9 "Robustness" of Budget

Background

9.1 Under Section 25 of the Local Government Act 2003, the S151 Officer must report as to the robustness of the estimates included within the budget and highlight the risks associated with its deliverability and sustainability and the adequacy of reserves. This report should be read in conjunction with the assumptions and plans outlined in the Medium Term Financial Plan as this statement provides critical context for budget discussions.

9.2 The framework within which the Council's budget setting process operates and within which the financial plan was developed is governed by legislation which provides regulatory safeguards for the Council:

Section 25 of the Local Government Act 2003 requires the authority's Chief Financial Officer to report on the robustness of the estimates and the adequacy of reserves allowed for in the budget proposals in the financial plan report, so Members are informed and can consider this when they make their budget decisions.

Section 114 of the Local Government Finance Act 1988 highlights the Chief Financial Officer's responsibility to report to the external auditor and members if it appears to him that an unbalanced budget is likely to be set for the year. Further, the CFO shall make a report under Section 114 if it appears that the expenditure incurred during a financial year is likely to exceed the resources available to meet that expenditure; or if any unlawful expenditure is planned/takes place.

Local Government Finance Act 1992 identifies the requirement to set a balanced budget.

Section 151 of the Local Government Act 1972 - Financial Administration requires that authorities should appoint a Section 151 Officer to have responsibility for the proper administration of its financial affairs.

The Accounts and Audit Regulations 2015 – Regulation 4 requires that the accounting records and control systems include measures to ensure that risk is appropriately managed.

The CIPFA Financial Management Code 2019 - includes the following standard which should be complied with: "The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves".

The requirements of the Prudential Code must also be complied with (a separate report on prudential Indicators is included elsewhere in this suite of Medium-Term Financial Strategy (MTFS) reports).

Section 106 of the Local Government Finance Act 1992 makes it a criminal offence for any Member with arrears of Council Tax which have been outstanding for two months or more to attend any meeting of the Council or one of its committees at which a decision affecting the budget is to be made, unless the Member concerned declares at the outset of the meeting that he or she is in arrears, and will not be voting on the decision for that reason. The Member concerned must then abstain from voting.

The Local Authorities (Standing Orders) (England) (Amendment) Regulations 2014 provide that the Council's procedures must provide for the minutes to record how each Councillor voted (including any abstentions) when determining the Council's budget and the level of Council Tax to be levied

9.3 In addition to the legislation requirements set out above, the CIPFA guidance on Local Authority Reserves and Balances requires that a statement reporting on the annual review of earmarked reserves should be made to Council, at the same time as the budget. The statement should list the various earmarked reserves, the purpose for which they are held and provide advice on the appropriate levels. It should also show the estimated opening balances for the year, planned additions/withdrawals and the estimated closing balance. DLUHC have recently announced that they want to review the way reserves are presented. The council's development of reporting for use of reserves and reserves held, will need to have consideration of DLUHC requirements when these are confirmed.

Robustness of Estimates – Overview

9.4 Local authorities have been operating within an extended period of financial constraints over the last 10 years with significant cuts in grants from Government since 2013/14 compounded by continuing small inflationary increases in recent settlements and restrictions on the level of council tax increases that could be applied. It is becoming increasingly evident that councils are experiencing significant financial difficulties with recent cases such as Thurrock Council, Woking Council, Birmingham Council and Nottingham City Council making the headlines.

9.5 The Medium-Term Financial Plan highlights the continued significant uncertainty on the council's projected financial position going forward. The council has received confirmation of grant allocations from the finance settlement for 2024/2025 but there is no indication of the level of grant that can be expected from 2025/2026. Government remain committed to local government finance reforms and are expected to start consulting on their proposals in the next few months.

9.6 The impact of the economic climate of recent high inflation and high interest costs has had a significant impact on the council's budget. Whilst inflation has fallen, there is still uncertainty in the market which is keeping interest rates high for an extended period of time although these are expected to reduce in 2024/2025.

9.7 Taking these factors into consideration, the projections for the council's financial position beyond 2024/2025 is still subject to a high degree of uncertainty and therefore, the estimates reflect a number of assumptions on the financial position over the Medium Term to assist with financial planning for the longer term. As with any assumptions or projections of budgets over a five-year period, some will have a level of risk against them, and the Financial Plan 2023/2028 is no exception.

9.8 The Local Government Finance Policy Statement announced on 5 December 2023 set out the Governments intentions for the local government finance settlement for 2024/2025. This was shortly followed by the provisional funding settlement on 18 December 2023. These both served to provide some early certainty in respect of the funding settlement for 2024/2025 with a view that it would 'ensure stability and maintain balance on council tax'. Once the consultation had concluded, Government announced the final settlement on 5 February 2024 with further additional measures of £600m for local authorities following which further details 'on the exceptional provision of this funding will be set out at the upcoming Budget' indicating that this level of funding is not likely to continue.

