we are ambitious, we are cognisant that resources are limited especially in light of the impending changes to our funding, so we know we have to use them wisely and diligently. We are not the type of Council that will burn through our Reserves to plug gaps in the finances, we haven't done this before and have no intention of doing this in the lead up to LGR, our legacy will define us. A strong focus on financial accountability, making trade-offs, prioritisation and transformation over the years has meant that the Council is in the fortunate position to have Reserves which give us options and opportunities for investment. We will invest responsibly in our strategic priorities for our residents but also ensure that we have enough in reserve for future uncertainties and the higher-risk environment we will invariably find ourselves in over the medium-term. It's this past accountability which has afforded us the benefit of future resilience.

- 3.4 We have gathered intelligence available and prepared a set of robust working assumptions which support a credible strategy to deliver a balanced budget in 2026/27 and sufficient Reserves to cover indicative expenditure and risks over the medium-term, to the best of our present knowledge. We believe in a multi-faceted approach which is fair and responsible; making ourselves more efficient, charging a fair price for the services we deliver, using our precious Reserves for our strategic priorities which benefit the City and ensuring we have a realistic, deliverable, and affordable Capital Programme.
- 3.5 A key difference in the preparation of this budget, enhanced from previous years, has been the close working and integration of the Finance team, Heads of Service (HoS) and SLB. We listened to our External Auditors when they recommended that we invest and build our Finance function (and strengthen some of our other Corporate Services such as establishment of the Corporate Landlord function and further support for HR) and we responded appropriately. We bolstered both the capacity and capability of Finance subsequent to the conclusion of a two-year shared arrangement.
- 3.6 This has enabled us to make great strides in improving our financial management over the course of 2025/26, placing accountability at its core. We have strengthened our processes and driven a culture of continuous improvement. We have established a more integrated planning process, with officers and the Cabinet and a more appropriate level of engagement with Members more generally. This all places us in a strong position to face the challenges of the medium-term and make us LGR ready.

### **The Economic and Financial Outlook**

- 3.7 The wider economic landscape continues to be challenging for the Council. Inflation in the UK in September was 3.8% well above the Government's 2% target. This has implications for the Council in respect of its expenditure budget. This has ramifications for both pay and contracts that the Council holds. It's particularly an impact as the Council's income is not linked to recognised inflation indices, for example Council Tax can only be increased by 2.99% well below the underlying rate. This means that the Council needs to find savings elsewhere in order to absorb this inflationary pressure.
- 3.8 Interest rates also continue to be high and the current base rate as of November 2025 of 4%. This does allow the Council to earn higher returns on its surplus cash balances. However, much of the Council's proposed Capital Programme is funded from borrowing and this high rate of interest makes it costly to borrow. This is particularly pertinent for the HRA.
- 3.9 We have been planning for FFR as best we can, however, the specificity for planning purposes is what is required and, in its absence, we have made some working assumptions. We have assumed for the purposes of this Draft Budget that our funding will remain cash flat, i.e. with no assumed increases or decreases in funding, yet actively planning for both scenarios. We don't want to be too pessimistic and unnecessarily cut staffing numbers (either front or back office) as delivery of quality services to residents relies on this. We do however have to be realistic of the options, and difficult decisions we may have to make, and we are ready to make those decisions in an informed and measured way. Hence why we commenced this process early to give us time to consider all options and be ready, as best we can.

- 3.10 The process and engagement have been robust at all levels throughout the organisation looking for efficiencies to build robust foundations to ensure we are LGR ready, whilst also ensuring we are recovering our costs for the services we deliver. We have looked in detail at our Capital Programme both from a deliverability and affordability perspective and which Reserves we can use strategically to fund Council priorities, knowing they can only be used once. We cannot and have not been resting on our laurels waiting to be done to by Central Government but have been proactive in approach and engagement at all levels.
- 3.11 The overall outlook for 2026/27 is challenging; substantial increases in the cost of maintaining current service provision (inflation remaining higher than the government's 2% target) and increased demand (due to the economic environment), resulting in the cost of these pressures rising at a significantly higher rate than forecast funding. The Council is currently spending almost 10% of its net expenditure budget on Temporary Accommodation (TA), as a Council this represents a significant on-going financial risk both in the demand for TA and cost to accommodate people. Within some budgets there are also historical assumptions/structural issues that are no longer valid and therefore need addressing. Higher than expected inflation rates, persistent for some time, have indicated likely wage pressures, perhaps even higher than budgeted for 2026/27. Minimum wage increases announced as part of the Autumn Statement are unlikely to have any material impact on us as the Council already pays staff the Living Wage which is at a higher rate than the minimum wage. We are assessing the impacts on apprenticeship pay. The Council recognises that this is a key risk and will ensure that it has robust reserves/provision in order to meet this emerging pressure.
- 3.12 Over the last few years there has been an increase in the number of local authorities suggesting they are struggling to meet the statutory requirement to set a balanced budget. That is not the case for Colchester. But it even more important that the Council continues to direct its resources using the most efficient means possible towards achieving its purpose and priorities, while ensuring that core services are delivered to residents.
- 3.13 While the financial environment is very challenging, the Council has established a strong track record in recent years of delivering efficiencies and transformation and taking our financial management responsibilities seriously.

## **4.0 ENGAGEMENT IN BUDGET SETTING**

### **Internal Engagement**

- 4.1 We commenced budget engagement much earlier this year due to the uncertainties and complexities involved. This was key to enabling us to bring a substantive draft report to Scrutiny on 9<sup>th</sup> December, one and a half months earlier than previous years. Internally, we started with an SLB Budget Workshop in late May followed by series of activities with the Senior Leadership Team, Cabinet, and all Members steadily over the summer, with much more diligent and concerted focus over the last two months. A cornerstone of this budget has been to ensure as much involvement as possible from officers and Members; the more people we involve and engage with, the more ownership and accountability for delivery will ensue.

- 4.2 Since the Budget approach and process was launched with SLB in late May, we have conducted sessions and workshops and devoted several development days to bringing together the Council's most senior officers to discuss the budget process, timelines, accountabilities, challenge savings proposals, and pressures.
- 4.3 Over the summer we offered a Budget briefing to all Political Groups. All the Groups took up our offer except for the Green Party. On 31<sup>st</sup> October, we also held an All Member Briefing to provide context, approach, and timelines, in advance of preparation for this draft report to Scrutiny Panel on 9<sup>th</sup> December and Cabinet on 10<sup>th</sup> December.
- 4.4 In August, the Cabinet held an Away Day supported by the s151 and a Strategic Director. At this session, the Cabinet formulated a set of Key Lines of Enquiry (KLOEs) to provide areas of guidance and their "red lines" to Heads of Service to start to formulate their savings proposals. In recognition of the challenges we are facing, Cabinet was open to exploring most areas and "red lines" were kept to a minimum.
- 4.5 Also In August, the Chief Executive identified a need to do things a bit differently this year given the inherent fiscal challenge. As a result, she created Budget Squads, led by a member of SLB with the s151, taking a multi-disciplinary approach to group composition by formulating squads with HoS from different areas to allow check and challenge of savings proposals and pressures. The squads were supported by Finance and HR business partners.
- 4.6 Once savings were identified they were then shared with Portfolio Holders who ranked them in terms of political acceptability and deliverability, which was shared with both groups in administration and views sought. The final list of green rated savings, agreed by Cabinet, form part of this budget and once approved as part of the Final Budget, will formally form part of the Council's enhanced Fit for the Future Programme (FFF). This programme will continue to be closely monitored for deliverability in 2026/27.
- 4.7 The Cabinet values cross-party working and held a session with the Opposition in late November to discuss the Capital Programme in advance of this report to Scrutiny.
- 4.8 Our staff have been kept updated through emails from SLB and a cascading of messages from Heads of Services who were an integral part of the budget process.

## External Engagement

- 4.9 Once again, we were keen to hear the views of our residents as part of this process as this affects them directly, and we are repeating the successful formula of previous years.
- 4.10 Two residents' panels were held on the 25<sup>th</sup> November 2025 (one face to face in the Town Hall in the morning and one that same evening on-line), which allowed residents to ask questions on the underlying budget principles, and they were invited to give their opinion on what services they value the most.
- 4.11 At the consultation events residents were given a breakdown of the Council's Income and Expenditure and our Finance team spoke to them about some of the pressures and challenges that the Council is facing, including sustained demand for services. Residents were then invited to give their views on what services they most valued. This exercise mirrored that of the online survey that has been circulated via the Council's communication channels and at the time of writing we have had over 400 responses. The results of this survey will be available in time for inclusion in the Final Budget Report.

- 4.12 Early indications from the consultation events show that residents value Community Services such as Waste Collection and Community Safety and City services like Street Cleansing, but they also appreciate the value that back office/Corporate services bring in order to support those front-line services.
- 4.13 An online survey has also been posted on our website and shared widely on Social Media inviting residents to express their view on which services they prioritise to help the Cabinet define their final budget. The results of these surveys will be known in January, and an analysis will form part of the Final Budget Report to Cabinet and Full Council
- 4.14 The Council is also engaging with corporate stakeholders and are hosting a business forum in early-mid January (currently being arranged) at the new Digital Hub. This forum will invite Colchester based businesses to express their view on how the Council can best support them with the resources it has available to them.

