Appendix 1

Statement from the Chief Financial Officer under s25 of the Local Government Act 2003

Introduction

The Local Government Act 2003 (Section 25) 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 budget estimates and the adequacy of the financial reserves. The Act requires the Council to have regard to the report in making its decisions at its budget and council tax setting meetings.

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.

Financial Management Arrangements

The Council has a sound system of budget monitoring and financial control in place, with regular reporting both at Executive and Scrutiny level, via the Audit & Standard Committee (year-end review), Policy and Performance Advisory Committee and Cabinet. Where budget variances have arisen, management actions are identified to minimise any adverse effect and enable early corrective action to be put in place where relevant.

The budget process for 2021/22 included informal discussions and review sessions with Cabinet Members in order to ascertain the priorities for the budget, and to understand cost drivers, demand pressures and the underlying assumptions contained within the budget, such as inflation, interest rates and the cost of borrowing.

Since last year, Cabinet Members have also applied an additional layer of budget challenge to the process, through meetings with the Corporate Management Team, to explore opportunities for efficiencies, cost reduction or income generation. The Council's Management Team has reviewed and challenged the budget at various stages throughout its construction, including the reasonableness of the key budget assumptions, such as estimates of inflationary and corporate financial pressures, realism of income targets and the extent to which known trends and liabilities are provided for.

The budget has been prepared within the terms of the Medium-Term Financial Strategy and in consideration of the key financial risks identified.

In recent years, there has been a growing trend to increase the range of tools available to councils to assess, and where necessary, improve their financial management. The Chartered Institute for Public Finance and Accountancy (CIPFA) has developed a Financial Management Code, designed to support good practice in financial management by setting out a series of principles supported by specific standards and statements of good practice. The Council will carry out a selfassessment against the new Code and create an action plan if required to meet the over-arching principles.

CIPFA also produce an annual Resilience Index which allows authorities to view their position in respect of a range of indicators of financial risk. While such tools can be blunt instruments, which do not take account of local circumstance, they are nevertheless a useful starting point for provoking internal challenge.

The Council continues to meet requirements to produce what has now become a suite of financial management reporting, including the budget report, Medium-Term Financial Strategy (MTFS), Treasury Management and Investment Strategies and Capital Strategy, which form the framework for financial decision-making. 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 MHCLG Investment Guidance.

Due to the financial effects of Covid-19 on the Council's budget, additional reporting has been undertaken during the year, including a financial briefings to all Members in the early months of the crisis, and both a September MTFS to ensure early budget actions were captured and progressed in a timely manner. In addition, there have been regular opportunities for Members to raise queries in briefings from the Chief Executive and his Corporate Management Team.

Reporting against the financial framework is undertaken via the budget monitoring process referred to earlier in this section and is supported by the Performance review work of the Policy and Performance Advisory Committee and the Audit and Standards Committee.

The external review of the Authority's financial statements and its arrangements to secure economy, efficiency and effectiveness in its use of resources (value for money conclusion) is provided by Deloitte who are the Council's external auditors. At the time of setting this budget, this Council's accounts for the years 2018/19 and 2019/20 remained unaudited and presenting an additional risk to the budget and some of its assumptions. However, this risk has been mitigated by building additional contingencies into the budgetary assumptions and undertaking additional stress tests. Considering the Council's available reserves, I consider this risk to be within its financial tolerance and available resources.

I consider the financial management arrangements of the Council to be sufficiently robust to maintain adequate and effective control of the budget for 2021/22.

Financial and Economic Environment, Risks and Assumptions

Lewes has received additional (but one-off) funds from the Provisional Local Government Finance Settlement and associated emergency funding for Covid-19 pressures. Without this additional Covid-19-related funding, the Council would have had to draw considerably higher amounts from its reserves to plug the temporary gap in its budget, while waiting for income streams to recover over time. This would have left the Council with a severely reduced buffer to deal with unpredicted spending (such as future unknown events related to Covid or anything else or to compensate for any falls in major income streams).

The Government has a headline figure of “core spending power” (CSP), which is meant to represent the overall revenue funding available for local authority services. For 2021/22 this will rise by 4.5% across England. However, this assumes maximum Council Tax increases and growth in the number of homes paying Council Tax. This would not hold true for many authorities, including Lewes, who are likely to experience lower than average Council Tax base growth, due to slow down in development. There could be a further fall in Council Tax income from an increasing caseload for local council tax support.

For Lewes, core spending power for 2021/22 as measured by Government, is in fact retained at its 2020/21 level i.e. zero growth. The major reduction in New Homes Bonus, due to removal of legacy payments from 2020/21, meant that an overall reduction in resources would have been experienced. To combat this, the Government introduced a floor mechanism, for 2021/22 only, so that the new Lower Tier Services grant was topped up by an additional £96k to avoid a reduction in overall CSP.

