

## **Section 25 Statement of the Section 151 Officer**

### **STATEMENT ON THE GENERAL FUND BUDGET PROPOSALS BY THE CHIEF FINANCIAL OFFICER**

#### **1. Statutory Requirements**

- 1.1. Section 25 of the Local Government Act 2003 requires Chief Financial Officers to report to their authorities about the robustness of estimates and the adequacy of reserves in the budget.
- 1.2. The Council is required to have regard to this report in approving the budget and council tax.

#### **2. Summary Opinion**

- 2.1. The budget proposals have been drafted amidst a set of challenging circumstances, which sees the Council continue to face ongoing economic and demand-led pressures.
- 2.2. Having taken into account the issues detailed in the report, I am able to give a positive opinion on the robustness of the estimates and the adequacy of financial reserves for 2020/21. I base my opinion on the budget presented to Cabinet on 10<sup>th</sup> February 2020 and subsequent updates following the latest Business Rates income position.
- 2.2. The inclusion of further service transformation and efficiency savings and additional income targets in the budget is challenging and as such there is a risk that, should these targets not be achieved, the Council will need to draw on its reserves during 2020/21. The Council has sufficient reserves to mitigate this risk in 2020/21 but use of reserves would not be sustainable in the medium term. Should any of the assumptions change which require the identification of significant additional savings then I will review this opinion.

#### **Robustness of the Estimates**

#### **3. Estimates Procedures and Processes**

- 3.1. In giving a positive opinion on the robustness of the estimates, I have relied on the established processes and procedures, which underpin the detailed review of all budgets. This process is undertaken and led by Finance in conjunction with Senior Managers, Heads of Service and budget holders.
- 3.2. Budget estimates are exactly that – estimates of spending and income made at a point in time and which will change as circumstances change. This statement about the robustness of estimates cannot give a 100% guarantee about the budget but gives Members reasonable assurance that the budget has been based on the best available information and assumptions at the time.

3.3. The key budget assumptions considered by officers in terms of assessing the robustness of budgets are shown below:

- The treatment of pay and price inflation and interest rates.
- The treatment of demand led pressures.
- The treatment of efficiency savings/income generation.
- The financial risk inherent in any significant new service/operational changes or major capital developments.
- The availability of other funds to deal with major contingencies.

3.4. A detailed list of the key financial assumptions included within the MTFS is set out in Appendix 4 to the Budget report.

#### **4. Determination of the level of resources available.**

4.1. The 2020/21 Financial Settlement, announced on 20<sup>th</sup> December 2019, was in line with expectation. Provisional settlement figures for 2020/21 have been provided, and have been used in the preparation of the current budget projections.

4.2. Whilst there is new money from Central Government, this has been prioritised for adult and children's social care.

4.3. The settlement provides no update on the progress of either the move to further business rates retention or the Review of Relative Needs and Resources (commonly called the Fair Funding Review). However, the settlement confirmed that the next business rates revaluation is planned for 2021 and from then on the Government intends to move to a three-yearly revaluation cycle.

#### **5. Advice on the level and use of reserves**

5.1. There is no statutory definition of a minimum level of reserves and it is for this reason that the matter falls to the judgement of Section 151 Officer. The level of reserves is a balance between the risk facing the Authority and the opportunity costs of holding those balances. Reserves can only be spent once and should ideally only be used to support one off expenditure or to allow time for management actions to be implemented.

5.2. Currently, the minimum level of General Fund Balance is set at £2m or approximately 15% of the net expenditure budget and is considered to be within the range that is deemed appropriate. The estimated level of the General Fund Balance at 31 March 2021 is £3.3m subject to final audit.

5.3. The General Fund Balance is set aside to mitigate against the impact of unexpected events and emergencies. In order to assess the adequacy key financial risks have been identified and are set out in section 7 below. It

should however be noted that this is not a precise science and that local circumstances, the strength of financial reporting arrangements and the Council's track record in financial management will also be a key influence on the actual potential of any individual risk materialising.

- 5.4. An analysis of earmarked reserves held by the Council has revealed that the level of individual reserves is appropriate. The reserves are estimated to be £6.8m at 31<sup>st</sup> March 2021. They are adequate to meet the commitments and forecast expenditure facing the Council, as well as providing a degree of resilience against changes in Business Rates income forecasts and the impact of a continuing economic downturn.

