

**Statement of the Chief Financial Officer
Amanda Fahey - Assistant Chief Executive & s151 Officer**

1. Introduction

- 1.1 Section 25 of the Local Government Finance Act 2003 places a statutory duty on the Chief Financial Officer to report to the authority, at the time the budget is considered, and the council tax is set, on:
- the robustness of the estimates included in the budget and
 - the adequacy of the proposed financial reserves
- 1.2 The Act requires councillors to have regard to the report in making decisions at the Council's budget setting and council tax setting meeting(s).
- 1.3 In expressing this opinion, I have considered the financial management arrangements of the Council, the overall financial and economic environment, the financial risk facing the Council, the budget assumptions, the level of reserves, and the Council's overall financial standing.

2 Financial Management Arrangements

- 2.1 The Council has a rigorous system of budget monitoring and financial control in place, with regular reporting at Committee level. Comprehensive financial regulations sit within the Council's Constitution, providing a transparent framework for budget management, supplemented by Contract Standing Orders which support the procurement of value-for-money goods and services. A project management ethos is embedded within the organisation and key performance indicators are used to monitor outcomes.
- 2.2 The Council demonstrates a commitment to ongoing review and continuous improvement in its financial arrangements. Examples include:
- The work of the Constitution Working Party, where a programme of review of the Constitution is carried out throughout the year including areas such as review of Contract Standing Orders to ensure that procurement activity continues to deliver value for money to the Council and its residents while complying with legislative requirements;
 - Expansion and development of the reporting dashboards created by the Project Management Office to encompass reporting for Climate change actions and Risk reporting;
 - Self-assessment against the CIPFA Financial Management Code which demonstrated compliance with the 17 standards set out in the Code, while highlighting a number of areas for improvement in the short term, which have been delivered, and for enhancement over the medium term, which are in progress and being tracked via the Annual Governance Statement;
 - Open engagement with DHLUC and CIPFA resulting in an agreed list of recommendations around financial risk and debt profile. (See section 3 for more detail);
 - Continual development of its financial reporting such as expanding the Medium-Term Financial Forecast to cover a longer period of time, to exemplify the effect of future financial pressures and aid decision-making.
- 2.3 The Council's internal audit service provides assurance over the main financial system and processes, which consistently achieve a "substantial" rating, and

contributes to the overall opinion from the internal auditor that the Council has adequate and effective management, control and governance processes in place to manage the achievement of its objectives. The opinion for 2023/24 is due to be considered by the Standards and Audit Committee in May 2024.

- 2.4 The Council's committee system of governance and decision-making is supplemented by Member working parties where detailed proposals and new ideas can be thoroughly explored before recommendations come forward, including their financial impact. This includes the Property and Assets Task Force, set up in 2023/24 to support governance of the Council's property assets, and the management of its income-generating assets in particular. Mirroring this framework, are a number of Officer working groups, designed to support key themes within the Corporate Business Plan, including a Service Review and Transformation Group to support the delivery of efficiencies, and an Assets and Regeneration group to maintain focus on maintenance of the Council's assets, continued regeneration of the Borough, and optimisation of the major income stream flowing from the Council's commercial property portfolio.
- 2.5 The budget has been prepared within the terms of the Medium-Term Financial Strategy and in consideration of the key financial risks identified therein, particularly the effects of the current economic climate and high levels of inflation. The budget is built up from detailed returns by individual budget holders who have the knowledge of the costs, commitments and anticipated income for their areas, supported by their accountants. Member scrutiny is provided at individual committee level for fees and charges; by the Housing Committee for the Housing Revenue Account estimates; and the Corporate Management Committee for the General Fund estimates before the overall budget is considered by all Members at Full Council.
- 2.6 Finance briefing sessions were held for all Members in June and October, to provide an overview of local authority finances followed by a more detailed exploration of the Council's finances alongside the challenges to be addressed in its Medium-Term Financial Strategy and up-coming budget.
- 2.7 The Council continues to meet requirements to produce what has now become a suite of financial management reporting, including the budget estimates for both the General Fund and the Housing Revenue Account, the Medium-Term Financial Strategy, Treasury Management and Investment Strategies and Capital & Investment Strategy, which together form the framework for financial decision-making in the Council.
- 2.8 In addition, the Council has due regard to both statutory and non-statutory guidance including the Prudential Code for Capital Finance in Local Authorities, and related Investment Guidance and seeks to understand the effects of potential changes in legislation resulting from new Acts of Parliament, which may impact the way it manages its finances, such as the recently enacted Levelling up and Regeneration Act 2023 (see section 3).
- 2.9 A factor beyond the Council's control, but one which may create a perceived weakness in its financial arrangements, is the severe delays in local authority external auditing. At the time of writing this statement, the Council's audit for the years 2019/20 to 2022/23 are all outstanding. While there remains an underlying risk until such time as the audit profession is able to deliver to more appropriate timescales, this risk is mitigated by the Chief Financial Officer's sign off of the annual statements as a true and fair view of the Council's financial position, and by the robust financial controls mentioned in earlier paragraphs. The government and the

wider audit system are currently considering measures to address the audit backlog which may include statutory “backstop” dates by which prior year audits must be completed, or a disclaimer issued as to why the audit has not been completed. Progress on the adoption of such measures will be reported to the Standards and Audit Committee once confirmed.