9.9 There is also reference in the Ministerial Statement that local authorities should use the additional funding to deliver frontline services to communities and that Government will continue to monitor the level of local authority reserves with an expectation that local authorities will consider the use of their reserves to maintain services in the face of the current pressures. Additionally, Government have asked authorities to develop and share productivity plans as part of their effort to return the sector to sustainability in the future. These plans should be published by July 2024 before the Government summer recess and must be agreed by Council Leaders and members and published on local authority websites, together with updates on progress. These plana are expected to cover four main areas:

1) transformation of services to make better use of resources;

2) opportunities to take advantage of advances in technology and make better use of data to inform decision making and service design;

3) ways to reduce wasteful spend within systems, including specific consideration of expenditure on consultants and discredited staff Equality, Diversity and Inclusion programmes – this does not include programmes designed to promote integration and civic pride, and counter extremism; and

4) barriers preventing activity that Government can help to reduce or remove.

9.10 The financial plan assumes that Revenue Support Grant and Rural Services Delivery Grant will continue beyond 2024/2025 whilst other Grants (New Homes Bonus, Services Grant and Funding Guarantee Grant) are not projected to continue in future years of the financial plan as it is assumed that grant funding will reduce as part of the reforms that we are now expecting to be consulted on in the coming months and to be implemented following the General Election.

9.10 The funding reforms are still expected to include the Business Rates Retention Scheme but detailed arrangements for the implementation of a new scheme are still unknown at this time and any re-set of the baseline will mean that the Council does not retain all the growth that has been achieved and is currently included in the Plan. The continuation of 100% retention of rates from renewable energy is also factored into the plan which may also change as part of the reset. The council has benefitted from increased business rates income due to the increase in the business rates multiplier and this has been reflected in the projected figures. However, no additional growth is included in future years due to the level of uncertainty and risk around business rates funding but also because of increased uncertainty from the impacts of the economy and the impact on the Council's ability to sustain levels of income from growth in a market where businesses and individuals are themselves experiencing the effects in increased costs.

9.9 In the previous Financial Plan, a commitment was made to review and release £2.9m of earmarked reserves to support delivering a funded budget for 3 years. This has recently been completed and incorporated into this financial plan. However, despite achieving this, there still remains significant dependence on reserves for the first two years of the plan with a remaining funding gap of £3.3m in 2026/2027 and £5.9m in 2027/2028. The council has been prudent in building up a level of reserves in previous years with the expectation that this will allow some flexibility to support the budget in the face of the cuts that were expected as part of the funding reforms. However, the impact of the reforms continue to be delayed. Whilst this has in some ways been positive for the council as it has resulted in being able to provide a balanced or funded budget for a number of years now, the effect of using one off resource is that the gap at the end of the financial plan has widened and the ability to close this has become more challenging. The proposals in this financial plan will reduce the general fund reserve balance down to the minimum level of 5% in 2026/2027.

9.10 The Council has now made progress in setting out a cost management and income generation plan (CMIG) which if delivered will achieve a further £2.3m towards the funding gap by 2027/2028. There are also workstreams that require further work before a figure can be included in the plan. Delivering the CMIG will be key in containing or reducing costs and generating additional income as the Council moves towards a position of funding based on locally generated resources rather than receiving RSG or other Government grants as they come to an end. It is a key objective that this work is progressed to reduce the funding gap going forward. The Council has always endeavoured to keep increases for fees and charges below inflation levels where possible. This has been a significant challenge in consideration against long term efficiencies, savings or income generation to close the gap rather than one off reserves which will be at reduced minimum levels going forward.

9.11 The safety net of the level of working balances provides for a degree of comfort and robustness and in the opinion of the S151 Officer the level of General Fund balances held over the period are above minimum levels and adequate for the purposes of the Council for the period up to 2026/2027. From 2026/2027 there is a significant budget gap that needs to be addressed. As noted in the plan, there are a number of operational and financial risks facing the Council that could possibly impact on the level of General Fund balances held which result in balances depleting earlier than anticipated.

9.12 The main risks facing the Council are as follows:

Operational Risks – There will always be an element of risk in the robustness of estimates where many services are demand led. This level of risk is especially heightened during this period of uncertainty in the economy. This is particularly the case where large or volatile budgets exist – mainly the income driven budgets e.g. planning, industrial rents and car parking fees.

Past experience shows that the risk from these service areas, whilst significant in financial terms, can be dealt with through good budget management which quickly identifies any potential issues and enables prompt corrective action to be taken and where necessary the use of balances. However, since the pandemic and the following economic impact, there has been a notable change in the demand for some services and there is a degree of uncertainty on whether they will return to previous levels or continue at the current heightened levels. Additionally, the cost of living impacting households and businesses will continue to impact the demand for services. The performance against budgets is included in regular monitoring reports to management and members and in the event that action is necessary, approval can be gained quickly.

General Economic Risks – Assumptions on inflation made within the budget are detailed in the report. Where inflation factors rise above the assumed levels there will be an impact on the budget. The risk can be reduced through strong budget monitoring of spend and corrective action being taken. In the event that costs cannot be contained then the working balances come into effect.