## 5.0 FIT FOR THE FUTURE (FFF) PROGRAMME

- 5.1 In 2023/24, Cabinet agreed to implement a three-year transformation and change programme to not only close the forecast budget gap, but to fundamentally change how we work and future proof the Council.
- 5.2 The 'Fit for the Future' (FFF) Programme was devised to ensure we were fit to respond to the future requirements of our residents. The objective, in light of future financial constraints, was to be more flexible to meet the ever-changing needs of our community, seek out opportunities to generate additional income to support service delivery, invest in technology and workforce skills to modernise services. We wanted to invest in priority services that would have an enduring positive impact for everyone that interacts with us day-to-day.
- 5.3 The programme set out to deliver c£4.5m over a three-year period from 2023/24, across the eight areas below. Delivery of c£3m (67%) of savings is forecast into 2026/27 with most being of a recurring/ongoing nature. Where all the savings will not be met as originally set out by the end of 2026/27, this Draft Budget has taken that into account and compensating savings have been included.
- **Waste-** has the highest target for delivery of c£2.1m with £1.2m due to be delivered by the end of 2026/27;
  - **Greening & Street Care** – Target of £1m, forecast delivery of c£550k;
  - **Culture & Heritage** – Target of £220k, forecast outturn of £120k (recurring) and £200k (one-off);
  - **Active & Wellbeing** – Target of £640k, forecast outturn of £242k with substituted savings included in 2026/27;
  - **Corporate Landlord** – Target of £300k, delivered £300k (one-off capital receipt);
  - **Housing Provision** – Target of £200k, delivered £200k;
  - **Shared Services** – No target, delivered £43k; and
  - **Future Customer** – Target of £100k, forecast delivery of £100k.

- 5.4 Once the Final Budget is approved by Full Council in February 2026, the savings proposals which form part of Final Budget Report will be amalgamated into the current FFF Programme to ensure we have one savings programme. We will also be reporting progress of delivery in monthly management reports to SLB and Leadership and quarterly reports to Governance & Audit Committee.
- 5.5 In terms of FFF governance, there is a dedicated Programme Manager who reports to the FFF Board which meets monthly to review progress against objectives. The Board is responsible for providing central oversight of the delivery of the FFF Programme against milestones and plans, managing risks and issues, and progress against key performance indicators and savings and revenue targets. The Board provides strategic oversight over the transformation and reports to SLB and Leadership to ensure active management and advice on the delivery of the programme.

## 6.0 HOW THE COUNCIL IS ORGANISED

- 6.1 For its day-to-day running the Council is divided into Clusters which contain a number of aligned service areas. We operate a devolved management model in Colchester therefore there isn't a designated Cluster lead. The HoS is empowered to manage their budget and make the day-to-day decisions required to lead their service. Issues which require senior input, decision-making, approval, or escalation are taken to and discussed at SLB.
- 6.2 The following Clusters form the Council's service delivery model:
- **Enjoy Colchester** - this includes the Council's Sports & Leisure facilities, Parking and the City's cultural offering from Museums and Tourism.
  - **Modern City Services** - the cluster includes Public Protection, Strategic Parking decisions and Waste Collection Services.
  - **Place and Prosperity** - this includes Economic development, greening of the City, Bereavement Services, Planning, Sustainability and Climate change.
  - **Corporate Services** - this department is more primarily focussed and provides support services for the Council to be able to provide its front-line services and includes Finance, Governance and People services.
  - **Corporate Landlord** – this function was established in April 2025 which centralised and consolidated; programme delivery, management, maintenance, and compliance from a number of areas across the Council into one to improve the efficiency our Estates portfolio.
  - **Housing and Wellbeing** - this includes the important services of General Fund Housing and the Health Partnerships and wellbeing.
  - **Transformation, Insight and Business Improvement**- this includes services such as Digital and IT services as well as Governance.
- 6.3 The Council has the following two wholly owned subsidiaries:
- **Colchester Borough Homes (CBH)** is an Arm's Length Management organisation (ALMO) established by the Council in 2003. CBH operates and manages the social housing stock through the HRA. It offers services like tenancy management, repairs, asset management, and housing advice, which support the Council's broader strategic housing goals and its role as a landlord.

- **Colchester Commercial Holdings Ltd-** Its trading arm, Colchester Amphora Trading Ltd (Amphora) aligns to the Council’s strategic aims by seeking to develop a vision of Colchester as a place to do business, invest, live, study and visit. It helps communities realise the power of digitalisation, enables communities to live safe and independent lives, and seeks to make and shape place, bringing economic benefits. It also creates direct value to the Council by delivering services, supporting innovation, and bringing financial benefits from commercialisation.

Key benefits delivered through Amphora include:

- Helpline Falls Service saving the NHS £0.4m per year through reducing ambulance attendance and hospital admissions.
- Helpline CCTV Monitoring, in the first 8 months of the current year, assisted with 1,520 incidents, leading to 147 arrests, by collaborating with the Police, door security and zone wardens.
- 158,000 visitors have been attracted to 440 events in the first 8 months of the current year, with an estimated economic benefit to Colchester in excess of £20m from the full year’s events programme.
- Investment in the current financial year, in conjunction with partners, to add full fibre digital connection to Mersea Island to the existing Council network.
- generating profits and dividends that could be invested in Council services or infrastructure, support to the creative sector, and acceptance of a stewardship responsibility for assets used by the company, such as Castle Park

## 7.0 FINANCIAL STRATEGY AND 2026/27 REVENUE BUDGET

### Hallmarks of a Good Budget and Budget Principles

7.1 This section sets out our approach to developing a Budget and MTF. As part of our ongoing improvement journey, we were keen to assess our budget setting process against a best practice framework, which we introduced this year as part of the improvements to financial management. **Table 1** below assesses the following six hallmarks against current progress.

**Table 1 – Hallmarks of a Good Budget**

Hallmark	Self-Assessment
<b>The budget has a Medium-Term focus which supports our Strategic Priorities</b>	<ul style="list-style-type: none"> <li>• The Budget has a medium-term focus with multi-year forecasts to 2029/30. This multi-year view is required by our Constitution but is also in line with best practice.</li> <li>• Despite significant uncertainty in the financial planning environment, with the advent of FFR and LGR we are committed to leaving a legacy which looks ahead to the future, setting our ongoing medium-terms pressures, indicative Capital Programme through to 2030/31 and beyond as we know capital spans many</li> </ul>

	<p>years and decisions taken now have lasting impacts, supported by a medium-term view of Reserves required to ensure we remain fiscally sustainable.</p>
<p><b>Resources are focused on our vision and our priority outcomes</b></p>	<ul style="list-style-type: none"> <li>• The Cabinet’s medium-term focus is one of prioritising investment in areas which will deliver the greatest benefits to the residents of Colchester, with the backdrop of LGR, and striking the balance that is required between a short-term imperative to deliver whilst leaving a sustainable financial legacy for a new unitary Administration.</li> <li>• Significant effort has been undertaken to review and present in this report a deliverable and affordable Capital Programme to meet these objectives.</li> </ul>
<p><b>Budget not driven by short-term fixes and maintains financial stability</b></p>	<ul style="list-style-type: none"> <li>• Budget preparation is integrated with transformation associated with our FFF Programme and building on that, so we are as efficient as we possibly can be as a Council to ensure we are LGR ready.</li> <li>• Delivering business cases for investments to ensure a robust evidence base.</li> <li>• Having a budget strategy which balances appropriately all aspects required to deliver a balanced budget including, cost efficiency measures, income generation/fees &amp; charges ensuring we charge a fair price for our services, strategic use of Reserves and capital affordability.</li> <li>• We have developed a policy and process which aims to hold appropriate General Fund Reserves to meet the assessed risk environment and specific pressures to ensure our continued financial resilience despite entering an increasingly volatile and uncertain external environment.</li> </ul>
<p><b>The budget is transparent and well scrutinised</b></p>	<ul style="list-style-type: none"> <li>• The Budget setting process commenced early, much earlier than previous years given the complexity and challenge of the medium-term landscape. This has given us time to be rigorous and challenging in our approach and ensure engagement right throughout the organisation, officers, and Members.</li> <li>• We have also, for the first time brought this budget to Scrutiny Panel in early December (one and half months earlier than previous years) to allow rigorous scrutiny for Cabinet to consider alongside the Draft Budget.</li> <li>• As part of the Draft Budget, we have set out details of proposed savings and unavoidable pressures which make up our budget gap.</li> <li>• Political Groups were engaged early over the summer a part of the budget setting process.</li> </ul>
<p><b>The budget is integrated with the Capital Programme</b></p>	<ul style="list-style-type: none"> <li>• Section 8 sets out the Capital Programme</li> <li>• For the first time in a long-time we have thoroughly and robustly reviewed every single scheme within the Capital Programme for</li> </ul>

	<p>both deliverability and affordability. We have made many changes to set the most realistic programme we can, given the current information to date and economic environment. We commit to regularly reviewing the programme as we progress the financial year.</p> <ul style="list-style-type: none"> <li>• We have been strategic in our review of financing arrangements against our Asset Disposal Programme to ensure the most effective and efficient use of every capital receipt, so it has maximum impact in terms of reducing our borrowing costs.</li> </ul>
<p><b>The budget demonstrates how the Council has listened to consultation with our residents, staff, and businesses</b></p>	<ul style="list-style-type: none"> <li>• Section 4 sets out our approach to engagement.</li> <li>• This budget was set on a premise of as much engagement as possible with as many people as possible.</li> <li>• We commenced the budget setting process early (in late May), which has enabled us to bring the draft budget to Members much earlier than previous years (to Scrutiny on 9<sup>th</sup> December, rather than late January).</li> <li>• We have engaged with staff with regular workshops, briefings, and updates. We have also engaged with residents through two residents' panels in November (face to face and online) to seek their views and prioritisation of services. We will be having discussions with businesses in January.</li> </ul>

## Budget Principles

7.2 As part of our financial management improvement journey, we are challenging ourselves to set a budget based on ten high-level good practice principles which are used as a framework to set the budget.

