

Report of	Meeting	Date
Director of Finance (Section 151 Officer) Introduced by Executive Member (Resources)	Council	Tuesday, 27 February 2024

Appendix B1: Report of the Chief Finance Officer – robustness of the 2024/25 budget and the adequacy of financial reserves

Is this report confidential?	No
------------------------------	----

Purpose of the Report

1. Section 25 of the Local Government Act 2003 places a statutory requirement on the council's Chief Financial Officer to report on:
 - a) the robustness of the estimates within the overall budget, and;
 - b) the adequacy of the proposed level of financial reserves.

In setting the Budget for 2024/25 Council is required to have regard to this report when making its budget decisions.

Recommendations

2. An overall assessment of the proposed 2024/25 budget and the assumptions on which this is based, including assumptions regarding cost pressures, income streams, service delivery, inflation and utility costs and the cost of living crisis, has identified that whilst there are risks, the overall budget provisions for the year are considered sufficient to meet the council's legal responsibilities and obligations.
3. A review of risks, mitigations and contingencies has been undertaken alongside the review of reserves and provisions.
4. The Council is recommended to consider the assessment by the Director of Finance (as Chief Finance Officer) of:
 - the robustness of the Revenue Budget and Capital Programme for 2024/25 (as detailed in **Appendices D and F1**), and;
 - the adequacy and recommended level of proposed financial reserves (detailed at **Appendix B3**)

Reasons for recommendations

5. The comments of the Chief Finance Officer are required by statute as the Chief Finance Officer should report to Members on the robustness of the estimates within the overall budget, including how they have been constructed and the assumptions that underpin them. In addition, the Chief Finance Officer must report to Members on the adequacy of the proposed financial reserves.

Other options considered and rejected

6. The comments within this report are a statutory requirement and as such no other options are covered.

Executive summary

7. The information provided below is to assist Members in their review of the overall Revenue Budget and Capital Programme, and to provide assurance to them that financial advice has been provided throughout the budget setting process.
8. The budget is based on the Final Local Government Finance Settlement that was published on 5 February 2024 and also incorporates various financial and economic assumptions that are detailed in the report. The council is operating in a period of change and as such these assumptions may also change over time, such as those pertaining to;
 - the Fair Funding Review;
 - the Business Rates system;
 - the development of the government's Levelling-Up agenda
9. Members will be kept informed of any developments that impact on the 2024/25 budget and the Medium Term Financial Strategy (MTFS) as the year progresses.
10. In terms of the 2024/25 budget, all key budgets have been reviewed and amended to reflect the ongoing cost of delivering current levels of service. To prepare for the potential impact of any required changes to the assumptions made, the council will retain sufficient levels of reserves to provide flexibility and to cushion the impact of any adverse financial implications arising in the short term.
11. The forecast is for a balanced budget in 2024/25 and that the council's **general fund balances** will be retained at over £4.0m.
12. The general fund balance is required to manage short-term one-off risks to the revenue budget.
13. In addition, funds are also set aside as **earmarked reserves** that will support the delivery of the council's corporate strategic priorities of;
 - Housing where residents can live well;
 - An enterprising economy with vibrant local centres in urban and rural areas;
 - A green and sustainable borough;
 - Healthy, safe and engaged communities.
14. The council continues to develop its **Capital Strategy**; this demonstrates that the council's capital expenditure and investment decisions are taken in line with corporate objectives and take account of stewardship, value for money, prudence, sustainability and affordability. I am satisfied that the Capital Strategy report at **Appendix G**, provides this assurance to Members and outlines the strategic intent for the council over the medium to long-term.

15. Having reviewed the robustness of the estimates and the underlying assumptions included in the 2024/25 budget, and commented on the position in relation to key risks and working balances, I am satisfied that the budget assumptions are reasonable, the key financial risks have been considered and the budget is deliverable.
16. Further analysis of the risks to revenue and capital budgets are analysed at the end of this report.

Corporate priorities

17. The report relates to the following Strategic Objectives and to the council’s ability to deliver its corporate plan whilst ensuring a balanced budget is achieved. The MTFS sets out how council resources will be used to deliver those priorities.

Housing where residents can live well	A green and sustainable borough
An enterprising economy with vibrant local centres in urban and rural areas	Healthy, safe and engaged communities

Background to the report

18. Under the requirements of Section 25 of the Local Government Act 2003 the Chief Finance Officer is required to advise members when setting the budget as to the robustness of the estimates and the adequacy of working balances.

