APPENDIX F

REVENUE BUDGET RISKS AND ROBUSTNESS

In pursuance of Section 25 of the Local Government Act 2003, the Council's designated Head of Finance (Chief Finance Officer) is required to make a statement on the robustness of estimates and the adequacy of Reserves in relation to the Council's budget calculations.

The economic landscape has continued with a degree of uncertainty and volatility during 2021, with the impact of the UK withdrawal from the European Union on 31 January 2020, and the ongoing financial challenges as a result of the Coronavirus pandemic (COVID-19) which has impacted on the Council's planned income and expenditure. Buoyed by the easing of virus containment measures and improved consumer spending, and with the vaccination programme now well advanced, the prospects for economic growth and robust recovery are now more encouraging. A cautious approach has, however, been maintained given the level of uncertainty.

The relevant issues in relation to the 2022/2023 budget are as follows:

Budget Process

1. The formulation of the annual budget has allowed for best estimates of the commitments necessary to maintain service levels and these have been reviewed and refined throughout the process. Service Areas have engaged in a robust challenge of, and determination of, the 2022/2023 budgets rather than adopting an entirely incremental approach to budgeting. In this process key cost drivers have been identified such that activity can be assessed as to its impact on future costs. This has enabled a good understanding of budget issues faced, thus improving the prospects of budget compliance.

2. The determination of the 2022/2023 revenue budget has been informed by established and effective budget monitoring arrangements that have created a sound foundation for the overall management of the Council's financial resources. The Council continues to improve its budget monitoring processes such that it focuses greater attention on those budget areas that represent the greatest risk as determined by a number of risk factors. Budget monitoring is supplemented by service data that relates to the cost drivers thereby enabling a non-financial analysis and early identification of emerging trends. This risk-based approach is supplemented by a quarterly review of all budget areas.

3. The budget monitoring process provides the basis for the monitoring of compliance with the savings proposals and efficiency assumptions built into the revenue budget and it has also enabled budget pressures to be identified, managed, and appraised as part of the 2022/2023 budget setting process. There are a number of budget reductions proposed within the budget as part of the transformation programme; every attempt is being made to prioritise services, and to streamline processes to avoid an adverse impact on service delivery, but there is a risk that there will be unpredicted impacts on services.

4. Each savings proposal is the responsibility of a named Officer and all proposals, including previously agreed savings, have been assessed on an ongoing basis to ensure continued deliverability. It is possible that some of the proposed reductions may not be achievable or may not be achievable in the time frame anticipated, potentially leading to the need for other reductions, budget overspends, or the use of contingency funding. These areas will be kept under review as part of the established budget monitoring arrangements.

5. In determining financial forecasts and specifically the 2022/2023 budget, regard has been given to (i) the actual experience of the Council in the year to date and (ii) the ongoing impact of the Coronavirus pandemic on both income and expenditure and the ending of the Government support package that was introduced to help Councils respond to the challenges and to ensure financial sustainability in the future. Specifically, the forecasting and budgeting seeks to provide best estimates for Council Tax and Business Rates Yield, service-related income and any additional expenditure based on assumptions in relation to both the duration and severity of COVID-19 and the speed of recovery.

6. The financial impact of COVID-19 has been set out in the quarterly budget monitoring reports to Cabinet. In terms of financial planning, it has been assumed that the progress made with regard to vaccinations will arrest the impact of COVID-19 and, as such, there will be a pathway back to what are considered more normal (and sustainable) circumstances. However, there remains a degree of risk in relation to COVID-19 and, as such, the assessment of the adequacy of Reserves is particularly pertinent.

7. The Council regular reviews the Medium-Term Financial Strategy (MTFS) and, in doing so, forecast resources and spending plans are updated in light of more up to date information. The MTFS sets out the funding gap facing the Council over the medium term. The budget has been prepared in accordance with the approved MTFS and the following financial objectives, as part of the Revenue Budget Strategy, have helped guide the budget proposals:

   (a) A sustainable medium term financial plan that allows the achievement of the Council’s key objectives.