7.3 The ten principles we have adopted are:

- ✓ Multi-year financial plans produced; the following year with a balanced budget plus a three -year forecast;
- ✓ Finance Team working closely with HoS and SLB to ensure full accountability by budget-holders;
- ✓ Assurance that all savings and pressures are owned by the Senior Leadership Team (SLT) and managed within budget envelopes, with clear governance and plans for transformation/FFF programme over the medium-term;
- ✓ Annual review of fees and charges to ensure we recover costs and charge a fair price for the services we provide;
- ✓ Ensure risk mitigations are in place through centrally held provisions/funds; a general risk provision/contingency to act as a buffer against in-year overspends and corporate redundancy/restructuring provision;
- ✓ Ensure that the budget is not driven by short-term fixes and maintains financial stability;
- ✓ Prepare a Capital Budget which is fully integrated with the Revenue Budget (costs of borrowing; Minimum Revenue Provision (MRP) and interest);

- ✓ Produce a Budget which is transparent (e.g. gross costs and income) and is well scrutinised;
- ✓ Ensure an inclusive and collaborative approach to budget setting involving as many officers and Members right across the Council as possible; and
- ✓ Have a robust and deliverable budget by testing the validity of proposals in the savings programme with a RAG (Red/Amber/Green) rating and a focus on taking green savings first whilst allow time to work up Amber and Red proposals to be taken if necessary, depending on the outcomes of funding arrangements.

## **National Context - The Finance Policy Statement, the Autumn Statement, Local Government Finance Settlement and Fair Funding Reform (including Business Rates Reset)**

- 7.4 On 21<sup>st</sup> November 2025, the Government published the “Local Government Finance Policy Statement” which sets out government’s proposals for the 2026/27 to 2028/29 multi-year Local Government Finance Settlement, including details on the Government’s response to FFR delivered through the 2026/27 Provisional Local Government Finance Settlement. They also published the Government’s response to the FFR consultation and the Policy Statement on resetting the business rates retention system from 2026 to 2027. We await the provisional settlement in December to understand the specific impact on Colchester however, importantly a three-year settlement to 2028/29 has been confirmed which will helpfully support future budget planning along with transitional arrangements so we can better manage any funding reductions. Council tax referendum limits remain unchanged as anticipated. The Recovery Grant, our current allocation being £240k, was intended as a one-year only grant in 2025/26 will be extended but not guaranteed at current rates for lower-tier authorities and a significant amount of grants, including Social Care, New Homes Bonus, Employer National Insurance and Funding Floor; 33 separate funding streams of £47bn are being consolidated/ “rolled-in”.
- 7.5 On 26<sup>th</sup> November, the Chancellor of the Exchequer, Rachel Reeves announced the Autumn Statement/Budget. Of particular note are the potential impacts of the “mansion tax” (surcharge on high-value homes) on properties worth more than £2m (£2.5k charge per annum) increasing for properties over £5m (£7.5k charge per annum) levied on owners and not occupiers from April 2028. Local Authorities will collect this revenue on behalf of Central Government and will be fully compensated for the additional costs of its administration. The detail of how the scheme will work, and the full impact of this change is currently unknown.
- 7.6 The Autumn Statement also set out a minimum wage rise by c4.1% from April 2026, improving take home pay for many lower-paid workers. For Colchester this will have minimal impact as we pay the Living Wage, which is higher than the minimum wage, we are however reviewing the impacts on apprentices.

- 7.7 The Business Rates Retention System will be reset in full in 2026/27. All Local Authorities will be assigned new Business Rates Baselines, Baseline Funding Levels and top-up or tariffs. Government will provide transitional arrangements to enable Councils to plan for changes whilst moving towards updated funding allocations. There was also mention of permanent relief for retail, hospitality and leisure offset by higher charges for online companies with large warehouses (Amazon), but any impacts are likely to be offset by transitional arrangements with the Revenue Support Grant (RSG) used to smooth the impact of this over the multi-year Settlement. We are currently working through the implications of this for Colchester.
- 7.8 The Chancellor also made an announcement to changes to Salary Sacrifice schemes, from April 2029, the amount that is exempt from National Insurance contributions (NICs) will be capped at £2,000 a year for employee contributions made via salary sacrifice. The Council currently runs salary sacrifice schemes for cars (including electric vehicles), bike loans and Additional Voluntary Contribution Pension schemes that could be affected by this. The exact nature of the change and the financial impact is as yet unknown.
- 7.9 This Government's Budget is being delivered much later than we had hoped for, and despite it not being particular to Colchester it would have provided a direction of travel for the sector as a whole and guided our thinking and planning. The specificity we require regarding our funding will be set out in the Provisional Local Government Finance settlement anticipated in mid-December. This will also include the outcomes of FFR, and the Business Rates Reset. We will receive a final settlement in January which normally confirms the provisional settlement.
- 7.10 Strong indication from Central Government is that the timing of our settlement will be in line with previous years, as such we anticipate the announcement in mid-December. In preceding sections in this report, we have set out quite clearly that we currently cannot be certain of the impact of FFR and Business Rates Reset so have planned for all eventualities.
- 7.11 We have proactively sought advice from industry experts and discussed our approach and scenarios with colleagues. Even after a very recent conversation with advisers we continue with our working assumption of cash flat with regards to our funding (i.e. no increase or decrease). This assumption was supported by technical experts and is because of the opposite and equally potential changes to our funding i.e. a potential increase of £2.5m to £3m over the next three years is just as possible as the exact opposite. It is likely we will receive one grant which will replace all other grants we currently receive (e.g. New Homes Bonus) with more of these specific grants being rolled-in.
- 7.12 Business Rates Reset refers to Government's intention to reset the business rates retention system in 2026/27. The purpose is to recentralise the system for distributing business rates income with the goal of creating a new framework for local authority funding. A consultation was launched in June this year and the outcomes will be announced as part of FFR in December.
- 7.13 We have started early and planned well and feel confident we can balance the budget irrespectively. We would prefer however not to have to invoke serious cuts to front line services and/or our staffing numbers, because our funding has reduced even further than we have anticipated through all our intelligence gathering, undoubtedly though the risk still exists.

## Revenue Budget - Headlines

### 2025/26 Budget and Composition

- 7.14 The 2025/26 Budget and MTFF to 2029/30 was presented and approved by Full Council on 25<sup>th</sup> February 2025. The approved budgets for 2025/26 were a net budget of £29.67m and a gross budget of £119.43m.
- 7.15 The gross budget consists of the following income streams

**Table 2 – 2025/26 Budget Income Streams**

Income Stream	£'ms
Government Grants (Housing Benefit)	35.5
Customer & Client Receipts	34.7
Council Tax	15.1
Interest Receivable	9.7
Business Rates	9.1
Other Grants & Contributions	5.2
Government Grants	4.8
HRA/NEPP Recharges	4.5
Council Tax Sharing Scheme with County Council	0.5
Other	0.4
<b>TOTAL</b>	<b>119.4</b>

- 7.16 The largest source of Income the Council receives is Housing Benefit income from Central Government that recompenses us for Housing Benefit payments to clients. The Council receives money from Customer and Client Receipts of c£35m per annum, of which £21.6m are discretionary. As we are able to set these, its this component that has formed part of the Fees and Charges Review, discussed further in this report. The next largest Income source is from Council Tax followed by Interest earned on surplus cash balances. The Council also collects £9.1m in National Non-Domestic Rates/Business rates, the remainder of the income is from various grants and recharges to the Housing Revenue Account (HRA).

### MTFF Budget Working Assumptions

- 7.17 The latest MTFF makes several assumptions which underpin our Draft Budget and MTFF. Despite the Council's finances being influenced by several macro-economic factors like inflation, world events, and government policy, its crucial that the Council makes prudent assumptions, particularly around its cost and income bases moving forward. These working assumptions are as follows:
- **Central Government Funding** (FFR and Business Rates Reset)- we have assumed, as set out above, that for planning purposes our assumption is cash flat (i.e. no increase or decrease). We also have indications that many of our existing grants will be rolled-in so we will be unable to identify various grants specifically, such as Homelessness Prevention Grant (HPG) indications are that half will be rolled-in and the remainder will be identified specifically as HPG. Much of this will not be known until early 2026 for 2026/27. Where this amount is known, as in the case of Extended Producer Responsibility, this has been forecast in the MTFF.