Core Spending Power		
	2020-21 £ millions	2021-22 £ millions
Settlement Funding Assessment	2.243	2.243
Compensation for under-indexing the business rates multiplier	0.090	0.117
Council Tax Requirement excluding parish precepts	7.713	7.952
New Homes Bonus	0.439	0.141
Lower Tier Services Grant	0.000	0.096
Core Spending Power	**10.485**	**10.549**

The risks inherent in the funding announcement are multi-fold. First and foremost is the continued uncertainty provided by a single-year Settlement, exacerbated by the lack of information on progress with the Fair Funding review, rescheduled for introduction in 2022/23, which could see seismic shifts in the redistribution of funding between authorities, based on a major overhaul of the mechanism for assessing their relative needs. While the 2021/22 Settlement removed the threat of negative Revenue Support Grant and provided the funding floor mechanism described above, there is no guarantee that this will not unwind under a new allocation mechanism, leaving the Council worse off. The expectation would be that any major redistributive effects would have some sort of transition arrangements attached, to allow Councils time to respond, however, this is simply speculation at this point.

The remodelling of the Business Rates Retention Scheme has also been deferred, with one of the major factors at play being whether the baselines for business rates growth will be reset within the system, potentially wiping out gains to date. The New Homes Bonus Scheme is also set for review, with both the 2020/21 and 2021/22 allocations being announced for a single year payment instead of being payable for 4 years as per previous allocations. Outside of core spending power, funding streams for homelessness support and prevention have been increased but, once again, are for a single year with no certainty as to future allocations or mechanisms for distribution.

During 2020/21, much of the financial focus has been on the effect of the coronavirus pandemic on the Council's income streams, with parking, commercial rents and other income streams being badly hit. For 2021/22, and beyond, assumptions have been made in the budget as to how quickly, and to what extent, these income streams will recover. While compensation has been announced for some losses in the first three months of the new financial year, some effects may be longer lasting. It remains to be seen, for example, whether the demand for parking returns to previous levels as High Streets take time to recover, businesses look for premises in new locations and people work from home more often than before the pandemic.

The economic climate may also have an effect on income received for other services offered by the Council, on the collection rates for both Council tax and Business Rates, and on the level of bad debts experienced by the Council. The efficacy of Test and Trace and the speedy roll-out of vaccines will be essential in supporting a return to a more stable economic future. These are all key considerations in assessing the robustness of the estimates contained within the budget report and the adequacy of the Council's reserves. There is interplay between the two, as the more certain we can be about the estimates, the lower the level of "just in case" reserves we need to keep and vice versa. The 2021/22 budget will contain a great deal of uncertainty and risk, and while the estimates are the best that can be produced under the current circumstances, it is vital that sufficient reserves are held to guard against changes to these estimates.

The Council continues to seek other forms of funding and has an excellent track record in securing grant from a variety of sources such as:

Homes England (Housing Infrastructure Fund), Future High Street Fund, MHCLG (Rough Sleeper Initiatives, DEFRA funding for Air Quality and Newhaven Heath Authority, Arts Council (Culture Recovery Fund), National Lottery Heritage Fund and many others.

However, it is important that any one-off funding is used to provide additional services over and above that provided by core delivery or to provide one-off enhancements to assets, rather than to form any part of funding for on-going service delivery.

Financial Risk within the budget has been mitigated by building contingencies and using capital receipts to support any additional capital spend. In addition, sums have been set aside previously to support a number of corporate initiatives such as Recovery and Reset Programme. The R&RP is expected to deliver on-going revenue savings or efficiencies in service delivery, once costs are paid back to the reserve, adding to the financial sustainability of the Council moving forward.

Risk is further mitigated by holding back income from the Business Rates Retention Scheme until it is certain and not building it into base budgets at the start of the year. Business Rates income can be volatile and heavily affected by national and local economic conditions and assumptions around appeals against business rates, which can take years to unwind and require the Council to set aside sums to settle current and future appeals. At this stage, it is unknown whether businesses will be able to appeal their business rate valuations due to the effect of Covid-19, under what is known as a Material Change of Circumstances. The Valuation Office Agency (VOA) are currently considering this matter which could have far-reaching consequences for business rates income.

Complex assumptions are incorporated into the estimates for Business Rates income and the provision for appeals, as well as provision for bad debts across wider service areas including Council Tax and Benefits. Other assumptions within the budget include pay assumptions, pension valuations, inflation assumptions and interest rate assumptions. These are based on expert knowledge both within and outside of the Council, using experts where necessary and incorporating data from the Bank of England, central government statistics and other sources. Assumptions around demand levels are based on the professional expertise and local knowledge of service managers, within the local economic and demographic context, and take account of the potential growth of the District area. Income budgets are set having due regard to demand constraints, affordability, cost inflation pressures, trend analysis and strategic aims. Further detail on the assumptions used in the budget are set out in Section 3 of the budget report.

I consider that these budget proposals take due regard to risk, including the financial and economic environment, that the assumptions within the budget are reasonable and the estimates used are robust.

