

Section 151 Officer's statement on robustness of budgets and adequacy of reserves

Introduction

The Section 151 Officer (S151 of the Local Government Act 1972) is required to make a statement on the adequacy of reserves and the robustness of the budget. This is a statutory duty under section 25 of the 2003 Local Government Act which states the following:

- (1) Where an authority to which section 32 or 43 of the Local Government Finance Act 1992 (billing or major precepting authority) or section 85 of the Greater London Authority Act 1999 (c.29) (Great London Authority) applies is making calculations in accordance with that section, the chief finance officer of the authority must report to it on the following matters-*
 - (a) The robustness of the estimates made for the purposes of the calculations, and*
 - (b) The adequacy of the proposed financial reserves.*
- (2) An authority to which a report under this section is made shall have regard to the report when making decisions about the calculations in connection with which it is made.*

This includes reporting and taking into account:

- The key assumptions in the proposed budget and to give a view on the robustness of those assumptions.
- The key risk areas in the budget and to assess the adequacy of the Council's reserves when reviewing the potential financial impact of these risk areas on the finances of the Council. This should be accompanied by a Reserves Strategy.

This report has to be considered and approved by Council as part of the budget approval and Council Tax setting process.

This document concentrates on the 2023/24 Revenue Budget Estimates, the proposed Capital Programme, Capital Strategy and Investment Strategy, but in addition it also considers key medium-term issues faced by the Council.

Assurance Statement of the Council's Section 151 Officer

The following are the summary assurances and recommendations of the Council's Section 151 Officer.

In relation to the 2023/24 budget, I have examined the budget proposals and I believe that, whilst the spending and service delivery proposals are challenging, they are nevertheless achievable given the political and management will to implement them, good management, and the sound monitoring of performance and budgets. I am satisfied that sufficient management processes exist within the Council to deliver this budget and to identify and deal with issues which may arise unexpectedly during the year.

1. My assurance is conditional upon:
 - The agreement of a Medium-Term Financial Strategy for 2023/24 to 2025/26.
 - Life in the post-COVID-19 world. The aftermath still affects some Council services, such as Waste and Leisure Centres. Of particular concern is the loss of income from the leisure centre management fee.
 - Inflation has risen higher than forecast and high levels are still embedded in the economy. Assumptions have been made around these levels, but rates are volatile, and the staff pay award for 23/24 is unknown and represents the largest area of inflationary risk.
 - A recognition in the medium term planning approach that the level of reserves and corporate risk assessment need to be regularly reviewed in the light of changing circumstances and that it may not be possible to match the two at any single point in time. The Council needs to show a commitment to maintain reserves at a level which provides adequate cover for most identified risks during the planning period. This approach is pragmatic and shows a clear commitment to prudent financial planning.
 - Councillors, Directors, Service Managers and budget holders managing their services with challenge on spending decisions and giving due regard to and exercising the financial controls and checks set out within the Council's Financial Regulations and Contract Standing Orders and delegations and spending within budget.
 - That the Council has arrangements and resources in place to consider value for money in preparation for future years' budgets.
2. The business rates revaluation takes effect from 1st April 2023 and has created a higher degree of uncertainty. Assurance around the budgeted figures has been provided by an external consultant and the Council's Finance Team to me, that income should not be significantly below that forecast. There is potential that the income could be higher, but this has not been built into the budget as it is dependent on a number of factors including the figures from the Essex Pool, how the government adjusts the baseline for 2024/25 to compensate for changes in the revaluations and appeals.
3. In relation to the adequacy of reserves, the overall position is that the authority has adequate balances across the General Fund and Capital but recognises that over the medium term these are reducing rapidly at an unsustainable rate. The policy on reserves and use of balances is set out annually and agreed in the medium term financial strategy.
4. In relation to the General Fund Capital Programme 2023/24, balances remain above zero, but the capital receipts reserve is declining.

Level of Reserves

The Local Authority Accounting Panel (LAAP) provided a bulletin giving guidance to local authority chief finance officers in England, Northern Ireland, Scotland and

APPENDIX 5

Wales on the establishment and maintenance of local authority reserves and balances (LAAP Bulletin 99).

The bulletin provides the following table of budget assumptions that Councils should consider when assessing the adequacy of their reserves.

Budget Assumptions	Financial standing and management assessment/impact
The treatment of inflation and interest rates	<p>Inflation has been provided based on official forecasts set out in the MTF5. Currently inflation is high although falling but remains volatile. The Council's biggest exposure is to the refuse contract but that is based on January's rates, reducing the likelihood of significant change and therefore risk.</p> <p>Due to higher interest rates, investment income is forecast to be higher this year. There remains a risk that rates may be lower than assumed and although the budget is conservative against forecast market conditions, 25% less income should be provided for in the reserves.</p>
Estimates of the level and timing of capital receipts	The budget is not reliant on capital receipts.
The treatment of demand led pressures	<p>The pandemic saw an increase in house waste and recycling. Services have adjusted to this, and further significant increases are deemed low risk.</p> <p>Due to a variety of factors, support for housing from the Council is increasing. This has been contained within existing grant funding to date but there is a risk this demand will increase in 23/24.</p>
The treatment of planned efficiency savings/ productivity gains	The savings proposed are achievable although a contingency is included in budget to address this risk already.
The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments	The waste contract is due for renewal at the end of 23/24. Historically the contract has performed well and good progress around renewal options has been made. Potential financial implications are included in the budget.
The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions	<p>The Council takes a low-risk approach to insurance and does not seek to self-insure through reserves or other means.</p> <p>There is a budget for unexpected emergency planning events and the Council would take advantage of the Bellwin scheme for financial assistance in exceptional emergency circumstances.</p>