   (b) Realistic levels of year-on-year spending which are supportable via annual income streams and do not require the use of general reserves to support recurring expenditure.

   (c) General reserves should be maintained at all times at or above the agreed minimum level.

   (d) Constraining annual Council Tax increases to an acceptable level.

   (e) The pursuance of “invest to save” opportunities with a financial return on the investment in transforming activities over an acceptable payback period.

(f) A commitment to explore income generation opportunities and to maximise income from fees and charges.

(g) A commitment to maximising efficiency savings.

8. As part of the overall budget strategy, the Council has sought to protect front line service budgets. This has included a review of service delivery options and emphasis on the optimisation of corporate budgets and the continuation of a service transformation programme developed in 2019/2020 as part of a 4-year plan to transform service quality, improve organisational productivity and improve customer services. The programme is aimed at delivering Council services more efficiently and in a more convenient way for the public.

9. The formulation of the budget has allowed for best estimates of inflation and applied at a level to reflect efficiency requirements. In this regard, general inflation has been provided at 2% on certain budgets (such as contract costs) and, in relation to staff costs, an allowance has been made for incremental shift. An inflationary allowance of 5% has been made for energy costs.

10. It is important to acknowledge that there are risks inherent in the budget estimates and these include specific areas set out below, with an attempt to quantify them where possible:

(a) Pay inflation for local government employees in 2022/2023 has been assumed at 2.5%. Should the final employers' settlement be in excess of this, and the Council reviews its local scheme, an additional cost would be incurred (every 0.5% on pay would equate to around £130,000 on staffing costs).

(b) Inflation on specific contracts has been allowed at a rate of 2% and, in some cases, this will require robust contract negotiations. The timely review of business requirements in relation to contracted services should, however, reduce the risk of an increase in some contact values in excess of the budgetary allocation made.

(c) Interest is allowed for as both an income item (on daily balances for example) and as an expense (on borrowing for capital for example). In response to the prevailing economic conditions the Bank of England Base Rate has been maintained at its record low 0.1% since its reduction from 0.25% on 19 March 2020. Consequently, the rates available to investors continue to be low but better than 0.1% and the budget assumptions are based on a 0.7% interest rate. From a borrowing perspective, it has been necessary to consider the implications of the changes to the rules affecting local authorities borrowing from the Public Works Loan Board introduced by HM Treasury from 26 November 2020. The main purpose of the change is to restrict the ability of local authorities to borrow for pure investment in commercial property and the Council has, as a consequence, reviewed its Investment Strategy.

(d) Given the current economic outlook there is a risk that the forecast level of income budgeted in 2022/2023 in some areas (e.g. planning income, land charge fees) may not be achieved. The determined budget has, however, been prepared having regard to income trends which should reduce the risk involved. With the continued uncertain economic conditions there is a possibility that benefit caseload will increase and, though an increase in numbers receiving Universal Credit would see cases transfer to the Department of Work and Pensions, Council income could still be impacted, and debts would become more difficult to collect.

(e) In terms of benefits, the increased stringency of the subsidy claim audit increases the risk of subsidy being withheld and this may require additional resources to be deployed on quality assurance.

(f) It is proposed to maintain the Contingency at £250,000 as part of its risk mitigation strategy reflecting (i) the challenges faced by local government at this time and (ii) general appreciation of budget risks.

11. In determining the 2022/2023 revenue estimates, regard has been given to its ongoing sustainability and the observance of a number of overarching principles. This has involved:

(a) An overall commitment to endeavour to increase annual income sources and reduce annual expenditure without materially reducing front line services provided by the Council.

(b) A preparedness to consult service users and providers to ensure that services can be remodelled and tailored within acceptable tolerances.

(c) A comprehensive review of the base budget to provide greater assurance for the future. The review has been based upon regular established monitoring processes and has incorporated a review of the alignment between the original budget and service activity.