- **Council Tax Increase, Tax Base and Collection Rate** - The MTFF assumes that we will continue to apply a 2.99%; the maximum; increase to its Council tax bills over the MTFF period. The Council only keeps 11% of the Council tax it collects. This means that even the maximum increase only contributes £450,000 additional income to the City Council. It also assumes that with development within the Colchester that the Council Tax base will grow by 1% per annum and a continuing 99% collection rate.
- **Business Rates Multiplier and s31 Grants** – The amount that a Council charge is set by the Valuation Office. The Council collects and keeps half of business rates charged, 10% of this is paid to Essex County Council with the remainder being sent to Central Government. The amount of NNDR chargeable is based on the rateable value of a property which is defined by the Valuation Office. This is reviewed every three years. The rateable value is then subject to a multiplier, that multiplier is being reviewed by Government as part of FFR and Business Rates Reset. Their intention is to bring in lower multipliers based on business size and the size of the hereditament. The guidance received from the consultants is that this change in multiplier will be cash neutral to the Council; any lower multiplier offset by a higher multiplier or S31 top-up grant from Central Government.
- **Business Rates Pool** – The Business Rates pool for 2025/26 may deliver the Council an additional c£1.5m in early 2026. This amount has not been taken into the budget because of its volatile nature, and as the precise allocation remains unknown until the end of the financial year. 2025/26 is likely to be the last year we will enter pooling arrangements given the changes to our funding regime. From 2026/27 onwards a pool is unlikely to provide any further benefit, however, will know more around late January 2026
- **Pay inflation** - Has been assumed to be 2.5% in 2026/27 and then 2% across the remainder of the MTFF, linked to the Government's target of 2% inflation. This is a risk for the Council with not knowing what the percentage increase will be for each year until such time as the National Joint Council comes to an agreement. This is why it is important for the Council to keep a healthy General Fund Reserve balance as a possible mechanism to meet any shortfall. 2% however is a recognised assumption across all authorities when compiling their MTFF. This potential pressure and impacts of minimum wage increases announced as part of the Autumn Statement will be considered further as part of budget finalisation and once our settlement is known.
- **Non-Pay inflation** - Is being forecast at 2% for the time being with Services asked to absorb part of any inflationary increase within existing budgets. If the cost base grows more than 2% then this is in effect a real-terms cut to the service and again this is an ongoing risk.
- **Council Tax Sharing Agreement with Essex County Council**- The exact amount of the Essex County Council's Council tax sharing agreement is yet unknown and as such has been forecast as flat for the time being, until such time as an announcement has been made. It is estimated that it will be at least as much as has been awarded in previous years.

## 2026/27 Budget Gap, Unavoidable Pressures and Savings

- 7.18 We have discussed at length in this report about the uncertain external landscape, especially in the context of setting a balanced budget for 2026/27. The budget setting process was challenging; over the years we have endeavoured to identify and deliver savings by transforming ourselves and delivering services more efficiently. Continuing to do this year-after-year is proving to be increasingly difficult as the demand and cost of our services continues to rise.
- 7.19 The Council has an ongoing significant financial risk associated with its statutory responsibility to house people who are homeless, like many authorities up and down the Country. The Council faces demand pressure for Temporary Accommodation (TA), as well as the cost to provide TA and is heavily reliant on the Homelessness Prevention Grant from Central Government to offset this cost. The Council believes that 2026/27 and beyond will see this financial pressure continue but has introduced initiatives to help mitigate people requiring homelessness support, they have also procured cheaper temporary solutions and work to move people into either social housing or private rented sector housing faster. It is for this reason that the report features no pressures and no savings from Housing as they are working within their approved budget envelope and therefore any cost savings measures allow us to mitigate/contain financial pressures.
- 7.20 We are also conscious that some of our strategic/priority and corporate Reserves will need topping up over the MTFF and have already identified in the region of £4m that would be required to keep us in a financially resilient position. This has not been factored into our budget gap.
- 7.21 Leadership is clear that the fairest and most transparent way to approach the challenge of closing a significant budget gap is a multi-faceted strategy, consisting of:
- Cost reduction activities - making us more efficient,
  - Income generation activities - increased fees and charges whereby we recover our costs and charge a fair price to our residents, and a strategic asset disposal programme to generate capital receipts which will use to reduce historically expensive borrowing (MRP) costs and continue to provide benefits over the MTFF,
  - Scheme-by-scheme review of the Capital Programme – to ensure its deliverable and affordable, cognisant that some investment in critical services is required over the medium-term;
  - Strategic use of Reserves – we invest in the Council's strategic priorities and not plug day-to-day spending gaps which is responsible and in the best interests of our residents.
- 7.22 We have tried to be measured in our approach (i.e. cash flat assumption for funding over the medium-term), in the hope that our funding will not be decimated but we know we cannot rely on hope and have sought to proactively find cost reductions and income generation activities. Irrespective of the outcome of the provisional settlement we believe that we can deliver the savings proposals set out below. We want to make sure that our financial foundations are strong but streamlined as we enter into the LGR planning phase.

- 7.23 In section 3 we set the context within which we have the burning platform to find savings to close next year's budget gap. We commenced the current financial year with an indicative gap for 2026/27 of c£3.3m, as was published in last year's MTFF. After some adjustments for changes in assumptions in 2025/26 the Council's indicative gap was estimated at c£3m (c10% of our Net Revenue Budget).
- 7.24 We also know and will set out further in section 9 that we have a number of unavoidable pressures which are contributing to the Council's current forecast overspend position at Q2 and these pressures will continue into next and subsequent years (e.g. Homelessness). At Q2 the Council's financial position is a net c£2.4m overspend.
- 7.25 After some challenge and validation workshops with HoS and SLB we identified that we have **c£3m of unavoidable pressures**. Over half of the budget gap is because of an increase in the cost of delivering services or investing in those services to make them more efficient or cost effective in the future. There is also c£0.5m of pressure resulting from structurally inadequate base budgets and incorrect assumptions made which we are addressing in this budget. As discussed above, there are also likely additional wage costs which have not been factored into this Draft Budget but will continue to be reviewed as to the approach taken prior to finalisation. The pressures are summarised below and shown in detail in **Annex 1**.
- Increased costs of service/loss of income - c£1m
  - Investment in services - c£0.6m
  - Right-sized budgets to address structural gaps - c£0.5m
  - Increased staffing costs/re-gradings - c£0.5m
  - Top-up of Colchester Northern Gateway (CNG)/Leisure Park Reserve - £0.5m
- 7.26 A robust and comprehensive process was conducted to identify savings, as set out in section 4. Engagement was strong and budget holders were very aware that they would need to make some difficult decisions, guided by the KLOEs developed by Cabinet.
- 7.27 The Council has identified **c£5.8m of savings proposals** to enable us to close the budget gap, as set out in detail in **Annex 2** They have been challenged by SLB for deliverability and Portfolio Holders and Cabinet for political sensitivities. This list of proposed savings has been rated as Green on both of those measures, as such we are confident of their deliverability in 2026/27. Over 60% (£3.6m) of the savings proposed are as a result of income generation activities, discussed below. This is to ensure that we cover the cost of providing the service ensuring we consider and regulatory guidance (especially with statutory services) and charge a fair price for the services we deliver.
- 7.28 Cabinet has agreed and work has commenced to dispose of some of our property portfolio and this will deliver c£40m of capital receipts which will be used to pay down our borrowing over the course of the MTFF. This is discussed further in section 8 on the Draft Capital Programme financing.

- 7.29 We have also taken the opportunity to review how we are structured and deliver services and put forward some proposals that means that we can organise ourselves in a much more cost-effective manner. This has resulted in c£2m of savings which will impact about 13.54 FTEs however 2 FTEs are vacant posts. These decisions have not been taken lightly as we strive towards being as efficient as possible. Whilst the detail is still being worked through by SLB and HoS, all staff are being actively engaged with. Redundancy costs associated with these posts will be met by the Council's corporate Restructuring Reserve. The Reserve will be sufficient to cover these costs on a worst-case scenario basis, albeit needing a top-up at year to ensure we provide for any LGR related restructuring.
- 7.30 The HoS continue to work through these proposals to refine and validate. A summary of these proposals is set out below, with details in Annex 2.
- Income Generation (including c£2.2m from our Asset Disposal Programme) - £3.6m
  - Review of Target Operating Models & Ways of Working - c£2m
  - Invest to Save Initiative -c£0.1m
- 7.31 Although considerable work has been undertaken by Council officers and Cabinet to find savings to close the budget gap as set out above, at the point of setting this draft budget we still have **c£0.4m gap** to close before a balanced budget for 2026/27 can be set.
- 7.32 At the time of publication, we have c2 weeks before we know definitively our funding envelope from Central Government, as such we have to plan accordingly. In an attempt to maintain positivity, we trust that the Government will be fair when we receive our provisional settlement and we do receive the additional funding in 26/27 to 28/29 in a manner indicated in the section above on FFR. If this is the case, the first call on these funds will be to close the budget gap. Any additional funds will be used to top-up the Council's key Reserves with the details to be fully determined once we know more, but the Strategic Investment and LGR Reserves are likely recipients.
- 7.33 Having to plan for all eventualities and therefore a negative scenario, we will close the gap through the application of funds from the Business Rates Reserve, which is the intended use of this Reserve with a current balance of c£2m, albeit we will be reluctant to fully apply it. Maintaining a strong level of Reserves is an important legacy for the Cabinet and its unlikely we will be receiving future windfalls which we can use to top-up our Business Rates Reserve as we have in previous years. Should the outcome however be worse than we expect then we are going to have to unfortunately cut much deeper into the organisation. This will have a detrimental impact on front-line service delivery. We remain hopeful for our staff and residents and make a strong plea to Government that this will not be the case.