APPENDIX 5

<p>The general financial climate to which the authority is subject</p>	<p>Figures from the Local Government Finance Settlement have been incorporated into the budget. As a one-year settlement there is uncertainty for future years although the risk of future settlements being significantly lower than budgeted is assumed low.</p> <p>Moving from a pandemic to a cost-of-living crises has resulted in a volatile economic climate. Impacts of COVID are now based into the budget including the income loss from leisure centres. The high level of inflation is taken into account, as well as potential impacts on collection rates and the business rates equalisation reserve, which also provides for fluctuations in income.</p>
--	--

Risk should also be considered in terms of the Council's largest areas of expenditure and income. The following table considers the areas that make up the top 82% of the Council's expenditure.

Expenditure	£000	% of Gross Exp	Risk Analysis
Employee Costs	10,713	54%	An allowance of 5% has been included in the budget for inflationary pay. Inflation is expected to fall next year, with this year's pay award averaging 5.25%. Benchmarking has shown 5% to be broadly in line with others. Similar to this year's award, the Unions have submitted a request for RPI+2% increase in pay (12.7%). Given the current public sector activity it would be prudent to have additional reserve available in the event the final award is higher. A 5% additional allowance would be £536k.
Refuse & Recycling	4,431	22%	The contract rises with January's inflation rates. Although not available at the time of preparing the budget these are showing to be accurate estimates and little risk of significant variation given the time scale. Capacity to manage additional waste remains good although this is not expected to fluctuate drastically.
IT Software & Hardware	748	4%	Inflationary increases have been included and the risk of significant increases is low as contracts generally run for more than one year.
Street Cleansing	615	3%	Inflationary increases have been included and is assumed low risk given past performance.
Total	16,507	82%	

The following table considers the areas that make up the top 70% of the Council's income.

APPENDIX 5

Income	£000	% of Gross Inc	Risk Analysis
Refuse & Recycling	2,534	33%	Tonnage and prices can vary the income that is received by the Council. An additional £150k was included in the budget as prices for recycling increased. To manage risk this figure should be available in reserves if prices change unexpectedly.
Car Parking	1,454	19%	Overall income is close to budget for 2022/23. As the cost-of-living crises continues it would be prudent to allow for a 10% loss of car parking income in the reserves.
Development Control	773	10%	Demand for planning services remains strong.
Property Rent and Leases	564	7%	The Council's property profile has remained robust through COVID however it would be prudent to provide a 10% allowance to reflect the current market conditions.
Total	5,325	70%	

Past performance of the Council's outturn against budget should also be considered in the context of ensuring an adequate level of reserves. Historically the Council has performed well against budget with current projections showing a 1% variance against the budget this year. However, due to unplanned health and safety work and market conditions within the planning sector there have been supplementary estimates. These issues have now been addressed or budgeted for but given these factors a 10% budget variance on non-salary budgets should be allowed for.

Should the Council need to realign itself urgently to ensure a balanced budget can be delivered then capacity should be allowed for this. Based on the costs of the first two years of transformation presented to the Overview and Scrutiny Committee this would be £1,365k. This excludes the ICT costs that were incurred as those systems are now operational and improvements continue to be made. However, the transformation reserve is also available to support this.

A summary of the risks covered, and monetary value assigned to them is provided in the following table:

Risk Area	£000
Difference in pay award	536
Recycling Income	150
Car Parking Income	145
Rents and Leases Income	56
10% Variance again net budget excluding pay	243
25% reduction in Interest rates income	150
Cost of repositioning the Council	1,365
Total	2,645

Based on the risks it is recommended the minimum general fund level remains at £2.6m. This represents 21% of the annual net service expenditure.

Assurance

Given all these factors, I, as the Council's Section 151 Officer, consider the estimates for 2023/24 to be sufficiently robust, but challenging, for approval by the Council. I am also able to advise the Council that the planned level of usable General Fund Reserves and the working balance is adequate for next year.

The 2023/24 budget is the second year where a drawdown from reserves has been required following the impact of COVID and now the cost-of-living crisis. Although the reserves at the end of 2023/24 are forecast to be of an adequate level, the future years' General Fund reserve is forecasted to drop below the minimum recommended level of £2.6m.

This forecast is based on a variety of assumptions and no further assumed action being taken to address this. As such it is important that this is viewed as an early warning of the significant future challenges ahead and that prompt action is taken to avoid an unsustainable use of reserves in future years.

Chris Leslie, Director of Resources (Section 151 Officer)