Budget Strategy

19. The council’s overall framework for its medium term budget is contained within the body of the MTFS report.
20. Development of the medium term strategy has been frustrated as despite the challenges of high inflation, interest rates and utility costs, combined with the pressures of the cost of living crisis, little movement has been made by the government in progressing their intention to significantly change the way in which councils are funded. Once again, local government has only been provided with a one-year settlement for 2024/25, with significant uncertainty regarding the income streams in future years.
21. Although the government announced back in 2017/18 that consultations would be undertaken to progress local government funding reform, these have been slow to advance. The areas they have specifically stated will be subject to consultation and review include;
 - a Fair Funding Review – resulting in the redistribution of funding across local government;
 - a review of the Business Rates Retention scheme;
 - the future of the New Homes Bonus

Another year has passed and still their work has yet to conclude on this; as such, we have had to prepare the 2024/25 Budget and MTFS over the three year period to 2026/27 with a lack of clarity over future funding and funding mechanisms; we must now wait until more information is provided on future changes to the funding

framework before we can model the financial impact on the council and provide more meaningful forecasts.

22. The budget strategy that is presented reflects council-wide involvement across departments, from both Members and Officers, as it is based on an integrated approach to the preparation of capital and revenue plans and the associated strategies of managing risk and maintaining effective internal control; this approach ensures strong financial management and governance.

Budget and Tax Setting Proposals

23. The annual budget preparation and tax setting process involves the development of robust medium term revenue forecasts and capital plans. In any financial year, the level of government funding, additional cost pressures (including inflation, service specific pressures and areas of investment and growth), together with demand for services, necessitates a re-appraisal of service delivery and identification of efficiency savings to address any funding shortfall in order to deliver a balanced budget. The Budget Strategy and proposals submitted have been formulated to reflect these issues. We have also had to consider the ongoing response to the economic issues referred to in point 20 above, e.g. the cost of living crisis, increased levels of inflation, utility costs and interest rates.
24. Throughout the formulation of the Budget Strategy, Executive Members have been advised by the Chief Executive and Directors in relation to the operational requirements around policy and legislative initiatives. Likewise, the Director of Finance and senior finance representatives have advised on financial implications and provided comprehensive input to demonstrate financial viability throughout the process. In doing so, and to ensure the robustness of the budget and the budget setting process, we have been mindful of;
 - *Availability of reliable information;*
 - we have sought to ensure that the budget is based on the most up-to-date and realistic assumptions (for example, using both government and Bank of England forecasts for pay and price increases and for interest rate movements);
 - we have incorporated information provided by government on funding, as detailed within the one-year, 2024/25 Final Local Government Finance Settlement, published on 5 February 2024;
 - we have reviewed and realigned departmental budgets at a transactional level within overall department cash limits, to reflect changes over time to ensure budgets are broadly in line with current levels of income and expenditure;
 - *Council's guidance and strategy;*
 - the council's Constitution which contains a clear Budget and Policy framework;
 - the council's Budget Strategy and approach to budget setting;
 - consultation with residents, partners and businesses within the borough and targeted engagement with service users. Over the year this has included consultation on the budget proposals asking residents to provide feedback on the overall proposals with an open ended question. The

consultation ran from the 19 January to the 1 February 2024 and was publicised through various Council channels. We received 148 responses through an online survey, and from across all of the posts during the budget consultation period, on Facebook the posts were viewed 28,300 times and on X, the posts reached 18,777.

- *Corporate approach and integration;*
 - service departments have identified budget pressures and risks throughout the course of the year, not only in relation to their response to the cost of living crisis, inflation and utility costs, but also in respect of delivering their 'business as usual' service plans. These have been developed throughout the course of 2023/24 in readiness for 2024/25, with regular monitoring and progress reporting by Officers at Senior Management Team (SMT) meetings, and in briefings and meetings with Executive Members collectively and individually;
 - the system of controllable budgets for each Department provides a transparent and accountable arrangement to budget setting; consideration is given to both service specific and corporate cost pressures when determining the allocated cash limit and each Department is required to formulate a strategy to ensure a balanced budget and to deliver savings as necessary;
 - the council continues to closely monitor and instigate early action to meet both its immediate and medium term financial challenges. This method has been effective in providing a level of resilience to address the government's funding reductions over the period to date. Through a combination of increases in income and cost reductions that are contained within the proposals presented to Council, the forecast budget gap for 2024/25 presented to the Council back in February 2023 has now been closed.