## Income Generation and Fees & Charges

- 7.34 A review was carried out of the Council's fees and charges. Within the Customer and Client Receipts, £21.6m relates to fees and charges that was in scope for the review. The majority of this is derived from discretionary activities for which the Council can set the prices and also includes statutory activities where the Council can set the prices. The balance is from statutory activities where pricing is outside Council's control due to it being determined nationally, often with no annual increase. In setting pricing, the Council can recover its direct and indirect costs. The review identified that many areas were under-recovering their costs.
- 7.35 The approach adopted for the 2026/27 budget was to improve the cost recovery of chargeable services, whilst considering price elasticity and competitor pricing (public and private sector). Consideration was also given to desired policy outcomes and impact on affordability. Overall, this has meant increases above inflation, although some fees have no increase, either due to no anticipated nationally set price change or it being the best approach after consideration of impact on demand or affordability for residents. Volume-related risks and opportunities were also factored in, such as a temporary car park closure and leisure membership potential to drive increased participation by residents in Sport and Leisure.
- 7.36 The net impact of the various changes is reflected in 2026/27 as £1.5m increase in fees and charges income. A proposed Fees and Charges Schedule can be found at **Annex 3**

## Reserves

- 7.37 A comprehensive piece of work was undertaken to ensure we have a better grip on Reserves over the last few months culminating with a paper to SLB on 15th October. The paper set out planned use of Reserves over the MTFF which gave us insight into which Reserves would require replenishing over the medium-term. We also set out a policy and process for sign-off prior to application and prioritisation for use.
- 7.38 The Council is required to maintain an adequate level of Reserves to deal with future forecast or unexpected pressures. We are not permitted to allow spend to exceed available resources which would result in an overall deficit. Sections 32 and 43 of the Local Government Finance Act 1992 require authorities to have regard to the level of Reserves to meet estimated future spend when calculating the budget requirement.
- 7.39 Reserves can be held for three main purposes:
- A means of building up funds (earmarked reserves) to meet known or predicted liabilities;
  - An in-year contingency to cushion the impact of unexpected events or emergencies; and
  - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
- 7.40 The appropriate level of Reserves needs to be considered alongside an assessment of the Council's risk environment. The higher the risk inherent in budget planning cycle, the higher the level of Reserves needs to be to mitigate this risk. Therefore, an assessment of the risk environment is required to determine the suitability of the baseline Reserves position, this assessment should include consideration of the robustness of savings plans (and therefore deliverability), levels of uncertainty (demand and price of services), policy changes and wider national economic and political factors.

7.41 Reserves are a precious one-time only resource, so prioritisation and tight control is critical, precisely the approach we have taken to prepare this draft budget. The budget proposes the following principles for the management of Reserves:

- Fund one-off or time-limited investment that will drive out savings/efficiencies, not ongoing or structural issues;
- Improve the delivery of services and Council strategic priorities;
- Invest to Save schemes;
- Capital spend, but only when exiting capital headroom has been consumed and the programme is being delivered in full;
- Reserves should not be used as a substitute for permanent savings to meet permanent spending pressures;
- Reserves should be reviewed annually for sufficiency to ensure contributions are equal to planned use over the medium-term;
- Maintain an adequate level of Reserves which to the satisfaction of the s151 should be around 10% - 15% of Net Revenue Budget, with the minimum level being 10% rising to 15% as move to higher risk environments such as LGR. Remedial action will be required if Reserves are used for unforeseen shocks and balances depleted. This applies even more so to the Council's General Fund Reserve where a working balance should be closer to 15% as risk levels increase;
- Unutilised risk contingency should first be used to ensure Reserve levels are sustained, thereafter there is opportunity to invest in future years in strategic priorities, further transformation, and/or service improvements (one-off costs). Any such investment should result in strengthening of the financial position, i.e. reducing risk, or generating revenue efficiencies; and
- Given future funding uncertainty, retention of the Council's Reserves will be essential to mitigate risk and protect against unplanned pressures and/or the non-delivery of planned budget savings.

7.42 **Table 3** below shows the current forecast use of the Council Reserves with the overall level of Reserves balance over the MTTF being c£17.1m, once we take account of all known calls and within our 10-15% range.

7.43 At the start of 2025/26 the General Fund Reserve balance was £5.8m but because of persistent in-year overspends due to structurally inadequate budgets and demand pressures, use of this Reserve is c£2.4m as at Q2, subject to any cost mitigations for the remainder of the year. Any amelioration of our in-year overspend position will reduce the year-end draw against this Reserve. Within our 10%-15% rule, the General Fund Reserve should sit around £3m to £4.5m. If Reserves drop below this level, action should be taken to rebuild them. They will continue to be monitored over the coming months and reported on more fully once the Council has received its provisional and final settlements.

**Table 3 – Forecast Reserve Movement**

	<b>Ringfenced Reserves</b>	<b>Earmarked Reserves</b>	<b>General Fund Reserves</b>	<b>Total Reserves</b>
	<b>£m's</b>	<b>£m's</b>	<b>£m's</b>	<b>£m's</b>
<b>Opening Balance 1st April 2025</b>	<b>(0.1)</b>	<b>(23.0)</b>	<b>(5.8)</b>	<b>(28.9)</b>
In Year Appropriations 2025/26	0.0	8.9	2.4	11.3
<b>Closing Balance 31/03/2026</b>	<b>(0.1)</b>	<b>(14.1)</b>	<b>(3.4)</b>	<b>(17.6)</b>
Forecast use of reserves	0.0	0.3	0.4	0.7
<b>Closing Balance 31/03/2027</b>	<b>(0.1)</b>	<b>(13.8)</b>	<b>(3.0)</b>	<b>(16.9)</b>
Forecast use of reserves	0.0	0.3	0.0	0.3
<b>Closing Balance 31/03/2028</b>	<b>(0.1)</b>	<b>(13.5)</b>	<b>(3.0)</b>	<b>(16.6)</b>

- 7.44 The Council maintains Specific Earmarked Reserves; this is where the Council set aside money for a specific financial risks or projects. These include the creation of the Local Plan, costs associated with LGR, System Upgrades and maintaining our key physical assets. We also have a small amount of Ringfenced Reserves which cannot be used by the Council and are held on behalf of another organisation. If the Council was required to issue a s114 they could not be allocated to support the bottom-line, for us this balance is very small.
- 7.45 These Reserves need to be reviewed and where applicable topped up annually, when setting the budget, the Council needs to ensure that as well as balancing it's in year income and expenditure it has the means to keep these Reserves at a sustainable level.
- 7.46 The Council recognises the significant financial risk of the Council's ownership of the Northern Gateway Leisure Park. The performance of a complex commercial investment asset like that is subject to a number of uncontrollable pressures and therefore the Council needs to ensure that it sets aside money in order to meet any possible void units that it may have, therefore in this budget the Council are setting aside an amount to continually top up an earmarked reserve for this purpose. This Draft Budget sets aside base budget funding and Reserve top-ups (one-off and ongoing) to mitigate associated risks to the extent possible.

### **The Medium-Term Financial Forecast**

- 7.47 The table below sets out the Council's MTFF from 2026/27 to 2029/30. This table shows that there is no MTFF gap as we have sufficient Reserves to cover deficits. This however pre-supposes that next year's savings are delivered in full, pressures are as identified and that there will not be further income generating activity and/or cost efficiencies to mitigate sustained pressures.
- 7.48 The Council needs to ensure that its General Fund balance is maintained at between 10%-15% (£3m to £4.5m) of net budget in order for there to be a robust level of Reserves to meet any unforeseen financial challenges.
- 7.49 The table shows that in all but one of the four years of the MTFF the Council is likely to have an in-year deficit gap. This is driven by the general inflation and the Council's ambitious Capital Programme that is adding additional cost through Minimum Revenue Provision (MRP) and additional interest payments.

**Table 4 – Medium Term Financial Forecast**

	2026/27	2027/28	2028/29	2029/30
	£'m	£'m	£'m	£'m
<b>Council Approved MTFF</b>	<b>3.3</b>	<b>2.6</b>	<b>1.4</b>	<b>1.3</b>
<u>Changes in Assumptions</u>				
EPR Increase	(0.5)	(0.5)	(0.4)	(0.4)
Increase in Pay Award	0.4	0.6	0.8	1.0
<b>Revised Indicative Gap</b>	<b>3.2</b>	<b>2.7</b>	<b>1.8</b>	<b>1.9</b>
Pressures	3.0	4.1	5.2	5.6
Savings (Green Only)	(5.8)	(6.8)	(6.8)	(6.9)
<b>Budget Gap</b>	<b>0.4</b>	<b>(0.0)</b>	<b>0.2</b>	<b>0.6</b>
<b>General Fund Reserve B/F</b>	<b>(4.4)</b>	<b>(4.0)</b>	<b>(4.0)</b>	<b>(3.7)</b>
In Year Use of Reserves	0.4	(0.0)	0.2	0.6
<b>General Fund Reserve C/F</b>	<b>(4.0)</b>	<b>(4.0)</b>	<b>(3.7)</b>	<b>(3.1)</b>

*\*This assumes that the 2025/26 forecast outturn will be an overspend of £2.4m as per the Q2 Monitoring.*

- 7.50 The forecast also shows that despite these in year overspends the amount of General Fund Reserves is still maintained at an appropriate level. However, this relies on the Council achieving its proposed savings programme of c£5.8m in 2026/27.

