

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.

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 2024/25 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 resolve 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 2024/25 to 2026/27.
 - Understanding of the inherent risk of volatility within the council's major contracts which are demand-led e.g. Waste and Leisure. Of particular note is the uncertainty around the leisure centre management fee pending the procurement of a new contract during 2024. There are also significant risks around income levels from waste linked to the wider economic uncertainty.
 - Inflation has risen higher than forecast during 2023/24 and while this is expected to reduce during 2024/25, high levels are still currently embedded in the economy. Assumptions have been made future inflation levels, based on advice from the council's Treasury Advisors, but rates are still uncertain and will impact on the council's costs and income. The staff pay award for 24/25 is budgeted at 5% but the actual pay award is unknown; however it is considered unlikely that the 2024/25 pay award will exceed the 5% budgeted.
 - 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. 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. There remains a high degree of uncertainty around income from Business Rates. Assurance around the budgeted figures has been provided by an external consultant; however, there is potential that the income could vary dependent on a number of factors including the impact of appeals, the impact of changes to the

way the government calculates the Business Rates multiplier for 2024/25, the wider impact of continuing to participate in the Essex Business Rates Pool, and any future changes in how the government adjusts the Business Rates baseline as part of any review of future funding across local government. These risks are dealt with via the Business Rates Appeals Provision and the Council Tax and Business Rates Equalisation Reserve to manage any volatility; therefore the risk of needing to draw on General Balances to manage this risk is deemed low.

3. In relation to the adequacy of reserves, the overall position is that the authority has adequate balances for the period up 2026/27 across the General Fund based on current Medium Term Financial Strategy (MTFS) projections. 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 Capital Programme 2024/25, balances remain sufficient currently but there remains a risk around capital reserves being insufficient to fund future capital expenditure requirements; therefore it is recognised that borrowing may be needed to finance future capital plans. This would also have a revenue impact due to the need to make Minimum Revenue Provision and to fund interest costs and would therefore need to be considered carefully to ensure it is affordable.

Level of Reserves

The Local Authority Accounting Panel (LAAP) Bulletin 99) sets out the following categories 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 budgeted for based on forecasts set out in the MTFS. Currently inflation is high but is now falling. The Council's biggest underlying exposure is to changes in pay inflation and cost increases on major contracts e.g. the waste contract. This is considered further in the expenditure breakdown below.</p> <p>Based on current interest rate projections, investment income is forecast to remain higher in 2024/25 than originally assumed. There remains a risk that rates may be lower than budgeted and therefore 25% less income against the budget of £1m should be provided for in the Minimum General Balance levels @ £250k.</p>
Estimates of the level and timing of capital receipts	The capital programme is currently anticipated to be funded from within existing 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</p>

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Budget Assumptions	Financial standing and management assessment/impact
	the Council is increasing. This has been contained within existing grant funding to date but there is a risk this demand will increase further in 2024/25.
The treatment of planned efficiency savings/ productivity gains	The savings proposed are achievable but will need to be monitored closely during 2024/25 to ensure they remain deliverable.
The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments	The leisure contract is due to be re-procured during 2024/25. The budget assumes that the current level of management fee will continue, although it is hoped that further income can be achieved from this contract in future.
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> <p>The council retains a provision for Business Rates appeals which is regularly reviewed by external advisors to ensure it remains adequate.</p> <p>There is a unbudgeted expenditure associated with the risk of successful planning appeals.</p>
The general financial climate to which the authority is subject	<p>Figures from the Local Government Finance Settlement have been incorporated into the budget. As it is a one-year settlement there is uncertainty for future years although the risk of future settlements being significantly lower than budgeted is assumed low, and therefore overall funding from central government is assumed to be flat in future years</p> <p>The high level of inflation is taken into account as far as possible within the budget, 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:

Expenditure	£000	% of Gross Exp.	Risk Analysis
Employee Costs	10,970	52%	An uplift of 5% has been assumed in the budget for the 2024/25 pay award. Inflation is now expected to fall next year, with this year's

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Expenditure	£000	% of Gross Exp.	Risk Analysis
			<p>pay award averaging 5.00%. Benchmarking has shown we are at the upper end of the range of assumptions made by other authorities; therefore it is not considered necessary to make further provision for a higher uplift in 2024/25.</p> <p>There remains a risk of keeping employee costs within the agreed budgetary provision for 2024/25, as some service areas e.g. planning remain heavily reliant on agency staff where recruitment of permanent staff remains difficult, which is more expensive. In addition there remains a risk of the establishment needing to grow to meet increased demand for services across the council.</p> <p>However it is not proposed to make provision for additional employee costs within the Minimum General Fund Balance, since the Corporate Leadership Team has committed to keeping employee costs within budget as part of their establishment control processes, and the Council has a track record of delivering this in previous years. This position will continue to be monitored throughout 2024/25.</p>
Non Employees Costs	10,133	48%	<p>Provision has been made for inflationary increases across non-employee expenditure, including on major contracts. Inflation is now expected to fall next year; however there remains a wider risk of uncontrollable demand pressures being higher than anticipated e.g. for waste and housing services such as Temporary Accommodation.</p> <p>Additionally there is a risk that the costs of the new leisure contract (which will be re-procured during 2024/25) being higher than currently anticipated. The 2024/25 budget currently assumes no increase on current costs.</p> <p>There is also a more general risk of unforeseen costs pressures arising in any given year; therefore to provide a contingency against this it is deemed prudent to allow a 20% cushion for non-employee costs within the Minimum General Balances of just over £2m.</p>
Total	21,103	100%	

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Income	£000	% of Gross Inc	Risk Analysis
Refuse & Recycling	2,657	31%	Tonnage and prices can vary the income that is received by the Council. An additional £96k was included in the budget as prices for recycling glass increased. To manage risk this figure should be available in reserves if prices change unexpectedly.
Car Parking	1,438	17%	Budget readjusted to remove Ignite stretch target but add 10% inflation. There is a risk that increased prices could result in lower demand meaning the assumed budget for fees and charges is not achieved.
Development & Building Control	1,296	15%	Demand for planning services remains strong; however there is a risk that increased prices could reduce demand meaning the uplift assumed in the budget for fees and charges is not achieved.
Property Rent and Leases	554	7%	The Council's property profile has remained robust through COVID however it would be prudent to provide a 10% allowance of £55k to reflect the risk of voids given current market conditions.
Attractions	305	3.6%	There remains risk from uncontrollable factors such as the weather as well as demand slowing due to the cost of living crisis.
Total	6,250	74%	

Overall it seems prudent to allow for the specific risks around recycling income volatility and voids on property rentals/leases. In addition a general 5% contingency to allow for demand for discretionary services being lower than anticipated in 2024/25 should be included at **£150k** across the total fees and charges budgets, including the car parking, planning services and attractions income lines detailed above.

Breakdown of the Proposed Minimum General Fund Balance Requirement

Risk Area	£000
Non-Employee Expenditure @20% of total	2,026
Recycling Income – additional amount assumed in 2024/25	96
Rents and Leases Income @10% of total	55
Reduction in Interest rates @25% of total investment income	250
Reduction in fees and charges @ 5% of total income	150
Total	2,577

Based on the risks it is recommended the minimum general fund level remains at £2.6m. This represents 20% of total 2024/25 net service expenditure.

Assurance

Given all these factors, I, as the Council's Section 151 Officer, consider the estimates for 2024/25 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 over the MTFS period, based on current assumptions.

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.

Naomi Lucas, Interim Chief Finance Officer (Section 151 Officer)