

## STATEMENT BY THE CHIEF FINANCIAL OFFICER

I am required to make this report by the Local Government Act 2003.

### ***Robustness of Budgets***

The preparation of the budgets started back in July. As the Head of Finance, and being a qualified and experienced accountant, I have overseen the process. The budgets have used the current year as their base. Budget Monitoring process has shown where these do not form a reasonable basis for the following year. There has been a high level of scrutiny to the budget this year, along with budget monitoring throughout the year, from:-

- Budget Managers, the Joint Management Team (SMT) and Corporate Management Team (CMT)
- Portfolio Holders
- The Cabinet through the various preceding reports set out in the background papers
- Scrutiny Committees

Consequently, I am satisfied that the budgets are prepared on a robust basis.

Heads of Service should also confirm the robustness of the budgets. Officers in all Services have been actively involved in preparing the budgets with the accountants.

The Budget has been prepared with the backdrop of the Global Pandemic and the continuing uncertainty on the Council's finances from the impact of the UK leaving the EU. The pandemic has impacted upon the Council's expenditure and income streams during 2020/21 and 2021/22, as reported to Members throughout both years. Whilst there has been some financial support from the Government, the Council has still had to rely upon its reserves during the year to a greater extent than originally planned.

With the pandemic continuing, the impact on the Council's finances remains uncertain. Whilst some Government support was announced for 2021/22, there is no such support for 2022/23. The 2022/23 Budget does still include a Covid 19 Contingency to assist where it is not possible to contain expenditure within budgets. In addition, the Council does have some reserves that may be utilised (as discussed below) and the general Contingency Budget.

### ***Adequacy of Reserves***

There has been much discussion over what the appropriate levels of reserves are for a local authority to hold, with various papers being issued on this subject. However, it is for each authority to determine the right level of reserves, reflecting its individual circumstances and risk appetite.

The Audit Commission in its December 2012 report "Striking a Balance" discussed the reserves held by local authorities. Whilst it recognised it was for each body to determine the level of reserves it should hold, it was important for it to be clear why it was holding those reserves. Within the main report and Appendix 5, the Council's reserves are discussed in detail.

In the Audit Commission's Value for Money Guidance (December 2010) the following is stated: -

*"Financial planning*

*An annual budget is not enough to secure financial resilience. Organisations should set the budget in the context of a longer-term financial strategy and a medium-term financial plan (MTFP) covering for example, a three-to five-year horizon. The MTFP needs to be realistic. Assumptions around inflation, income levels, demographics and future demand for services need to be modelled and based on reasonable predictions.*

*The financial position of an organisation will depend on a number of factors including the level of borrowing, receivables outstanding, investment risks, council tax collection rates and levels of reserves."*

The Council's budget and financial planning regime can be demonstrated to be robust.

The Code of practice on local authority accounting requires the purpose, usage and basis of transactions of earmarked reserves to be identified clearly. This is set out in Appendix 5 of this report and Finance and Audit Scrutiny Committee have been asked to pay particular attention to this (para 3.9 of report). In accordance with best practice on reserves and balances these have therefore been reviewed as part of the annual budget preparation. In addition, there are forecasts for future years which are reflected in the medium term financial strategy. In considering the level of reserves in addition to the cash flow requirements CIPFA recommends that the following factors are considered: -

<b>Budget assumptions</b>	<b>Financial standing and management</b>
The treatment of inflation and interest rates	The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates).
Estimates of the level and timing of capital receipts	The authority's track record in budget and financial management.
The treatment of demand led pressures	The authority's capacity to manage in-year budget pressures.
The treatment of efficiency savings/productivity gains	The strength of financial information and reporting arrangements.

Budget assumptions	Financial standing and management
The financial risks inherent in any significant new funding partnerships, major outsourcing deals or major capital developments	The authority's virement and end of year procedures in relation to budget under/overspends at authority and departmental level.
The availability of other funds to deal with major contingencies	The adequacy of the authority's insurance arrangements to cover major unforeseen risks.

The Cipfa Resilience Index was launched in December 2019 compares the Council to other comparator authorities. This does not suggest any areas where the authority is notably at risk, with levels of ear-marked reserves providing much security in the short/medium term.

I have considered these matters and can advise members that they currently have a satisfactory level of reserves and balances, but need to address the medium term financial forecast in order to deliver balanced budgets in future years. Risks which may impact upon the Council's finances and the Budget, together with controls and mitigations, are set out in Section 6, and a risk assessment against the general fund reserve is set out in Appendix 4. The Council has self-insurance for small items but generally relies on external insurance for claims above £25,000, so there is no major risk in this area.

In making this assessment I have taken into account the contingency budget of £200,000 for 2021/22, and the new Covid 19 Contingency Budget. These provisions reduce the possibility of the Council calling upon its General Fund balances

The Council is undoubtedly facing greater in-year budget risks than in any previous year. Primarily these relate to the global pandemic, as discussed earlier, in addition to risks in relation to the uncertain state of the economy and the impact on the Council of the UK leaving the EU (including on how this may impact upon the Council's partners), the current volatility of the Council's income sources, and the risks associated with capital schemes.

The medium term financial strategy has been prepared on a prudent basis given the uncertainties that face local government finance into the future. Whilst the 2022/23 budget has been prepared prudently, there are undoubtedly risks associated with it. However, with the level of reserves, the Council should be able to manage any risks throughout the year.

In considering future years from 2023/24 there are significant uncertainties relating to the Council's share of Business Rates as result of the Fair Funding Review and the reset of the Business Rate Retention Scheme. Prudent estimates for business rates retention have been included from 2023/24, allowing for a significant reduction from the level budgeted for 2022/23. To help meet this reduction, the Council should be able to make

use of the Business Rate Retention Volatility Reserve in the short/medium term. However, this will not be sustainable if the Council does not reduce its overall spending level to match its Business Rate income without relying on contributions from the reserve.

Members agreed a series of Budget Proposals in December 2020 which have been included in the 2022/23 Budget and Medium Term Financial Strategy to address the underlying budget deficit in 2022/23 and future years. It is important that officers and Members progress these proposals to make the necessary savings in term of value and timing. Not to achieve these savings will put increased pressure on the Council's more limited reserves, whilst still leaving the full level of savings to be achieved. If the savings are not achieved, there will be risks to services and to the Council's sustained finances.

In addition to ensuring the achievement of the savings agreed in December 2020, members need to agree further savings of approaching £1m from 2023/24 based on the figures within the Medium Term Financial Strategy. If such savings are not identified so as to ensure they are achieved by April 2023, the Council will need to contemplate potential drastic measures in setting a balanced Budget for 2023/24

Mike Snow

Head of Finance

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