## **8.0 DRAFT CAPITAL PROGRAMME 2025/26 TO 2027/28 AND AN INDICATIVE PROGRAMME FOR 2028/29 AND BEYOND**

### **Overview and Approach**

- 8.1 This section provides an update on the development of the Draft Capital Programme for 2025/26 to 2027/28 and an indicative programme for 2028/29 and beyond.
- 8.2 We know that come Autumn 2026 we will be working under a s24 agreement, whereby Central Government will set out the rules under which we can make decisions on our assets. Considering this, we have worked hard to prepare what we believe is a deliverable and affordable programme with investment in areas which will provide the greatest benefit to the residents of Colchester.
- 8.3 This programme runs into the period where we will effectively cease to function as a City Council and become unitary on 1<sup>st</sup> April 2028. Given the medium and long-term nature of capital, our plans and delivery don't just stop on 1<sup>st</sup> April 2028. We believe it prudent that we set out for the new Unitary our indicative Capital Programme for 2028/29 and beyond for the new Administration to consider, amongst its other priorities. We have also set out the proposed financing of the programme to provide assurances of affordability. This should also be referenced with respect to the availability of Reserves as set out in section 7 to support the financing, as required.

- 8.4 Since the beginning of autumn, an extensive piece of work has been undertaken by officers, SLB and Cabinet to review every single scheme in the Capital Programme from 2025/26 (and reset this to a more realistic and deliverable level) and propose a Draft Capital Programme from 2026/27 to 2030/31 and beyond. Schemes have been prioritised, reprofiled, reduced or removed to create what we believe to be a deliverable and affordable Capital Programme. Opportunities to utilise other sources of funding have been factored into the proposed budget.
- 8.5 A substantial proportion of this programme is being driven forward for delivery by the Estates team as part of the Corporate Landlord Model, implemented in this financial year for the first time. Consequently, the Finance team has worked very closely with Estates colleagues to ensure we are completely aligned on delivery profile, costs, and financing.
- 8.6 A significant amount of work has commenced on an Asset Disposal Programme which will deliver c£40m of capital receipts, £5m in 2025/26 and the remainder to the MTF. These receipts have been meticulously applied to each scheme reliant on external borrowing to make best use of that receipt on reducing Minimum Revenue Provision (MRP) and interest. We will be reporting an improvement in financing costs in Q3 Finance Report and in the Draft Capital Programme. Impacts of these financing arrangements the entire programme are set out later in this section.
- 8.7 The City Council's capital ambitions have grown but are targeted in recognition of historic under-investment in our assets with the purpose of improving the condition of the infrastructure or dispose of it where it is financially prohibitive. The Capital Programme is completely aligned to the Council's corporate priorities and invests in the areas of most importance to our residents.

### Summary of Capital Programme 2025/26 – 2027/28 and indicative programme for 2028/29 and beyond

- 8.8 The Draft Capital Programme of c£26m reset for 2025/26, c£39m in 2026/27 and c£103m over the MTF is set out in detail in **Annex 4**, alongside how the programme is being financed. **Table 5** below shows the summary programme by Cluster over the MTF.
- 8.9 The Capital Programme in totality is formed of schemes being delivered by both the Corporate Landlord/Estates function and those from elsewhere throughout the Council. The paragraphs below set out the more significant areas of investment which the Cabinet considers to be of strategic importance.

**Table 5 – Summary Draft Capital Programme over MTF**

Cluster	CAPITAL PROGRAMME			INDICATIVE CAPITAL PROGRAMME			TOTAL
	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31 and beyond	
Modern City Services	2,860,651	9,003,990	1,607,795	1,715,345	2,534,105	4,778,558	22,500,444
Corporate Services	5,932,500	2,528,500	1,000,000	1,930,902	0	0	11,391,902
Enjoy Colchester	2,092,395	1,717,835	5,900,000	6,300,000	0	0	16,010,230
Place and Prosperity	14,470,236	24,746,351	8,749,359	150,000	0	162,496	48,278,442
Transformation, Insight & Business Improvement	750,000	750,000	500,000	500,000	0	1,250,000	3,750,000
Housing & Wellbeing	37,062	272,250	900,579	0	0	0	1,209,891
<b>TOTAL DRAFT PROGRAMME</b>	<b>26,142,845</b>	<b>39,018,926</b>	<b>18,657,733</b>	<b>10,596,247</b>	<b>2,534,105</b>	<b>6,191,054</b>	<b>103,140,909</b>

- 8.10 **The Town Deal Programme** is a transformative investment initiative designed to regenerate Colchester's economy, infrastructure, and community assets. Delivered through a portfolio of interconnected projects, the programme aims to create vibrant public spaces, improve physical and digital connectivity, and enhance opportunities for skills development and youth engagement. At its core is the flagship Heart of Greenstead Hub, which will deliver modern, inclusive facilities to support community cohesion, skills development, and access to services.
- 8.11 **The Levelling Up Fund Programme** is a government-backed initiative focused on revitalising Colchester's city centre and improving connectivity through targeted infrastructure and public realm enhancements. The programme aims to create safer, more attractive spaces, reduce congestion, and celebrate the city's heritage, supporting economic growth and community wellbeing. The current programme budget is £18m, fully grant-funded, with the single largest scheme being the St Botolph's Roundabout project (c.£9m). Its inclusion in the capital plan reflects the complexity of delivery and the need for robust governance of construction and infrastructure works.
- 8.12 **ICT Strategy** - the programme seeks to deliver compliance with national standards in cybersecurity and accessibility - areas that are increasingly subject to legal scrutiny, while also enhancing the resilience and stability of core systems. The total capital requirement for this programme is £3.5m funded through borrowing, reflecting the scale and importance of the investment. However, due to uncertainty around future needs and the potential impact of LGR, £1m has been deferred to 2030/31 and beyond, leaving £2.5m planned for delivery within the current programme period. This investment will fund critical infrastructure upgrades, including Wide Area Network (WAN) assessments at Town Hall and Leisure World, and procurement of solutions to improve compliance, resilience, and service continuity. Including this programme in the capital plan is essential to maintain legal compliance, safeguard against cyber threats, and ensure the Council remains digitally resilient and operationally agile.
- 8.13 **The Light Fleet Replacement Programme** is a critical component of the Council's five-year Fleet Replacement Plan, designed to ensure operational efficiency, cost-effectiveness, and compliance with environmental commitments. The light fleet - comprising vans, cage vehicles, cars, and mechanical sweepers - supports essential services such as pest control, parks and estates maintenance, and street care. By replacing aging assets with modern, fit-for-purpose vehicles, the Council will improve service reliability, reduce operational risks, and align with the Fleet Transition Plan, which promotes the adoption of cleaner technologies and ultra-low-emission options where feasible. The investment of approximately £2m is funded from borrowing. This allocation reflects the latest delivery plans informed by operational intelligence from officers responsible for implementing the scheme. Including this programme in the capital plan is essential to reduce maintenance costs, avoid reliance on costly ad-hoc hires, and enable the phased transition to cleaner technologies.
- 8.14 **The Wheeled Bin Replacement Programme** is a critical investment to maintain the effectiveness and reliability of Colchester's waste and recycling services. Timely replacement is necessary to prevent service disruption, reduce maintenance costs, and uphold health and safety standards. This programme also supports the Council's Recycling and Waste Strategy, ensuring residents have durable and compliant containers that enable improved recycling performance and environmental outcomes. The total programme cost is £3m, funded from borrowing. The funding profile reflects the latest delivery plans based on intelligence from officers responsible for

implementation, ensuring procurement and deployment are aligned with operational needs and market conditions. Including this scheme in the capital programme is essential to safeguard service continuity, deliver on sustainability objectives, and provide value for money.

- 8.15 **Holy Trinity Church** - the project will restore and repurpose one of Colchester’s most significant heritage assets – the Anglo-Saxon tower and adjoining church – into a vibrant community and wellbeing hub. The scheme safeguards a Grade I listed building while creating flexible spaces for cultural, health, and community use, aligned with Council priorities for regeneration and inclusive growth. It leverages substantial external funding, reduces future liabilities, and supports heritage-led regeneration, contributing to economic vitality and social wellbeing. The project follows a blended funding model. The largest external grant (£2.5m) is anticipated from the National Lottery Heritage Fund, with confirmation expected in December. Additional applications have been submitted to major heritage and charitable funders bringing total pot to £3.6m. The final £0.2m of the project in 2027/28 (borrowing) is confirmed and £1.98m for 2026/27 is contingent on successful external bids which will be retained in the programme when funding is confirmed.
- 8.16 **Projects and Programmes delivered by the Estates Team** - The Draft Capital Programme includes nearly £42m of schemes that are to be delivered by the Estates team over the MTFF; £12.2m delivered in 2026/27.
- 8.17 The capital projects that are being delivered are for essential capital works to safeguard the Council’s assets and to protect the users of these assets and members of the public, as well as works that help protect assets that generate income for the Council. The programme also includes projects that help to support the City’s ambitious regeneration programme with schemes such as the St Botolph’s Quarter and key Infrastructure works for the Northern Gateway Project.
- 8.18 This draft programme also includes an additional £6.5m which is required to enable the anchor tenant for the Northern Gateway Leisure Park to be able to sign a long lease. It is anticipated that this will support the entire development and help the site return to profit by 2027/28. This will also provide confidence to existing and future tenants to the rest of the site and is a key investment to ensure the sustainability of the site.
- 8.19 The table below sets out the additional schemes that have been added to the Draft Capital Programme but are unlikely to be delivered until after 2030.