Provision was previously included to increase budgets for gas and electricity, reflecting changes to unit costs emerging during 2023. However, these costs are now coming down and the forecast have been amended for this. Utility costs are affected by global supply and delivery levels and there remains a volatility risk that these could change over the medium-term financial plan. Predictions for these supplies will continue to be obtained and the anticipated impact reported in monitoring reports to management and members.

There is a risk to the budget from further changes in interest rates, especially in the current economic climate. The bank rate has seen significant increases since December 2021 from 0.10% to the current rate of 5.25% following the decisions made by the Bank of England Monetary Policy Committee in their objective to control inflation. This has a direct influence on the interest paid on the Council's investments and borrowings. There is a degree of offsetting on our temporary and daily cashflow borrowing and lending but there remains a risk that there could be an imbalance between rates of borrowing and investment and the Council could suffer a net increase in costs. The risk is reduced through good debt management practices and monitoring of the markets and budget position. Interest rates in the Financial Plan reflect the forecast bank rate which peaks in 2023/2024, but is anticipated to reduce during 2024/2025 and thereafter. The council has also considered loan arrangements with its wholly owned housing companies and has set out arrangements on how to manage these arrangements in the current climate and will continue to carry out due diligence and governance measures to ensure risks are mitigated against.

Capital Schemes, Partnerships and Contracts – The Council will always be subject to general financial risks inherent within large capital schemes, major outsourcing arrangements and partnership arrangements. More recently, the impact of inflation and the current economic climate has had an impact on a number of the projections for some of the major projects causing volatility and uncertainty in any projections over the short term period. Whilst these risks can be reduced through the existence of good governance arrangements, active participation in the schemes and sound project management, it is critical that the projects are frequently reassessed from a financial perspective and the monitoring of the risks remains constant so that actions can be considered at the earliest opportunity. The monitoring and performance of major projects is reported to Member Major Projects Board.

Business Continuity – In terms of risk management there are a number of issues that present a risk to the Council all of which are included in the Corporate Risk Register. Several the most highly rated risks are concerned with finance – the impact of inflation impacting economic activity, increasing costs of or reducing capital receipts from capital projects and variation to service demand with an impact on income and increases to delivery costs for services to the vulnerable. The implementation of the new Business Rates Retention Scheme and the Fair Funding Review impacts the certainty with which the Council can plan and implement its longer term aims, such as economic growth. All these issues have been considered and appropriate action taken to reduce the risk to the Council.

Business Rates Growth – The Financial Plan includes growth from business rates that has been achieved to date. There is no assumption for increased growth in the plan as this currently presents a significant level of risk. Alongside this, there is a risk that an element of the growth will be removed as part of the baseline re-set with the implementation of the new Business Rates Retention Scheme arrangements which have currently been delayed by Government. There is also concern that some of the business rates generated from renewable energy will also be withdrawn under the new scheme. These are currently retained at 100% so presents considerable risk if any or all of this is removed. With any new financial reforms is the assumption that there will be some dampening mechanism to soften the impact of any significant funding reductions but until further announcements are made on the detail and timing of the implementation of a reset, it remains a significant risk. These risks will continue to be monitored and reported to management and members as information on new arrangements for the scheme emerge.

Legislation – There are always risks associated with changes in legislation. For example, changes to VAT rules or environmental legislation could have significant impact on the Financial Plan of the Council. There is little that can be done to mitigate legal risks other than to continue to be aware of the potential changes and act accordingly.

9.5 Delivering the MTFP

The MTFP requires a number of key actions to be implemented in order to achieve a stable and sustainable financial position for the Council. These include:

- implementing savings plans
- identifying further efficiencies or savings that are sustainable in nature
- reviewing contracts for best value
- delivering income generation projects
- considering how services can be delivered more efficiently
- ensuring a commercial approach is taken where applicable
- increasing revenues by encouraging more businesses into the district
- increasing revenues by continuing to support and encourage housing development

These will need to be managed against a backdrop of the local government finance reforms. To ensure delivery, officers at the Council are advised to ensure that:

- teams are suitably resourced to deliver the Council's corporate objectives - particularly projects or initiatives that the financial plan is dependent on delivery and that resources are at the right level and with the right skills.
- Officers continue to review service delivery which balance service improvement with reducing costs and being more efficient.
- Sufficient funding is set aside to support delivering the Council's corporate objectives – particularly those projects or initiatives that the financial plan is dependent on delivery and especially those with an invest to save basis, with clear criteria and expectations of return.
- Processes, procedures and practices are continually updated to reflect the Council approach to secure value for money or secure efficiencies/savings where applicable.

- Members are advised to ensure that:
- progress against cost management and income generation proposals are regularly monitored and any mitigating actions reported to Corporate Performance Panel.
- members take future decisions that support the aim of maintaining a financially stable and sustainable Council as set out in the MTFS, including clear funding source where applicable.
- business cases for investment projects should be rigorously reviewed to ensure they deliver value for money to the Council.