(d) The identification, as a result of (c) above, of service pressures and endeavours to make adequate provision in the 2022/2023 base budget.

(e) The provision of funding to support Business Plan priorities.

(f) Continued review and tight control of the capital programme given the impact of borrowing costs on the revenue budget.

12. In terms of the capital programme, regular assessments need to be made to ensure that schemes and costs meet the test as to what can be classified as Capital Expenditure. In addition, the long-term affordability of the capital programme has been reviewed and this has resulted in proposals for a revised and reprofiled programme, including priority for invest to save proposals and prudent allocation of grant and other income to reduce borrowing costs.

13. In submitting the 2022/2023 revenue budget for approval, regard has also been given to issues of affordability (having regard to Council Tax implications), prudence (having regard to Council policies/strategies) and overall sustainability (having regard to forecast annual expenditure and income).

14. It had been the Government's intention to introduce new funding arrangements for 2021/2022, including the originally proposed increase in local business rate share to 75% (from 50%), a business rate baseline reset, a Fair Funding Review, and further other changes to key funding streams, such as social care and New Homes Bonus (NHB). A consultation on the replacement for NHB was published in February 2021, with changes expected to be implemented from 2022/2023, alongside the wider local government reform package.

15. There has, however, been no confirmation on the timescale for implementation of the wider funding reforms, but an emerging view is that the reforms will impact from the financial year 2023/2024. The risks relating to these changes has, therefore, been considered as part of the review of the MTFS and the future financial forecasts.

Reserves

1. The Council's Revenue Reserves and Provisions are held to fund specific initiatives or held to cover unforeseen events within the Council's prudent financial management arrangements.

2. The Council, as at 1 April 2021, held a Bad Debt Provision to a value of £2.9 million and Revenue Reserves of around £53 million of which £37 million was earmarked. The balance of £16 million represents the General Reserve and working balance. An annual review of Reserves has been carried out as part of the budget process and a number have been re-aligned or combined. The overall level is significant and accords with the optimum level required calculated on a risk basis. A process exists to regularly refresh the risk assessed level of General Fund Reserve having regard to the needs and risks of the Council on an ongoing basis.

3. In reviewing Reserves, due regard has been given to professional guidance. Since 1992 the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Authority Accounting Panel (LAAP) has issued LAAP Bulletins to local authority practitioners. These Bulletins provide guidance on topical issues and accounting developments and when appropriate provide clarification on the detailed accounting requirements.

4. Based on an assessment of the risks facing the Council, including transformation, demographic and transition factors and past experience of budget pressures, the Reserves that are proposed to be retained is considered appropriate, but should be subject to review to ensure that excessive balances are not maintained. Some of these reserves can only be used for specific purposes, but others could be called upon if necessary and so provide additional flexibility.

5. In view of the unsettled economic background, and significant changes that will impact upon medium term finances (such as the localisation of business rates), it is recognised that there is an ongoing need to review and establish a level of reserves which allows the Council to withstand the financial impacts of future developments, unanticipated or otherwise, at a local or national level.

Conclusions

1. The process for the formulation of budgets provides a reasonable assurance of their robustness.

2. The level of the Reserves is sufficient to provide a working balance to cushion the impact of unexpected events or uneven cash flows (general reserves) and funds to meet known or anticipated liabilities (earmarked reserves).

3. It is recognised that the financial pressures facing the Council are not going to ease over the medium term. The economic situation, coupled with a downward funding trajectory outlined in the spending review, will require the Council to put in place sustainable budget proposals in order to set a balanced budget.

4. In addition, there are still expected to be a number of changes in how local government is funded over the medium term, in particular the Business Rates Retention Scheme and the Fair Funding Review. This reshaped funding landscape has the effect of increasing financial uncertainty and risk and the Council's financial resilience will depend upon appropriate mitigating actions ranging from effective financial control, a clear financial strategy and strong financial governance. The ongoing assessment of the Council's financial resilience, including the sufficiency of Reserves, will form a major element of the Council's response to this new financial landscape.