**Table 6 – New Additional Estates delivered Schemes over MTFF**

<b>Scheme</b>	<b>£m's</b>
Playparks	2.2
Community Asset Fund	2.0
Leisure World Investment	8.0
Town Hall Essential Works	4.0
Holy Trinity Church - Roof and External Works	0.2
<b>Total additional Estates Schemes</b>	<b>16.4</b>

- 8.20 With the inclusion of the above schemes it is essential that the Council appropriately resources the Estates Service, without doing that this programme cannot be delivered.

## Financing of the Capital Programme

- 8.21 The Council's Draft Capital Programme for 2025/26 to 2030/31 totals approximately £103m. The programme is financed from a combination of grants, external and developer contributions, capital receipts, revenue contributions, and borrowing. The Capital Financing Strategy (which will be appended to the Final Budget Report), will provide give a high-level overview of how capital expenditure within the Council's General Fund programmes is going to be funded, some details of financial implications are set out below.
- 8.22 Over the past few months, an affordability review of the Capital Programme was undertaken to set a Draft Capital Programme. Capital projects have been considered for deliverability, affordability, delivery of Council's strategic priorities and the potential inability to fund the programme resulting from continued rises in interest rates and higher cost of borrowing.

**Table 7 – Summary Draft Capital Programme Financing**

Financing source	CAPITAL PROGRAMME			INDICATIVE CAPITAL PROGRAMME			TOTAL
	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31 and beyond	
Grants	11,418,129	23,320,848	3,701,464	1,602,105	1,452,105	4,941,054	46,435,705
Other External Contributions	2,000,000	0	0	0	0	0	2,000,000
Section 106 Contributions	1,423,542	623,912	900,579	0	0	0	2,948,033
Capital Receipts	261,007	0	0	0	0	0	261,007
Revenue Contributions	30,501	0	0	0	0	0	30,501
Borrowing	11,009,666	15,074,166	14,055,690	8,994,142	1,082,000	1,250,000	51,465,664
<b>TOTAL CAPITAL PROGRAMME FINANCING</b>	<b>26,142,845</b>	<b>39,018,926</b>	<b>18,657,733</b>	<b>10,596,247</b>	<b>2,534,105</b>	<b>6,191,054</b>	<b>103,140,909</b>

## Funding Breakdown

### 8.23 Grants:

- Grants form one of the largest sources of capital funding, accounting for £46.4m over the period. Grant funding is highest in 2026/27 (£23.3m) and 2025/26 (£11.4m), reducing considerably in subsequent years, which may reflect specific large-scale or time-limited funded projects.
- £12m of the total grant funding relates to the Mandatory Disabled Facilities Grants (DFG) Programme. This Government-funded grant can only be used to support adaptations to homes for people with disabilities.
- Britannia Yard and St Botolph's Roundabout programmes are also two significant regeneration and infrastructure projects with £8m and £9.3m grant funding included in Council's Capital Programme.

### 8.24 Other External Contributions:

- A total of £2m is expected from other external sources, all allocated in 2025/26. This is an external funding that will be used to part fund council investment supporting the Northern Gateway Leisure Park development.

#### 8.25 **Section 106 Contributions:**

- Developer contributions under Section 106 agreements contribute £2.94m in total across the period, with £1.42m in 2025/26, £0.62m in 2026/27, and £0.90m in 2027/28.
- Kingswood Community Centre (Kingswood CC) project with £1.2m being delivered as a developer-funded scheme, meaning the construction and fit-out costs are entirely supported by Section 106 developer contributions.

#### 8.26 **Capital Receipts:**

- As part of the Capital Programme approved by Full Council in February 2025, proceeds from asset sales or disposals provided £261,007 in 2025/26, suggesting limited reliance on asset sales for funding.
- Over the next three years, the Council is expected to generate c£41m of capital receipts from its asset disposals managed by the Estates Team. These capital receipts will be used to retrospectively fund historic capital projects previously financed through borrowing. This is an effective way for the Council to reduce its liability for Minimum Revenue Provision (MRP) and alleviate pressure on the revenue budget.
- By applying qualifying capital receipts to repay the outstanding debt or substitute historic borrowing, the Council directly decreases its future MRP charges because the amount of debt requiring provision falls in line with statutory guidance. This strategy not only delivers immediate budget relief, but it also strengthens long-term financial resilience by reduce MRP and cutting interest and debt servicing costs.
- The planned use of capital receipt is shown in **Table 5** below.

#### 8.27 **Revenue Contributions:**

- Direct contributions from revenue amount to £30,501, entirely in 2025/26.

#### 8.28 **Borrowing:**

- New borrowing is projected at £51.5m, constituting almost half of the total programme. The most significant planned borrowing occurs in 2026/27 (£15.1m), 2027/28 (£14.1m), and 2025/26 (£11.0m), with borrowing tapering off in later years. This profile of investment funded by borrowing is precisely why the strategic and precise application of capital receipts (asset by asset) as set in this report, is a strong contributor to the programme's affordability.
- Enabling works project with £7.7m budget to be funded from borrowing within the Capital Programme refer to preparatory infrastructure activities undertaken to support major redevelopment or construction projects.
- The Asset Management Programme with £4.9m funding from borrowing is an investment initiative to maintain, upgrade, and repurpose the council's extensive portfolio of land and property assets. This targeted funding ensures that operational and community buildings remain fit-for-purpose, support modern service delivery, respond to health and safety or legislative requirements, and unlock new income opportunities through strategic asset management.
- The ICT Strategy capital allocation with £3.5m budget funded from borrowing is an investment in technology, digital infrastructure, and cyber security to modernise council operations and improve service accessibility.

## MRP Saving from use of anticipated Capital Receipts.

8.29 As mentioned above, applying capital receipts retrospectively to historic capital spend funded from borrowing can deliver substantial MRP savings. By redirecting £5m in capital receipts in 2025/26 and larger amounts in subsequent years (£25.25m in 2026/27 and £10.75m in 2027/28), the Council can reduce its General Fund Capital Financing Requirement (CFR; its underlying need to borrow), which in turn lowers annual MRP charges. For 2025/26, even though the budget originally set in February 2025 for MRP was £2.2m, the actual calculation prior to applying capital receipts was £2.33m, indicating that the Council faced a higher charge than anticipated.

**Table 8 – MRP Costs and savings from Capital Receipts.**

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Actual MRP calculation as at 31st March 2025	2,334,039	2,073,332	1,913,974	1,804,689	1,771,922	1,771,922
Additional MRP new capital Programme	-	296,558	1,253,726	2,152,855	2,385,150	2,694,364
<b>Total MRP</b>	<b>2,334,039</b>	<b>2,369,890</b>	<b>3,167,700</b>	<b>3,957,543</b>	<b>4,157,072</b>	<b>4,466,286</b>
Savings						
£5m Capital Receipts - 2025/26	- 1,083,088	- 813,842	- 451,551	- 342,265	- 309,498	- 309,498
£25.25m Capital Receipts - 2026/27	-	- 652,283	- 759,426	- 830,854	- 902,283	- 902,283
£10.75m Capital Receipts - 2027/28	-	-	- 853,760	- 870,546	- 902,794	- 1,052,009
<b>Total MRP Saving</b>	<b>- 1,083,088</b>	<b>- 1,466,125</b>	<b>- 2,064,736</b>	<b>- 2,043,665</b>	<b>- 2,114,576</b>	<b>- 2,263,790</b>
<b>MRP Charge after Capital Receipts</b>	<b>1,250,950</b>	<b>903,765</b>	<b>1,102,964</b>	<b>1,913,878</b>	<b>2,042,496</b>	<b>2,202,496</b>

8.30 The table above show that through the application of capital receipts, the total MRP saving in 2025/26 amounts to c£1.08m; reducing the MRP charge after capital receipts to £1.25m for that year. This pattern continues across the following years, with cumulative savings rising further as more receipts are allocated—resulting in annual MRP charges after capital receipts that are well below what would be calculated without retrospective application. For example, the MRP after savings is £904k for 2026/27 and £1,103m for 2027/28, compared with pre-savings figures of £2.37m and £3.17m, respectively.

8.31 These actions not only ease direct General Fund pressure in the medium term, but also reflect prudent treasury management, improving budget sustainability and future flexibility. The strategic approach of using capital receipts in this manner enables the Council to responsibly manage legacy borrowing impacts on its revenue budget, maximising the value of receipts and supporting overall financial resilience.

## Capital Governance

8.32 Given the vast majority of the Capital Programme is part of the Estates/Corporate Landlord function, the Estates Board, which reports into SLB is the governance for these assets and then to Portfolio holder or Cabinet as required.

8.33 For non-Estates aspects of the programme, the governance is primarily the Project Delivery Group. For the most sizeable non-Estates programme being the Town Deal the governance is the Town Deal Operational Board which has representation from SLB and key officers.

8.34 We are conscious that overarching governance of the entirety of the Capital Programme isn't formed at present. Given all the priorities of the current year this has not been able to be taken forward but is one of the priorities for the coming financial year, Finance working with Corporate Landlord. This way we have complete oversight as a Council of all capital related activity in one place.

