



Chelmsford City Council

17th July 2024

Budget Framework 2025/26

Report by:
Cabinet Member for Finance

Officer Contact:

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Purpose

The purpose of this report is to provide the framework to manage the Council's 2025/26 budget process. The approach recommended is a change from previous years. It still retains that Full Council sets and approves the Council's budget in February each year.

Recommendations

That Council approves that:

- i. an Annual Financial Review report, which will include both revenue and capital budgets, will be made to Cabinet in October. The report includes a review of finances for the current year and future years. This is a change to the existing constitutional reporting arrangements for the Medium-Term Strategy which requires approval by Council, usually in July.
- ii. the proposed new arrangements will be subject to a review in 2025/26 undertaken by the s151 officer and Cabinet Member for Finance after consultation with opposition groups.

1. Introduction

1.1 The budget process enables the development of a financial plan to support delivery of the Council's priorities as set out in "Our Chelmsford; Our Plan".

1.2 The process normally requires the following reports and decisions:

	Timing	Audit and Risk	Cabinet	Council	Treasury Management & Investment Subcommittee (TMISC)
1) Medium Term Financial Strategy, including budget guidelines	July		✓	✓	
2) Mid-Year review of current year capital & revenue budgets	November		✓		
3) Council tax setting and Budget Report for following financial year	January & February		✓	✓	
4) Capital and Investment strategies (Including capital prudential indicators)	January & February		✓	✓	Only the Investment strategy goes TMISC
5) Outturn capital, including approving funding of previous capital expenditure	June and July	✓	✓	✓	
6) Outturn revenue	June	✓			
7) Treasury Management reports (outturn, strategy, and mid-year review)	Throughout the year		✓	✓	✓
8) Statement of Accounts. (timing depends on external audit)	Draft published end of May	✓			
9) Any in-year increases in Capital or Revenue budgets over £200k	Ad-hoc		✓		
10) Any in-year increases in Capital or Revenue budgets over £1m	Ad-hoc			✓	

1.3 The number and nature of the reports taken to Cabinet, committees or Council is based on either regulatory requirements or historic convention.

1.4 It is proposed to change the timing and recipients of some of the financial reports. A review of the impact of the changes would take place after the production of the 2025/26 budget, to determine if the process is more effective. These changes differ from the current requirements in the constitution and the changes therefore need to be considered by Council.

2. Proposed Changes

2.1 The Medium-Term Financial Strategy (forecast) & Budget Guidelines report made to July Council, plus the two reports made to November Cabinet (the Mid-Year review of in-year revenue spend and income plus the Capital Update report) should be combined into a new single report to October Cabinet. The report will be a comprehensive view of current-year and financial outlook. The proposal is that this will be called an Annual Financial Review.

2.2 The Annual Financial Review made in October will under the normal Council rules be available to Overview and Scrutiny to consider and challenge if the committee wishes.

2.3 The Council Tax-setting and Budget Report for the following financial year are required by statute to go to Cabinet and then Council. It is recommended, given the recent history of Government funding announcements, to have these meetings as late as possible. This may mean in practice that the Cabinet should take place on the last available date in January or early February.

2.4 Regulations and best practice require the financial outturn reports for Capital and Revenue to be made to Audit and Risk committee. However, the Capital Outturn and Update report has also historically gone to July Cabinet then Full Council. This is to approve the resources used to fund the previous year's capital expenditure. It is now recommended that the decision to determine what resources are used to fund capital expenditure at year-end is formally delegated to the s151 officer. This delegation is constrained by previous Full Council decisions on borrowing limits, so excessive borrowing remains prevented by Full Council.