- *Flexibility;*
 - mechanisms to review options for service delivery are linked into the budget process
 - flexibility to free up resources to deliver service improvement and to deliver the council's priorities
 - flexibility in budget management as included within the council's Constitution.

Capital Programme

25. Affordability of capital expenditure plans is important in determining the overall robustness of the budget and adequacy of reserves to deal with potential variations.

26. The proposed Capital Programme for 2024 to 2027 of **£22.450 million** is included at **Appendix F1** of the budget reports. This predominantly comprises of existing commitments including investment in;
 - the provision of affordable housing, support for refugees and adaptations to assist residents in their homes;
 - improving and transforming the leisure centres to encourage our residents to be active and healthy, along with investment in play, recreation and open spaces;

- driving economic development through the delivery of the Woodlands development site;
- supporting our town centre through the town centre masterplan and the recently awarded Levelling-Up Fund, for which plans are currently being developed;
- delivering the green agenda, including decarbonisation of council properties;
- rationalisation of council accommodation, including relocation of the Bengal St depot and works to the Town Hall and the former White Hart public house;
- investment in a programme of refurbishment and replacement of bus shelters across the borough through the Asset Improvement programme.

27. Before projects are allocated funding, they are subject to a business case approval process and detailed Member reports are produced in line with the council's financial procedures.

In Year Financial Monitoring Progress

28. The council continuously seeks to strengthen its financial processes and controls. This approach, combined with existing effective arrangements, will provide a strong foundation enabling Members and Officers to continue to deliver the demanding targets and plans set within the Budget Strategy and the challenges identified for future years. In any budget however there are likely to be risks. In-year financial monitoring processes are in place to mitigate these;

- overall budget monitoring takes place throughout the year at both Department and Executive Cabinet level to identify potential areas of pressure and to develop and implement corrective action. This in itself provides a strong control environment and is commensurate with sound corporate governance;
- at the Senior Management Team meetings, the Chief Executive and Directors review the council's overall financial position alongside progress made in the identification of new and emerging financial pressures and in delivering savings, as well as considering the impact of changes in the local government financial landscape;
- other specific Boards and Groups such as the Governance Committee, the Shared Services Joint Committee (in conjunction with South Ribble Borough Council), the Transformation Focus Group and the Development and Assets Working Group, meet regularly to oversee the activities within their specific remit;
- the financial model that underpins the MTFs is subject to review throughout the year to enhance forward planning, policy prioritisation, resource allocation and assess opportunities to invest in achieving future efficiency savings. The assumptions, variables and information within the model are updated to ascertain the impact of known changes (e.g. legislative changes such as National Insurance Contributions), potential changes (such as adjustments to government funding and precept levels), and also for the refinement of variables (such as inflation, interest rates and employers pension rates) in light of emerging information;
- the council adopts a risk based approach to financial management which provides added value to the governance process and identifies risks associated with both the revenue and capital programme. The provision of sufficient levels of General or Unallocated Reserves, mitigates against the financial risks from unforeseen financial issues so that these can be addressed in a responsive and controlled

manner. As part of its approach to risk management the council also makes provision for Earmarked Reserves, i.e. funding reserved to address specific future needs.

29. Ultimately the robustness of the budget is dependent on the strength of the arrangements in place to deliver the component parts, and to manage the associated risks of these.
30. It must be recognised that given the reduction in resources for over a decade of austerity, together with the social, economic and financial impacts from the aftermath of the global pandemic, global unrest, and the current cost of living crisis, the council faces significant risks which impact upon the financial estimates included in this budget.
31. These risks include;
 - the ability to raise and collect revenue from taxes (both Business Rates and Council Tax), and from sales, fees and charges;
 - increases in the number of residents claiming Council Tax Support;
 - potential increase in demand for services from residents, which may be exacerbated by reductions in public sector expenditure in other areas such as the NHS and as a result of the cost of living crisis;
 - under-achievement against income targets given the exposure to external factors, principally stemming from the cost of living crisis, high inflation, interest rates and utility costs, and any resulting economic downturn and changes in consumer demand;
 - changes in statutory and legislative requirements, including employment law;
 - changes by government in funding;
 - contractual obligations;
 - potential loss of skilled and experienced staff.
32. Whilst the 4 year settlement, which covered the period 2016/17 to 2019/20, provided some stability to assist in financial planning, uncertainty has prevailed since 2020/21 with regards to the government's plans for, and impact of;
 - development and implementation of a revised Business Rates Retention Scheme;
 - the development and implementation of a new Fair Funding formula;
 - the potential change to funding streams linked to the government's 'Levelling-Up' agenda and shared prosperity funds;
 - devolution and potential local government reorganisation.
33. The fact that again we have only received a one year settlement has exacerbated the uncertainty and the risk in our financial planning beyond 2024/25, and indeed in the absence of any figures, assumptions or framework, it has been almost impossible to prepare a credible financial strategy for the medium term with any degree of confidence in the underlying assumptions.
34. However, the approaches outlined in this paper in relation to risk management, scrutiny, continuous monitoring of both the current and forecast financial position, as well as regular modelling through the MTFs of the financial impact of changes in the external environment, should mitigate these risks; by identifying the risks and providing an assessment of exposure, magnitude and potential financial impact, plans can be