## 9.0 FINANCIAL PERFORMANCE AS AT QUARTER 2, 2025

- 9.1 As part of our financial management improvement journey, we are now producing monthly financial reports in 2025/26. These are provided to and discussed monthly with SLB and Leadership. Reports contain General Fund and Housing Revenue Account (HRA) Revenue and Capital. Every month we are working on improving the report to ensure better messaging and understandability of our key cost drivers and mitigations. We also report this information quarterly to our Governance and Audit Committee, which are made public through this process. Key messages provided in this report are from the Quarter 2 (Q2) report discussed at Governance & Audit Committee (G&AC) on 18th November. More information on the Council's financial position can be found in that report on the Council's website.
- 9.2 **General Fund Revenue:** As at Q2, the gross projected overspend across services is £6.8m (pre-application of Reserves); net projected overspend is £2.4m (post application of Reserves). The Council's financial position is being adversely impacted but structural deficiencies in both Finance and Corporate Landlord budgets. Both of these budgets are being right-sized in the 2026/27 budgets and appear as pressures in Annex 2. The sustained demand for homelessness and temporary accommodation continues to put pressure on the bottom-line. The service, working closely with CBH have adopted an innovative approach to manage demand (Beyond the Box) which has had some positive impact this year and more is anticipated next year but this will really be from a cost containment perspective (to keep the budget stable), as such doesn't feature as a pressure in next year's budget.
- 9.3 **General Fund Capital:** As at Q2, the Council's Revised Capital Budget of c£60m is showing considerable slippage. Over the last few months there has been significant effort to review the capital programme and associated profiled spend, scheme by scheme to set a more realistic and deliverable programme. Section 8 of this report sets out the draft Capital Programme for 2026/7 and over the MTFP.
- 9.4 **Unavoidable/Ongoing Pressures** -Many of the factors impacting the 2025/26 projected outturn position for both revenue and capital will continue into 2026/27 and the medium term. Budget estimates for 2026/27 include the ongoing impact of Service variances from the current financial year, where they are expected to continue. Demand pressure trajectories have also been continued into 2026/27 in relation to those services experiencing pressures over and above the budget assumptions in 2025/26, specifically within homelessness and temporary accommodation and cost containment strategies continue to be sought. This provides confidence that the underlying budget, overall, is realistic and deliverable. These increased pressures in-year escalate the savings requirement in 2026/27.
- 9.5 **In-year mitigation:** At 2024/25 outturn, the s151 created a £1m general risk contingency to be cover in-year overspends/income losses as required and support the bottom-line. The current level of projected overspend is however in excess of the contingency budget held. It is therefore imperative that in-year mitigations are identified and delivered otherwise there will be a negative impact on the General Fund Reserve to balance the 2025/26 position.

- 9.6 **HRA Revenue:** At Q2, the Council is forecasting a surplus of £1.4m for 2025/26, against a breakeven budget. With the favourable position being driven by income exceeding budget by £0.9m and reduced net interest charges of c£0.9m. After a transfer to an Earmarked Reserve of £2m approved by Cabinet in July 2025, the General Reserve has a forecast balance of £5.5m at the 31<sup>st</sup> March 2026 which is above the benchmark minimum reserve requirement of £4m (10% of Turnover).
- 9.7 **HRA Capital:** At Q2, the HRA Capital Budget has a forecast outturn of £40.4m, resulting in a slippage of £6.8m (14%). The slippage has reduced by £5.1m compared to Month 5 due to increased forecast expenditure on the Home Improvement Programme.

## 10.0 HOUSING REVENUE ACCOUNT (HRA)

- 10.1 Cabinet approved the 30-year HRA Business Plan in July 2025, providing the basis for the HRA 2026/27 revenue and capital budget and long-term financial planning. The Business Plan engaged residents via focus groups and surveys to inform the budget and the 30-year plan. This section on HRA will be exemplified further as part of the Final Budget Report.
- 10.2 A recommendation was made that the Business Plan be reviewed every six months and updated to ensure its viability and sustainability.
- 10.3 In the context of this recommendation, and preparing for the 2026/27 budget, detailed work has been and is ongoing including reviewing HRA income and expenditure budgets, revising assumptions, adjusting service charges, assessing the level of RTB sales, revising interest rates and incorporating the Government's proposed 4.8% rent increase for 2026/27. The increase is in accordance with the Rent Standard formula i.e. September CPI (3.8%) plus 1.
- 10.4 The figures include interest on new borrowing of £138m for the five-year HRA Capital Programme.
- 10.5 Further changes may arise following fiscal announcements, including the Autumn Statement.
- 10.6 The HRA budget, proposed rent increase of 4.8% and detailed HRA 30-year Business Plan will be considered by Cabinet in January 2026 for recommendation to Council approval in February 2026.

### Draft HRA Revenue Budget 2026/27

- 10.7 The draft 2026/27 HRA revenue budget **Annex 5**, shows a £2.556m surplus before applying a £2.7m revenue contribution to fund the capital programme. After this contribution, the account shows a net deficit of £512k. Despite this loss, reserves are forecast to stand at £6.960m by 31 March 2027—well above the minimum policy requirement of maintaining reserves at 10% of income i.e. £4.3m. This is an intended use of reserves to avoid borrowing whilst maintaining minimum funds to mitigate unforeseen events.
- 10.8 The Service Charge income is based on current income levels and an assumed inflation increase of 2.5%. The actual 2026/27 increase for Service Charges will be known when the charges are approved in December 2025.
- 10.9 The Revenue Budget also includes the draft fee, subject to agreement, for Colchester Borough Homes of £5.367m which includes additional caretaking service of £91k, grade alignment of £50k and an allowance for pay award of 2.5%.

- 10.10 Repairs and maintenance and management budgets have been uplifted by inflation with pressures identified in 2025/26 being managed within the overall budget envelope.
- 10.11 Interest Rates on new borrowing have been, based on latest treasury advice, been included at 5.25% for new borrowing in 2026/27, 4.95% in 2027/28 and 5.25% thereafter. The borrowing rate has been highlighted as a risk in the business plan as the estimated 2026/27 charge of £9.7m represent 23% of expenditure. With changes in rates impacting materially on the HRA. This risk is mitigated by the regular review of the Business Plan to ensure planned programmes can be contained within financial resources.

### **Draft HRA Capital Programme 2026/27 to 2030/31**

- 10.12 The **Draft Capital Programme of £208.47m** is dominated by the Stock Investment Programme and New Build Development and Acquisitions programmes which account for 98% of the five-year capital budget. Details are shown in **Annex 6**.
- 10.13 **Stock Investment £76.609m** -The Capital budgets reflect the updated stock condition data, the move to the Decent Homes Standard for component replacement from the *just in time replacement* regime (see below), as agreed in the HRA review approved in July 2025, and estimates that factor in the new Standard Assessment Procedures (SAP). This change has caused a number of properties to fall below the required Energy Performance Certificate (EPC) standard and therefore requiring additional mitigation work to ensure compliance.
- 10.14 The *just in time replacement* regime, is where components were replaced when they needed to be rather than at the end of their useful lives This was shown not to financially sustainable and therefore replaced with the Decent Homes Standard, where components are replaced according to the useful economic lives.
- 10.15 **Acquisition and New Build Development £127.291m** - These two programmes represent Colchester's investment in the supply of 376 affordable housing properties over the next five years to be let to local people. The New Build Development budget of £49.238m is in respect of the "Heart of Greenstead" project currently planned to deliver 136 properties by 2029/30 and the Acquisitions budget of £78.53m is the allocation to acquire 240 properties (Former Right to Buys and new build to be let at affordable rents) by 2029/30.
- 10.16 **Funding of the HRA Programme** - The significant funding, £138m of £208.5m is from borrowing with £134.477m occurring in the first four years driven by the Development and Acquisitions programmes. Borrowing levels drop to £3.69m in year five with revenue funding through the major repairs reserve (£7.5m) and direct revenue contributions (£1.8m) making up 70% of the funding of £13.28m.
- 10.17 The viability of Development and Acquisition schemes are assessed individually using key assumptions, which are regularly reviewed and updated to reflect changes in the Business Plan.
- 10.18 The Development and Acquisitions schemes are eligible for funding through RTB receipts. From 2026/27 a combination of receipts and Homes for England grants can be used, as the Government has removed most of the restrictions around the use of RTB receipts. Though the level of receipts is anticipated to drop over time due to reductions in discounts on sale price (max £0.1m to £34k) and increased tenancy period to qualify for the RTB (3 to 10 years) also introduced by the Government.
- 10.19 The financing of this borrowing is charged to the HRA revenue budget in accordance with the CIPFA Prudential code.

## 11.0 SCHEDULE OF TABLES AND ANNEXES

### TABLES

**Table 1** - Hallmarks of a Good Budget

**Table 2** – 2025/26 Budget Income Streams

**Table 3** - Forecast Reserve Movement

**Table 4** - Medium Term - Financial Forecast Gap

**Table 5** - Summary Draft Capital Programme over MTFF

**Table 6** - New Additional Estates Schemes

**Table 7** - Summary Draft Capital Programme Financing

**Table 8** - MRP Costs and savings from Capital Receipts

### ANNEXES

**Annex 1** – Pressures 2026/27 to 2029/30

**Annex 2** – Proposed Savings 2026/27 to 2029/30

**Annex 3** – Proposed Fees and Charges Schedule 2026/27

**Annex 4** - General Fund Draft Capital Programme 2025/26 to 2027/28 and Indicative Programme 2028/29 to 2030/31 and beyond

**Annex 5** - Housing Revenue Account Draft Revenue Budget 2026/27

**Annex 6** - Housing Revenue Account Draft Capital Programme 2026/27 – 2030/31