Level of Reserves and overall Financial Standing

In the wake of Covid-19, we have seen a number of Councils reportedly considering issuance of a section 114 notice, as they struggle to balance their budgets. A s114 notice stops all non-essential spending and provides for a 21-day period for the Council to consider the report and what action it may take as a result. A further notice must be issued if the budget remains unbalanced.

Cipfa amended their guidance on issuing s114 notices, so that Councils could hold off issuing them if they were in talks with Government about funding. This has likely reduced the number of s114 reports that would otherwise have been issued in response to the effects of Covid-19. In November, Croydon Council became only the second authority in 20 years to issue a s114 notice, due to a reported potential budget gap for 2020/21 of some £66m, a significant part of which was non-Covid-19 related, with the Council requiring Government support to enable it to return to financial sustainability.

Whilst having robust estimates that are adhered to, is critical to balancing any budget, so is the level of reserves held to support any movement in the estimates for longer-term sustainability. In past years, councils have been criticised for holding too high a level of reserves but more recently, given the increased awareness of the potential for local government failure, there has been greater emphasis on financial sustainability, which requires holding a “reasonable” level of reserves. What is reasonable will be dependent on local circumstances and there is no mandated minimum level set by regulators.

The Council’s Medium-Term Financial Strategy previously set a target for its unallocated reserves (General Fund and Contingency) of 15% of its net revenue expenditure (around £2m) whilst recognising that the level held will fluctuate over time as it adjusts to short-term pressures in the revenue budget. The latest Strategy contains a recommendation to increase this target level to £3m- £4m.) This will provide some additional capacity to cope with variations in the estimates. This is vital in the current circumstances, particularly given the volatility of the Council’s income streams and housing need during the pandemic and the increased difficulty of projecting how these additional costs and income streams will respond in the future. These will be affected by the level of restrictions imposed by Government, the progress of vaccination, the economic landscape and the level of any further Government funding.

We have seen during 2020/21, that Lewes’s levels of reserves could have been inadequate to balance the budget without Government support and measures taken internally to divert funds that would otherwise have been used for other initiatives and commitments. Lewes has also fared poorly in comparison of its reserves with other authorities (Cipfa Resilience index), although care must be taken when considering such indices, as local circumstance is not always fed into the calculations.

The high-level forecast set out in Section 7 shows a potential budget gap of £1.8m in 2022/23 reducing to £1.5m by 2024/25. The report has already highlighted the potential risks in this forecast, not least from the unknown changes that may occur in Government funding from 2022/23, and reserves need to be at a level to support these future risks.

The Council will need to continue to identify further savings to ensure a balanced budget moving forward and will continue to look for innovation and efficiency in its use of resources. The economic climate however may curtail some forms of income generation as commercial rents are squeezed, business rates income falls, or other income streams do not recover as predicted. In addition, the regulatory framework continues to change with tighter restrictions on borrowing from the Public Works Loan Board effectively ruling out commercial investment predominantly for return (this is set out in more detail in the Council’s Investment Strategy) and an expected tightening of the Prudential Code that sets out the framework for Capital financing by local authorities.

After many years as a debt-free authority, the Council is requiring to borrow to support the Capital programme. The estimates contained in the budget make assumptions about the level of borrowing and the costs of carrying debt (provision for repayment (MRP) and interest costs). The Capital budget assumes some capital receipts during the programme timescale and some projects will only be delivered if they are financially self-sufficient (no need to undertake additional borrowing). Previously the Council made revenue contributions to the Asset Replacement Reserve to support capital expenditure, but these contributions have been ceased in order to balance the budget and are replaced in part by revenue cost of debt as described above. This approach is supported by the MTFS.

Changes to timing of project delivery and/or the timing or level of capital receipts or external funding will affect the level of borrowing required and the impact on the revenue account. While the Capital Programme over the medium-term is an ambitious one, the cost of any borrowing to fund this programme is affordable within the terms of the Prudential Code and can be met from the revenue budget as set out in the report. As decisions made now can affect the Council for many years to come, in terms of interest payment and provision for repayment of borrowing, it is important to ensure that the on-going effect of borrowing is affordable in future years. The potential variability, however, again highlights the need for sufficient reserves to be maintained to be able to respond to any changes in costs and timing.

In addition to un-earmarked reserves, the Council holds a number of earmarked reserves to provide for future expenditure such as Business rate equalisation, to guard against specific risk such as the proposed new reserve to support revenue costs to accelerate delivery and fund any potential abortive cost. Further detail on these reserves is contained in Section 8 of the report.

The Council has a good track record for delivering its budget commitments and making prudent financial provision against risk and for future expected spending plans.

I consider the level of reserves presented in the budget estimates to be adequate to support the on-going financial sustainability of the Council. However, early identification of future net savings (cost reductions or increased income generation) is essential to support the sound financial standing of the Council.

Conclusions

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.

Homira Javadi (CPFA, FCCA, ACCA) -Chief Financial Officer