developed and implemented to address them. Therefore, this Budget Strategy is achievable with strong project and risk management and with effective financial control.

Adequacy of Proposed Financial Reserves

35. Reserves are an essential part of good financial management; they help the council to cope with unpredictable financial pressures and help to smooth the impact of known spending requirements over time.
36. There is no set formula for deciding an appropriate, or required, level of reserves and every council is free to determine the level they hold; holding a low level of reserves offers little resilience to financial shocks and sustained financial challenges, however if reserves are too high, there may be opportunity costs of holding these, resulting in a lack of investment in services that could provide better outcomes for residents, and/or increased savings, and/or revenue generation.

Unallocated Reserve

37. A General or Unallocated Reserve has been established within the budget to provide a contingency to cushion the impact of unexpected events or emergencies, and to meet potential, future liabilities.
38. The target level of general fund reserves is £4m over the medium term and importantly, the MTFS does not rely on utilising general fund balances to meet any deficits over the three-year period. General fund balances are there to manage potential risks contained in the budget.
39. There can be no guarantee that expenditure will be contained within each and every budget. The nature of the Council's business means that varying demands will be faced during the year and under and over achievement will occur.
40. However, the aim should be that the budget in total is sustainable taking into account resources available, assumptions made, delivery of savings and the availability of reserves to mitigate "in year" pressures.
41. Estimates have been based on the best and latest information available and provision has been made within the minimum balances to meet unforeseen eventualities.
42. Close monitoring of the budget, together with responsive management action, will continue to ensure that income and expenditure remain within budget.
43. Subject to;
 - the volatility in the funding system in relation to business rate retention
 - possible re-profiling of savings and income generation proposals into future years
 - unexpected costs or income losses

And, in light of;

- the effectiveness of the Council's Internal Control framework

- the risk based provision made in the level of General Fund balances
- the Council's overall reserves position

Then as the section 151 Officer I can state that I believe the budget for 2024/25 and level of reserves to be robust.

Earmarked Reserves and Provisions

44. Earmarked Reserves are established to meet known or expected future liabilities where it is difficult to be specific about the exact financial amount of liability.
45. There are several categories of Earmarked reserves that the council holds, including;
 - reserves to fund future asset management and maintenance;
 - reserves set aside to manage the impact of any adverse impact arising from government changes to the Business Rates funding mechanisms and one-off reductions in income;
 - reserves set aside to manage the potential volatility in income from investments;
 - reserves to mitigate the risk of inflationary, cost and demand pressures faced by the council over and above the levels of expenditure already budgeted;
 - reserves specifically set aside to support the council in its ambition to become carbon neutral by 2030;
 - sums set aside for the specific investment priorities of the Administration for 2024/25.
46. The current forecast for Earmarked reserves at 1st April 2024 is £5.392m; a full breakdown of the Earmarked Reserves is attached at **Appendix B3**.

Climate change and air quality

47. Reducing the carbon footprint is a national and global issue; the council is committed to realising its ambition to become carbon neutral by 2030 and will seek to attract support and funding from our partners, including the Government, to assist in achieving this priority objective.

Equality and diversity

48. Consultation has been undertaken regarding this budget and the Integrated Impact Assessment is attached at **Appendix J** to this report.

Risk

49. The risks associated with the 2024/25 Budget and MTFs are noted throughout the report and specifically at **Appendix B2** on the agenda.

Comments of the Statutory Finance Officer

50. These are contained within the report.

Comments of the Monitoring Officer

51. The report is designed to ensure that the relevant legislation is complied with in terms of the Statutory Officer's advice.

Background documents

There are no background papers to this report

Report Author:	Email:	Telephone:	Date:
Louise Mattinson (Director of Finance/Section 151 Officer)	louise.mattinson@chorley.gov.uk	01257 515151	15-Feb- 2024