- 2.10 I consider the financial management arrangements of the Council to be sufficiently robust to maintain adequate and effective control of the budget for 2024/25.

3 Financial and Economic Environment, Risks and Assumptions.

- 3.1 As noted earlier, the budget has been prepared in consideration of the key financial risks identified in the MTFS including the current economic landscape and inflation levels. Assumptions have been made within the budget of the effect of inflation on costs and income projections, taking into account not only the rising costs of goods and services that the Council purchases but also the affordability of fees and charges to the ultimate consumer. The accuracy of these assumptions has an important interaction with the level of reserves it is felt appropriate to hold. No budget will ever be 100% accurate, as both costs and demand change over time, and it is essential therefore to hold a sufficient buffer to allow for variation in the estimates.
- 3.2 The budget includes a provision for pay award in July 2024 alongside remodelling of the pay scales to encompass the increase to the National Living Wage from 1 April 2024. This provision seeks a balance between rewarding staff appropriately while having due regard to the Council’s overall financial position. The final pay settlement will be subject to future negotiation and therefore the figures contained in the budget may need to be amended once the outcome is known.
- 3.3 The Provisional Local Government Finance Settlement has again provided a minimum funding guarantee, meaning that all Councils received an increase of not less than 3% in their core spending power. Uncertainty remains as to future funding, with the Review of Relative Needs still looming on the horizon, alongside the future for New Homes Bonus and the timing of Business Rates resets. However, the Council uses a range of sources to support its financial modelling and assumptions for future funding, in order to plan its resources for the future and make prudent estimates in its budget plans. The budget proposals do not include potential income to be received under the delayed Extended Producer Responsibility for Packaging Scheme as this is uncertain as to amount, timing and associated costs.
- 3.4 A modest amount of necessary growth has been included in the revenue budget. All growth proposals have been carefully considered and only recommended where they are deemed business critical or support Council priorities such as delivery of Climate Change action.
- 3.5 A moratorium on future growth has been included in the MTFS and where growth is unavoidable, the assumption will be that funding is met from external resource or via internal transfers rather than from working balances.
- 3.6 In respect of risk, the Council has reviewed its risk management processes this year, as part of its commitment within the Annual Governance Statement, alongside the development of an over-arching risk appetite statement and individual statement for each key risk category. It has developed a dashboard for risk reporting and put in place a commitment to report twice-yearly to the Standards and Audit Committee on risk issues. Risk management is an essential thread throughout the budget-building process as it allows reasonable estimates to be formed on the basis of knowledge

and evidence, the level of risk relating to each activity and the mitigation undertaken to lessen that risk.

- 3.7 The local government sector has seen risk management (including good governance and financial decision-making) come sharply into focus given the number of local authorities either declaring a s114 notice or raising concerns of future difficulties. Government's response has been to tighten legislative requirements and statutory guidance, such as its powers to intervene where a Best Value failure risk may be identified, and the introduction of the Capital Risk Metrics contained in the Levelling Up and Regeneration Act 2023. (LURA)
- 3.8 The Council has been engaging with DLUHC over the introduction of these measures as the high level of borrowing held by the Council make it an outlier when compared to others and therefore is likely to be caught by one or more of the metrics in the LURA. This positive engagement led to a review by CIPFA of the Council's debt and investment risk profile, the discussion of steps already in place or being progressed to mitigate risk, and ultimately to a set of agreed recommendations.
- 3.9 Following this review, the Council has received a non-statutory Best Value Notice, which is in essence a letter setting out the concerns of government about the risk that high levels of borrowing and reliance on a large commercial income stream may bring. Such notices are issued outside of the government's statutory powers of intervention and are, according to draft guidance issued by DLUHC, "usually appropriate for addressing failure, or risk of future failure, that does not appear systemic in an authority and where the authority has the willingness, capability and capacity to improve." Authorities that can demonstrate how they are addressing risk, and where DLUHC are confident that continuous improvement can be sustained without statutory intervention are more likely to be subject to these non-statutory measures.
- 3.10 The notice recognises the constructive engagement of the Council in this process and sets out its expectations of the Council in demonstrating this continuous improvement. The next step will be for Officers to develop the detailed programme response to the notice.
- 3.11 The budget proposals recognise the risks surrounding the generation of income through commercial property and seek to mitigate this through its management and governance processes, including the Property and Assets Member Task Force and the officer Assets and Regeneration group, its Asset Management Strategy, and its reserves which are used to maintain properties in a lettable condition and to manage fluctuations in rental income due to lease events e.g., when rent free periods are offered at the commencement of a tenancy.
- 3.12 While significant borrowing has been undertaken by the Council, and a large proportion of this has been for the purchase of investment properties, borrowing has also supported the Council's housing stock, the provision of leisure facilities and the regeneration of two of its town centres, providing residential accommodation, cinemas, restaurants and other leisure-based activities in addition to retail units.
- 3.13 Risk is mitigated through the approval of the annual Treasury Management Strategy and Capital and Investment Strategy, and through the formalisation of its moratorium on additional commercial investments, primarily for yield. Provision is made for the repayment of debt (minimum revenue provision) as well as for interest charges and all borrowing has been at fixed rate to avoid interest rate risk.