	<b>01 April 2020 £000's</b>	<b>Transfers In / (Out) £000's</b>	<b>31 March 2021 £000's</b>
<b>General Fund Balance</b>	<b>2,862</b>	<b>400</b>	<b>3,262</b>
<b>Earmarked Reserves</b>			
Asset Management	2,316	-	2,316
Newhaven Enterprise Zone	266	660	926
Economic Regeneration	1,124	-	1,124
Revenue Grants and Contributions	468	-	468
Strategic Change	1,771	(500)	1,271
Vehicle and Equipment Replacement	18	-	18
Business Rates Equalisation	200	202	402
Managing In-Year Economic Downturn	296	-	296
<b>Total Earmarked Reserves</b>	<b>6,459</b>	<b>362</b>	<b>6,821</b>
<b>Total Reserves</b>	<b>9,321</b>	<b>762</b>	<b>10,083</b>

- 5.5. In conclusion, having considered the need for balances and the budget risks, the level of reserves held are considered sufficiently adequate but only on the basis that any potential adverse budget variations are tightly controlled and wherever possible contained within service budgets.

## **6. Key Budget Risks**

- 6.1. The 2020/21 budget contains £2.7m of savings and income targets, of which some £1.9m is considered low risk or already certain. The remaining £0.8m will be challenging, but in my opinion achievable. This places significant reliance on senior management's ability to meet these targets in order to eliminate the need to draw on the Council's reserves to balance the budget as it closes the 2020/21 year. Thus, it will be important for a rigorous ongoing programme of management, monitoring and, where necessary, intervention to be in place to ensure delivery of the more challenging targets.
- 6.2. In the medium term the authority's plans for self-sufficiency contains risk from a potential inability of the Corporate Management Team (CMT) to identify and deliver new income and cost savings targets. However, CMT have given a

commitment to meeting these targets and ensuring they are delivered in the timescales required.

- 6.3. The Council has done a significant amount of work in recent years to move towards financial self-sufficiency, especially through its Joint Transformation Plan. The Council will continue on this path of transformation of core services but ultimately the organisation cannot produce enough savings by this process alone so it will also need to find new ways to generate income. As a result, the Council will need to take on a more commercial approach to generating income in the District, including property and housing development opportunities.
- 6.4. The 2018/19 Statement of Accounts have still not been finalised. Whilst an unqualified opinion is expected, until the audit process has been completed this cannot be guaranteed. As a result, there is still a risk that the outturn position could change, which in turn would impact on the reserves position outlined in section 5 above. Should the position change, I will review the outcome and impact and report back to Members in due course if necessary.
- 6.5. There are continuing risks associated with the Government Finance Settlement. The provisional settlement announced in December 2019 was for one year only, and as mentioned in section 4, provided no update on the progress of either the move to further business rates retention or the Fair Funding Review.
- 6.6. The Fair Funding Review, Business Rates Review and business rates reset has been deferred by 12 months to 2021/22. In addition, New Homes Bonus grant funding will be phased out after 2022/23.
- 6.7. These factors make forecasting resources in the medium terms extremely difficult. However, to help mitigate against this the projections included in the MTFS have been based on the most pessimistic outcome for the Council.
- 6.8. The economy ended 2018 growing a little less strongly than expected in October. Survey indicators of current activity have weakened materially, in part reflecting heightened uncertainty prior to the General Election related to Brexit. As a result, the OBR has revised their forecast for Gross Domestic Product (GDP) growth this year down to 1.2% – more than reversing the upward revision they made in October in response to the Government's discretionary fiscal loosening in the Budget. They have not altered their assessment of the outlook for potential output, so the medium-term forecast is little changed: GDP growth still settles down to around 1.5% a year.

## **7. Conclusion**

- 7.1. Based on the assessment included in this report I have concluded that the 2020/21 budgets as proposed and the associated systems and processes are sound, although I have acknowledged the challenging income and savings targets being proposed. The level of the General Fund Balance and other

reserves are adequate to meet the Council's medium term financial commitments as I see them today. However, as the risks in section 6 explain I have concerns about the continuing risks to district council finances in the medium term that are, at present, impossible to calculate. I may wish to revisit the level of General Fund Balance during the year as these matters become clearer. My conclusion is subject to no amendments being made to the budget proposals that would impact on this assessment.

Homira Javadi (CPFA, FCCA, ACCA)  
Chief Finance Officer and Section 151 Officer  
Lewes District Council