

## **7. CHIEF FINANCE OFFICER'S STATEMENT**

### **Statutory requirements**

- 7.1 Section 25 of the Local Government Act 2003 places specific responsibilities on the Chief Finance Officer to report on the robustness of the budget and the adequacy of proposed financial reserves when the council is considering its budget requirement. The council is required to have regard to this statement when it sets the budget. This includes reporting and considering:
- The key assumptions in the proposed budget and to give a view on the robustness of those assumptions.
  - The key risk areas in the budget and to assess the adequacy of the Council's reserves when reviewing the potential financial impact of these risk areas on the finances of the Council. This should be accompanied by a Reserves Strategy.
- 7.2 CIPFA published a new Financial Management (FM) Code in October 2019. One of the 17 standards included in the new Code is 'the budget report includes a statement by the chief financial officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.' The statement is updated considering the prevailing circumstances and assessment of relevant risks each financial year.
- 7.3 This document concentrates on the General Fund budget, the Housing Revenue Account and Capital Investment Programme, but in addition it also considers key medium-term issues faced by the Council.

### **Assurance Statement of the Council's Section 151 Officer**

- 7.4 The following are the summary assurances and recommendations of the Council's Section 151 Officer. They must be read in conjunction with the supporting statements in this Section, which together make up the Section 151 Officer's statutory duty to report under Section 25 of the Local Government Act 2003.
- 7.5 In relation to the 2023/24 General Fund Revenue budget, I have examined the budget proposals and I believe that, whilst the spending and service delivery proposals are challenging, they are nevertheless achievable given the political and management desire to implement the changes. Good management and the sound monitoring of performance and budgets will be essential. I am satisfied that sufficient management processes exist within the Council to deliver this budget and to identify and deal with any problems which may arise unexpectedly during the year.
- 7.6 The key process risks in making the above statement are the level of resources within the Council dedicated to providing financial support services and advice to managers, which will need the finance teams to be focused on key risk budgets.
- 7.7 My recommendations are also conditional upon:
- a) The Council approving the updated Medium Term Financial Strategy for 2023/24 to 2026/27.

- b) A recognition in the medium-term planning approach that the level of reserves and corporate risk assessment need to be regularly reviewed in the light of changing circumstances and that it may not be possible to match the two at any single point in time. The Council needs to show a commitment to maintain reserves at a level which provides adequate cover for most identified risks during the planning period. This approach is pragmatic and shows a clear commitment to prudent contingency planning.
- c) It must be noted, however, that the recommended levels of reserves could still leave the Council exposed to the very exceptional risks identified in this review and, if all those risks crystallised at the same time, then the total level of reserves could be inadequate.
- d) Cabinet Members, Chief Executive, Executive Directors, and managers not exceeding their cash limits for 2023/24 (and future years covered by the Medium-Term Financial Strategy).
- e) Not considering further calls on reserves other than for those risks that have been identified, those that could not have been reasonably foreseen and that cannot be dealt with through management or policy actions. It is not prudent to finance ongoing spending from one-off reserves. Any excess reserves should be targeted towards business transformation (including redundancies and invest to save initiatives), Local Government funding changes and the impacts of significant changes in national policy.
- f) That the Council has arrangements and resources in place to consider and assess value for money across the delivery of all its services and operations in preparation for future years' budgets.

7.8 In relation to the adequacy of reserves, I recommend the following Reserves Strategy based on an approach to evidence the requisite level of reserves by internal financial risk assessment. The Reserves Strategy will need to be reviewed annually and adjusted in the light of the prevailing circumstances.

- a) An absolute minimum level of unallocated General Fund reserves of £5.4 million is maintained throughout the period between 2023/24 to 2026/27.
- b) An optimal level of unallocated General Fund reserves of £10 million over the period 2023/24 to 2026/27 to cover the absolute minimum level of reserves, in-year risks, cash flow needs and unforeseen circumstances.
- c) A maximum recommended level of unallocated General Fund reserves of £12 million for the period 2023/24 to 2026/27 to provide additional resilience to implement the Medium-Term Financial Strategy.
- d) A Reserves Strategy to remain within the recommended level of reserves over the relevant period of 2023/24 to 2026/27.

7.9 The estimated level of unallocated General Fund reserves at 31 March 2023, based on current projections is £8.2 million depending on the final outturn position. Therefore:

- a) The absolute minimum level of reserves of £5.4 million is currently being achieved. b) The optimal level of reserves of £10 million criteria is not currently being achieved for 2022/23. It should be noted however that there are currently no proposals over the MTFS period to draw from general unallocated reserves (£2.1m for 2022/23) and at Q2 a small

general fund underspend was projected. The CFO is of the opinion that consideration to achieving the optimal level of unallocated reserve as part of the 2022/23 closure process is an appropriate approach to take.