- 3.14 The level of working balances is determined via a risk-based approach ensuring a sufficient threshold is maintained to allow for variations in the budget estimates to be managed.
- 3.15 The programme of service review and savings, efficiencies and income generation initiatives provide further mitigation of financial risk and supports the overall financial sustainability of the Council.
- 3.16 I consider that these budget proposals take due regard to risk, including the financial and economic environment, and that the assumptions within the budget are reasonable and the estimates used are robust.

4 Level of Reserves and overall Financial Standing

- 4.1 As already noted, there has been an increasing focus on the financial sustainability of local government over the past few years, not least due to the upsurge in the number of s114 reports being issued, where Chief Financial Officers formally record the likelihood that the Council's expenditure will exceed its available resources. In addition, the audit regime is tightening, with an increased focus on the "value for money" conclusion where the auditor reports on the Council's use of its resources.
- 4.2 Regulatory requirements have also been amended, via the Prudential code for Capital Finance and associated Investment guidance, guidance on Minimum Revenue Provision, revised Treasury Management Code, the Financial Management code, Best Value intervention guidance and the Levelling up and Regeneration Act. 2023/24 also saw the introduction of the Office for Local Government (Oflog) which aims to provide authoritative and accessible data and analysis about the performance of local government and support its improvement. The data sets currently available on Oflog's Data Explorer tool show the Council's high comparative debt position but also its high levels of un-ringfenced reserves, another risk-mitigating factor. The tool however only presents data up to 2021/22.
- 4.3 As part of its policy statement on local government funding, the Government encouraged Councils to use their reserves to manage the inflationary pressures they are facing, and also set out an intention to better understand the quantum of reserves held at each authority. Much of this information is already returned via the annual statutory Revenue Outturn and Revenue Estimates forms that Councils are required to complete, and which already form the basis of CIPFA's Financial Resilience Index.
- 4.4 The Resilience Index is a comparative analytical tool that may be used to support good financial management and provide a common understanding of a council's financial position. The Index shows the Council's position on a range of measures associated with financial risk with a considerable focus on the level of reserves and movement on reserves, over a four-year period. This does however mean that the Index was severely impacted by the significant covid-related payments made to councils at the end of 2020/21.
- 4.5 As with the Data Explorer, the current Resilience Index only includes data up to 2021/22 and unsurprisingly, as it is based on the same source data, shows higher than average levels of risk around size of borrowing, and lower levels when considering the amount of, and use of, reserves. These financial risks are covered in the MTFS and in the budget, through risk mitigation measures described previously, including through the risk management and governance frameworks, the use of earmarked reserves and the prudent assumptions made about income and costs.

- 4.6 In addition to earmarked reserves for specific purposes, the Council holds a General Fund “Working Balance” to support the Revenue Account. The balance at the start of the current financial year was £20.3m. Without corrective action this is forecast to fall to £12.9m by the end of 2026/27, still some £7.9m above the current minimum threshold. Projecting the forecast for a further two years would see balances eroded completely during 2028/29, before factoring any outcomes of the savings programmes into the forecast. Using reserves to cover budget shortfalls in the near term, especially during a turbulent economic period, is an acceptable use of this contingency, but care must be taken not to be over-reliant on reserves. The Council must maintain a sufficient level of reserves moving forward to continue to support its financial sustainability into the future. To this end, the budget report recommends maintaining the minimum threshold for the working balance at £5m, whilst recognising that balances will fluctuate year on year.
- 4.7 I consider the level of reserves presented in the budget estimates to be adequate to support the on-going financial sustainability of the Council.

5 Conclusions

- 5.1 The Council continues to respond well to the challenging financial landscape in which it operates. The budget presented in this report provides a contribution to working balances in 2024/25. Forecasts for future years show the anticipated use of reserves to support its budget over the medium term before the outcome of the Council’s programme to generate net budget reductions is included and this picture shows balances being maintained above the minimum level through to 2027/28.
- 5.2 For as long as cost inflation outstrips increases in income and funding, the Council will always need to make efficiencies to maintain a balanced budget and avoid depleting its reserves. This will require Members and officers to continue to practice strong financial discipline, such as the avoidance of budget growth. One key pressure will be the delivery of capital schemes for which resources are limited. This may mean additional pressures on the Revenue budget to directly support new capital spending. The Capital Programme is therefore constrained in part due to the affordability within the Revenue account.
- 5.3 Taking all of the above into account, as the Council’s Chief Financial Officer, I am satisfied that the budget proposals set out in this report are robust and sustainable and that the level of reserves is adequate to address the financial risk facing the Council.

Amanda Fahey
Assistant Chief Executive & s151 Officer