2.5 No changes are proposed to any other delegations or reporting lines. So, the Council's existing budget delegations for capital and revenue will remain limited in the following ways:

Virements

- i. Up to and including £25,000 – by Directors who must inform Financial Services
- ii. Over £25,000 and up to £200,000 – by Directors, subject to prior consultation with the Section 151 Officer, the relevant Service Cabinet Member, and the Cabinet Member with responsibility for finance
- iii. Over £200,000 and up to £1,000,000 – by Cabinet report
- iv. More than £1,000,000 – by Full Council

- v. Allocation of approved centrally held budgets to Services can be undertaken by the Section 151 Officer.

Supplementary Estimate

- i. Up to and including £200,000 – by Directors, subject to prior consultation with the Section 151 Officer, the relevant Service Cabinet Member and the Cabinet member with responsibility for finance.
- ii. Over £200,000 and up to £1,000,000 – by Cabinet report
- iii. More than £1,000,000 – by Full Council

Note that a virement is a transfer of some or all of an approved budget to a different budget and a supplementary estimate is an approval to increase an approved budget to fund additional expenditures.

2.6 No changes are proposed to how Prudential indicators are set by Full Council. These place limits on borrowing and investment decisions. Changes to the legally mandated indicators are a decision for Council, so ad-hoc reports to the Council will be made as needed (whenever there are material changes to any binding indicators such as overall debt). Cabinet will receive details on prudential indicators in October in the Annual Financial review report and in January in the Capital, Investment and Treasury Strategies.

2.7 The new proposed reporting arrangements are set out below in table form.

	Timing	Audit and Risk	Cabinet	Council	TMISC
1) Annual Financial Review Current Year and future capital and revenue projections. Approval of changes to capital and revenue under delegations.	July and November October		✓	✗	
2) Council tax setting and Budget Report	January & February		✓	✓	
3) Capital and Investment strategies	January & February		✓	✓	
4) Outturn capital and revenue reports. For review only.	June and July	✓		✗	
5) Treasury Management reports (outturn, strategy, and mid-year review)	Throughout the year		✓	✓	✓
6) Audited Statement of Accounts	TBA	✓			
7) Any in year increases in Capital or Revenue budgets over £200k	Ad-hoc and unchanged		✓		
8) Any in year increases in Capital or Revenue budgets over £1m	Ad-hoc and unchanged			✓	

3. Why Are Changes needed.

3.1 The complexity of Council finances has increased over the years, the main issues being:

- The Capital programme is now more complex to plan financially. It has become increasingly difficult for the Council to generate capital receipts as the simpler disposals have been made, so funding the programme is more reliant on CIL, borrowing and external grants.
- The approval of the capital financing at the end of the financial year by Full Council in July adds no value. The application of resources is a technical matter undertaken by officers within the borrowing limits approved in the budget by Council. The focus of Council should be on the overall borrowing limits and scrutinising affordability of capital plans.
- Given the increasing reliance of the Council on income generated by charges, there would be a more robust financial forecast of future years if two cycles of monitoring in the current financial year had been taken.
- The budget guidelines approved by Council in July are used by services to draw up the budget for the following year. In practice, parameters such as inflation will only be finalised in the February Council Tax-setting meeting as significant changes do occur between June (when the MTFS is written) and January when the budget reports are finalised.

3.2 Pay awards (staff costs are circa £40m per year). It has been increasingly difficult to predict what level of provision to allow for in financial plans, due to:

- National Living wage (minimum wage). The announcements of increases by Government are usually made in the Autumn and have effect from the 1st April in the following year. Recent experience has shown there are clearer indications on what the National Living Wage will increase by in the following year.
- The City Council has local pay agreements, but the annual national negotiations of local government pay do influence local negotiations. However, the timing of national negotiations is variable and drawn-out, making estimates less than robust.

It should be noted in the previous 2 years the Council's budget provision for pay in its budgets has been significantly below the actual level needed.

3.3 Energy cost information arrives in late May, which, given publication deadlines for the MTFS report, does not provide much time to update forecasts. There should be less volatility in prices going forward given longer-term purchasing agreements, however it remains an area of significant risk of cost variation.

