APPENDIX 1

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 August. 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 Review 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 and the Senior Leadership Team (SLT)
- Portfolio Holders
- The Executive 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. SMT members agreed the base budget.

In preparing the Budget, in view of the current economic climate facing the Council along with the whole of the public sector, many budgets have again not been increased at levels to match the current rate of inflation. This has also come on the back of a number of years where the budget has been prepared and impacted by the Global Pandemic and the impact of the UK leaving the EU. Government support has either ceased or reduced significantly following the Pandemic, and while the Autumn Statement and Local Finance Settlement provided some short term stability, the 3% increase provided in core spending power is well below the levels of increases seen across service areas in net expenditure costs. Therefore the management of contracts and close working with procurement will be essential to ensure best value can be achieved. During 2022-23 the Council showed its commitment to procurement and the support it can provide to Service areas by investing in the function’s capacity. A number of contingencies have been included within the budgets, to mitigate against the impact of unexpected changes in-year. The Council

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 Overview and Scrutiny Committee have been asked to pay particular attention to this (section 1.9 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: -

Budget assumptions	**Financial standing and management**
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 from 2024/25 onwards. Risks which may impact upon the Council's finances and the Budget, together with controls and mitigations, are set out in Section 5, 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 considered the core contingency budget of £200,000 for 2023/24, and the provisions to mitigate against inflation (including major contracts). These provisions reduce the possibility of the Council calling upon its General Fund balances

Risks

The Council continues to face in-year budget risks. Primarily these relate to the current economic conditions, in addition to the legacy impact of the global pandemic and the continued impact on the Council of the UK leaving the EU.

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 2023/24 budget has been prepared prudently, there are undoubtedly risks associated with it, linked to the current high levels of inflation, and increasing interest rates. However, with the level of reserves currently held, the Council should be able to manage any risks throughout the year.

In considering future years from 2025/26 there are significant uncertainties relating to any changes following a General Election. The 2022 Autumn Statement indicated that key, difficult decisions will need to be made by the next administration, which are likely to have an impact on the Council and some of its main funding sources.

One such funding source where there is still longer-term uncertainty relates to the Council's share of Business Rates linked to the Fair Funding Review and the long-expected reset of the Business Rate Retention Scheme. Prudent estimates for business rates retention have been included from 2025/26, allowing for a significant reduction from the level budgeted for 2023/24. 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.

The immediate in-year budget risks to which the Council is exposed are moderate. There are currently additional risks in relation to the uncertain state of the economy, the impact this may have on the Council's income sources, and the risks associated with capital schemes. Contingency budgets and reserve balances are available to mitigate such risk.

Savings

The budget takes into consideration the Budget proposals originally agreed in December 2020, that have been subject to regular scrutiny and revision. However, officers and members will need to address the underlying budget deficit in future years, and ensure that further proposals are brought forward in good time to balance the budget for future years. Members need to be mindful of the underlying budget situation throughout their decision-making and ensure that the need to deliver a sustainable baseline financial position without the need to use reserves through organisational change is given due priority.

Andrew Rollins

Head of Finance (Section 151 Officer)

February 2023