Appendix 1

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 during an unprecedented and exceptionally challenging times caused by the Covid 19 Pandemic. The Council has seen its income levels reduce by as much as 80% in some key areas, it continues to face ongoing cost pressures on some demand-led services.

2.2. The Council's response to these financial pressures coupled with the uncertainties around economic recovery and local government future funding arrangements has been to put in place a number of key plans many of which have been encompassed in the Recovery and Reset Programme (R&RP).

2.3. The Council's overall recovery strategy is reliant on the outcome from the following:

- Delivery of the anticipated saving targets from the R&RP.
- Capitalisation direction approved by the Secretary of State – Ministry of Housing, Communities and Local Government (MHCLG).
- Economic recovery and return of income levels to the pre COVID-19 levels.
- Greater control of the revenue and capital expenditure and financing costs.

2.4. In response to the Council's request for financial support, on 2nd February 2021, the Minister of State for Regional Growth and Local Government in a letter addressed to the Leader of the Council, approved a total capitalisation direction to fund expenditure not exceeding £6.8m for the financial year 2020/21, and up to £6m for 2021/22.

2.5. The Minister of State's approval is subject to conditions. These conditions would be set out in the capitalisation direction when issued.

The conditions of the capitalisations are yet to be clarified in detail, however, some key areas of focus will include:

A. The Authority may only capitalise expenditure when it is incurred.

B. That the authority undergoes an external assurance review focused on its financial position, to be commissioned by MHCLG, with the intention of agreeing to a plan to address any recommendations.

C. Where expenditure is capitalised, that the council shall charge annual Minimum Revenue Provision using the asset life method with a proxy 'asset life' of no more than 20 years, in accordance with relevant guidance.

2.6. The Leader of the Council has responded to the Secretary of State confirming that the Council will be accepting the capitalisation direction.

The conditions included in the capitalisation direction, introduce a degree of uncertainty and added risk to the budgetary and financial planning assumptions. I will be reassessing the implications of these conditions when the detail guidance is issued.

2.7. The inclusion of further service transformation, efficiency savings and income recovery 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. Added to these is the uncertainty of what proportion of the financial shortfalls for 2020/21 and 2021/22 would meet the capitalisation conditions.

3. Sensitivity Analysis

3.1. The sensitivities associated with the budget position are outlined in the following table.

Risk	Probability	Impact	Comment
Capital Financing Costs	Low	Low	A contingency budget of £250k is already built into the budget to absorb additional increases.
Capitalisation Costs	High	Medium	The impact of an additional 1% interest charge will increase costs by £154k and would need to be added to the R&RP savings requirement of £850k.
Further Income Reductions	Medium	Medium	A further 10% reduction in income, above the 30% already built in, would equate to £1.6m.
Recovery & Reset Targets	Low	Medium	There are additional saving options and flexibilities built into the R&RP saving assumptions to cover any shortfalls, or it would need to be funded from

			reserves (assumed £150k).
Increased demand for Temporary / Emergency housing	High	High	Further demand in relation to homelessness could see additional costs of circa £250k. This would need to be met from additional R&RP savings or ultimately from reserves.
Not meeting the Capitalisation Direction conditions	Low	Medium	Failure to meet the conditions of the Capitalisation Directions of £6.8m (2020/21) and £6m (2021/21) by 10% would result in shortfalls of £680k and £600k respectively. In 2020/21 this could be met from reserves, but would need to be covered by additional savings in 2021/22 in the first instance.
Total			Up to £3m

3.2. Based on the above sensitivity analysis, the Council has sufficient reserves to mitigate this risk in 2020/21 but use of reserves would not be sustainable in the medium term. I will be monitoring the Council's risks and delivery of the savings targets on an ongoing basis. Should any of the budgetary assumptions change in a way that will require additional savings to be identified or additional demand of reserves then I will review the situation and report to the Council accordingly.

4. Financial Management Arrangements

4.1. 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 & Governance Committee (year-end review), Scrutiny 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 necessary.