3.4 As previously reported, Homelessness costs have been the Council's largest recent financial problem. A later report on the finances will enable officers to undertake more monitoring of costs and improve the accuracy of the forecast.

3.5 Government funding. The Council may at some point in future get a 3- or 4-year funding arrangement. Until that happens, the most reliable indications on annual funding have been provided by Government in the late summer and early autumn.

3.6 The Council's Accountancy Team has, by implementing new technology and improved working practices, reduced in size by about 30% over the last 10 years. This excludes merging the section 151 officer into the Accountancy Manager role. In this context, an increasing amount of staff resource is now needed to produce the Council's statutory accounts and this is a significant contributor to the need to move the financial forecasts to October. It is unrealistic and unnecessary to deliver the current format of accounts within the timescales set. For 2023/24, it is understood only 40% of districts have met the deadline, including the City Council. Adding to this unrealistic statutory resource requirement, the Audit sector for local government nationally has collapsed. Most audits have not yet started for 2022/23 and in many cases for 2021/22. This lack of audit has created additional workloads, as officers are now being asked questions about pre-2022/23 accounts. The audit period now lasts 2 years rather than the planned 6-week period. Auditors have also required complex changes to previous years' accounts simply because 18 months later they have the benefit of hindsight and can see if estimates made in the accounts are "inaccurate".

4. Budget Next Steps (Actions)

4.1 If the approach outlined in this report is approved by Cabinet, then.

- Annual Financial Review report will be made to Cabinet in October. A forecast of budget, borrowing and budget shortfalls will be available to members in the October report.
- The Annual Financial Review report will identify any decisions regarding extra in-year spending that Cabinet and Council may need to take.
- A high-level financial strategy will be included in the October budget report.
- Officers will work in consultation with Cabinet members to develop a balanced and sustainable budget for 2025/26.
- The s151 officer will assess the robustness of the budget proposals and reserves in 2025/26 budget report made to January Cabinet and February Council.
- A review of the new reporting arrangements will be undertaken by the s151 officer and Cabinet Member for Finance. There will be consultation with opposition groups and any proposals to amend the constitution will be made via the appropriate route.

5. Conclusion

5.1 There is a need to amend the budget process to reflect the environment the Council now finds itself operating in.

5.2 The proposals move some decisions to Cabinet as they are not matters requiring full Council attention.

5.3 The proposals ensure budget information remains transparent and is published at a time when robust information can be made available for members.

List of appendices: None

Background papers: None

Corporate Implications

Legal/Constitutional: The Council is required to set a balanced budget. The Medium-Term Financial Strategy sets out the framework for this to be achieved. Full Council may approve the recommendations in the report. Any further changes to the constitution following the proposed review would be subject to further consultation and decision at a later stage.

Financial: A robust financial strategy is essential in the delivery of the Council's objectives over the medium term, ensuring decisions are taken with due regard to their financial consequences. Medium-term financial planning is a key element in determining the organisation's future resilience.

Potential impact on climate change and the environment: This will be considered as part of the detailed budget setting process.

Contribution toward achieving a net zero carbon position by 2030: As above.

Personnel: The financial strategy, and the development of detailed budget proposals, is supported by the Council's values and behaviour framework, which promotes a culture of responsibility and accountability.

Risk Management: Due regard to the Council's Principal Risk Register should be had when considering its budget plans, financial forecasts, and level of reserves. The production of, and adherence to, the Strategy mitigates the risk of financial failure. Challenges to the Council's financial position are reflected in the Principal Risk Register, while the financial impact of other risks are considered within the Principal Risk Register as appropriate.

Equality and Diversity: Equality Impact Assessments will be considered as part of the detailed budget setting process rather than at the strategic level, to enable comprehensive assessments to be undertaken where necessary.

Health and Safety: None

Digital: None

Other: None

Consultees:

Cabinet Members, Chief Executive and Directors, Monitoring Officer

Relevant Policies and Strategies:

Our Chelmsford: Our Plan
