

Report of	Meeting	Date
Director of Finance and Section 151 Officer (Introduced by Cabinet Member (Finance, Property and Assets))	Council	23 February 2022

Report of the Chief Finance Officer

Is this report confidential?	No
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Is this decision key?	Yes
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Savings or expenditure amounting to greater than £100,000	Significant impact on 2 or more council wards
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PURPOSE OF 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 2022/23, Council is required to have regard to this report when making its budget decisions.

Recommendations to Council

2. An overall assessment of the proposed 2022/23 budget and the assumptions on which this is based, including assumptions regarding cost pressures, income streams, service delivery, inflation and the ongoing Covid-19 pandemic, 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 2022/23 (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 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 considered

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 7 February 2022 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 2022/23 budget and the Medium Term Financial Strategy (MTFS) as the year progresses.
10. In terms of the 2022/23 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 2022/23 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;
 - an exemplary council
 - thriving communities
 - a fair local economy that works for everyone
 - good homes, green spaces, healthy places
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 2022/23 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 corporate priorities: *(tick all those applicable)*:

An exemplary council	✓	Thriving communities	✓
A fair local economy that works for everyone	✓	Good homes, green spaces, healthy places	✓

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 MTFS.

20. Development of the medium term strategy has been frustrated as, due to the pressures of the pandemic, 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 2022/23, 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.

Their work has yet to conclude on this and so we have had to prepare the 22/23 Budget and MTFs over the three year period to 2024/25 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 Process

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, and future recovery from, the effects of the Covid-19 pandemic.
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 government and Bank of England forecasts for pay and price increases and interest rate movements);
 - we have incorporated information provided by government on funding, as detailed within the one-year, 2022/23 Final Local Government Finance Settlement, published on 7 February 2022;
 - we have reviewed and realigned departmental budgets at the lowest 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;
 - we have considered the financial consequences of the ongoing Covid-19 pandemic and the funding made available by government.

- *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 which was split into three parts, in the first part participants were presented with eight priority categories for investment and asked to score each of them accordingly, the second part asked if residents agree with a council tax increase and the final part was an open ended question for general feedback. The consultation ran from the 1st February to the 10th February 2022 and was publicised through various council channels. We received of 220 responses to the online survey, with 109 open comments through an online survey, and 39 responses through social media.

- *Corporate approach and integration;*
 - service departments have identified budget pressures and risks throughout the course of the year, not only in relation to their continued response to Covid-19, but also in respect of delivering their 'business as usual' service plans. These have been developed throughout the course of 2021/22 in readiness for 2022/23, 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. Despite the redirection of resources and efforts to focus on the council's response to the pandemic, through a combination of increases in income and cost reductions that are contained within the proposals presented to Council, the forecast budget gap for 2022/23 presented to the Council back in February 2021 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 2021 to 2025 of £71.582 million is included at **Appendix F1** of the budget reports. This predominantly comprises of existing commitments including investment in;
 - Improvements to play areas and open spaces across the borough
 - Delivery of affordable homes
 - Delivery of neighbourhood improvement projects for residents and communities right across the borough
 - Improving the leisure centres and leisure and sports facilities to encourage our residents to be active and healthy.
 - Supporting our town centre through the delivery of the Towns Fund project
 - Supporting our commitment to becoming carbon neutral by 2030
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 Process

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

- the Scrutiny Budget and Performance Panel meet to review the council's budget position and to challenge delivery and performance against this.
- other specific Boards and Groups such as the Governance Committee, the Shared Services Joint Committee (in conjunction with Chorley Borough Council) and the Transformation Focus 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 the National Insurance Contributions and National Living Wage), 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.

Risk

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 over the past decade of austerity, along with changes made in service delivery together with the social, economic, public health and financial impact of the global Covid-19 pandemic, the council faces significant risks which impact upon the financial estimates included in this budget.
31. These risks, many of which have been exacerbated by the effects of the Covid-19 pandemic, 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 Welfare Reform;
 - under-achievement against income targets given the exposure to external factors, principally stemming from the Covid-19 crisis, the impact of any resulting economic downturn and in any resulting change 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;
- the 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 proposed future 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 2022/23, 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
44. Then as the section 151 Officer I can confirm that I believe the budget for 2022/23 and level of reserves to be robust.

Earmarked Reserves and Provisions

45. 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.
46. There are several categories of Earmarked reserves that the council holds;
 - sums set aside for the specific investment priorities of the Administration for 2022/23;
 - reserves to fund future asset 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 specifically set aside to support the council in its ambition to become carbon neutral by 2030;
 - reserves created from government funding provided to assist in addressing the ongoing pressures of Covid-19, both now and in the future, to aid the recovery of our residents, communities and economy; these reserves will be drawn down, as

required, to meet the ongoing direct and indirect costs of the pandemic over the short and medium term.

47. The current forecast for Earmarked reserves at 1st April 2022 is £13.957m; a full breakdown of the Earmarked Reserves is attached at **Appendix B3.xx**

Climate change and air quality

48. The report outlines the council's commitment to climate change and references the successful bid of £5m secured for decarbonisation of the council's buildings.

Equality and diversity

49. An Equality Impact Assessment (EIA) and Equality Act implications are detailed in Appendix K to the report.

Risk

50. The risks associated with the 2022/23 Budget and MTFs are noted throughout the report and specifically at Appendix B2 on the agenda

Comments of the Statutory Finance Officer

51. These are contained within the body of the report.

Comments of the Monitoring Officer

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

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