4.2. The budget process for 2021/22 included a series of 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.

4.3. This year, Cabinet Members 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 on a

Priority Based Budgeting basis. The Council's Corporate 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.

4.4. 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 self-assessment against the new Code and create an action plan if required to meet the over-arching. 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.

4.5. 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 (2020/21), including a financial briefings to all Members in the early months of the crisis, and both a September MTFS and an updated MTFS in February 2021 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 biweekly briefings from the Chief Executive and the Corporate Management Team.

4.6. Reporting against the financial framework is undertaken via the budget monitoring process referred to earlier in this report. The external review of the financial statements of the Council and its arrangements to secure economy, efficiency and effectiveness in its use of resources (value for money conclusion) comes from the Council's external auditors and is supported by the Scrutiny Committee and the recently refreshed Risk Management process.

4.7. 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.

5. Financial and Economic Environment, Risks and Assumptions

5.1. In addition to the Capitalisation Directions, Eastbourne has received additional (but one-off) funds from the Local Government Finance Settlement and associated emergency funding for Covid-19 pressures. Without this additional Covid-19-related funding, the Council's financial position would have been considerably worse.

5.2. 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 Eastbourne, 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.

5.3. For Eastbourne, Core Spending Power (CSP) for 2021/22 as measured by Government, is in fact retained at its 2020/21 level i.e. almost 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 £156k to avoid a reduction in overall CSP.

Core Spending Power		
	2020-21 £ millions	2021-22 £ millions
Settlement Funding Assessment	3.652	3.652
Compensation for under-indexing the business rates multiplier	0.146	0.190
Council Tax Requirement excluding parish precepts	8.772	9.029
New Homes Bonus	0.332	0.032
Lower Tier Services Grant	0.000	0.156
Core Spending Power	**12.902**	**13.059**

5.4. 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.

5.5. 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.

5.6. During 2020/21, much of the financial focus has been on the effect of the coronavirus pandemic on the Council's income streams, with tourism, 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 tourism sector recovers to previous levels.

5.7. 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.

5.8. The financial planning 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.

5.9. 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~~,~~ pension valuations, inflation 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, Office for National 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.

5.10. 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.

6. Level of Reserves and overall Financial Standing

6.1. 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 only be used to support one off expenditure or to allow time for management actions to be implemented.

6.2. 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 forecast to be £2m.

6.3. 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 an exact 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.

6.4. 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 £4.5M at 31st March 2021 and are adequate to meet the commitments and forecast expenditure facing the Council. A breakdown of all reserve is shown in the following table.

Summary	01-Apr-20 £000's	Transfers (In)/Out £000's	31-Mar-21 £000's	Transfers (In)/Out £000's	31-Mar-22 £000's
Strategic Change Reserve	(244)	-	(244)	-	(244)
Capital Programme Reserve	(336)	-	(336)	-	(336)
ICE Reserve	(1,750)	-	(1,750)	-	(1,750)
Commercial Reserve	(250)	-	(250)	-	(250)
Revenue Grants Reserve	(614)	(207)	(821)	-	(821)
SHEP Properties Works Reserve	(1)	-	(1)	-	(1)
Business Rates Equalisation Reserve	0	(1,104)	(1,104)	-	(1,104)
Total Earmarked Reserves	**(3,195)**	**(1,311)**	**(4,506)**	**0**	**(4,506)**
General Fund Reserve	(2,025)	-	(2,025)	-	(2,025)
Total Reserves	**(5,220)**	**(1,311)**	**(6,531)**	**0**	**(6,531)**

6.5. In conclusion, having considered the need for balances and the budget risks, the level of reserves held are considered sufficiently adequate provided that any potential adverse budget variations are tightly controlled and contained within service budgets.

7. Conclusion

7.1. 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 that the level of reserves is adequate to address the financial risk facing the Council. That being said, a great deal will depend on the Council's ability to meet the requirements of the Capitalisation Directions granted to it, and the ability of the Council to deliver the savings identified. I will be monitoring the Council's financial position very closely and as mentioned above, should any of the budgetary assumptions change significantly, I will review my opinion and report to the Council accordingly.

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