- b) The maximum level of reserves of £12 million is not being exceeded.
- c) Reserves should remain within the recommended range of reserves during 2023/24. This is subject to the cash limited budget for 2023/24 being met.

7.10 These recommendations are made based on:

- a) The risks identified by the Chief Executive and Executive Directors reviews of their budgets including the budget risks set out in section 2 of this report.
- b) My own enquiries during the development of the current budget proposals, including specifically the base budget review undertaken during 2022 by all budget managers and subject to an independent review.
- c) The resilience and sustainability required to deliver the Medium-Term Financial Strategy.
- d) One-off unallocated reserves not being used to fund new on-going commitments.
- e) That the reserves in 2023/24 and the foreseeable future are used only if risks materialise and cannot be contained by management or policy actions.
- f) That where reserves are drawn down, the level of reserves is maintained in line with the latest Medium Term Financial Strategy.

7.11 There are also serious exceptional risks which, if they crystallise, could significantly impact the Council's reserves, and leave its financial standing in question. These include:

- a) The impact of inflationary pressures both directly on the council's expenditures but also secondary impacts on retained business rate levels, levels of bad debt and increases in service demands.
- b) A national failure to continue to reduce the spread and impact of COVID-19 as new variants emerge and reduced financial support for the continuing local implications of a pandemic.
- c) The risk surrounding the non-delivery of savings and exceeding investment proposals within the budget package for 2023/24.
- d) The financial uncertainty for the public sector arising from the prevailing and continuing national and local conditions.
- e) The risk of further significant reductions in income and Government grant funding, particularly in relation to:
  - Decline in the Council Tax base and Business Rates base.
  - Business Rates appeals from the previous revaluation exercises.
  - Further changes to the way in which Local Government is financed especially after the 2024/25 settlement.
  - Future Government changes in policy and funding for Local Government, particularly the unknown impact of future spending reviews/ rounds.

- The need to address the Country's ongoing Public Sector Borrowing Requirement (PSBR) and the structural financial deficit.
- f) Insurance Claims.
- 7.12 In relation to the Housing Revenue Account (HRA) in 2023/24 and the medium to long term:
  - a) Given the status of housing management provision the recommendation is that the HRA general reserve be maintained at the target figure of £5.8m.
  - b) Forward projections for the HRA have been undertaken with a revised 30-year business plan established in 2022. This is linked to the HRA's own Medium Term Financial Strategy for the period 2023/24 to 2026/27. The current position demonstrates that it is possible to:
    - Maintain a balanced HRA throughout that period.
    - Meet current level of capital investment, and
    - Repayment of required debt.
- 7.13 In relation to the General Fund and HRA Capital Investment Programme 2023/24 to 2027/28 (including commitments from previous years and new starts):
  - a) The HRA Capital Programme will need to be contained within the total programme cost.
  - b) The General Fund Capital Budget is substantial and is based on the best information available in terms of project costs. What is less certain, based on historic performance, is the actual phasing of expenditure.
  - c) The key strategic schemes identified in the capital investment programme will be closely monitored in-year.
  - d) That the financing identified for the approved capital investment programme is delivered and is proportionate, prudent, affordable, and sustainable.
- 7.14 In relation to the medium to long term capital investment programme:
  - a) The delivery of the agreed Capital Strategy and Asset Management Plan is a critical priority to enable the matching of resources to needs and priorities.
- 7.15 Given all these factors, I, as the Council's Section 151 Officer, consider the estimates for 2023/24 to be sufficiently robust and recommend for approval by the Council. I am also able to advise the Council that the level of General Fund Reserves is adequate and to recommend a Reserves Strategy which is achievable for 2023/24 – 2026/27.

## **Supporting Statements**

- 7.16 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 information and assumptions available at the time.

- 7.17 To meet the requirement on the robustness of estimates several key processes have been put in place, including:
- a) The issuing of clear guidance to Services on preparing budgets including the requirement to provide information in support of the base budget review work.
  - b) The development of a Council wide risk assessment.
  - c) The use of extensive budget monitoring and its escalation process to identify risks.
  - d) The Council's S151 Officer providing advice throughout the process of budget preparation and budget monitoring.
  - e) The Chief Executive and Executive Directors review of their budgets and appropriate sensitivity analysis.
  - f) A review of all budget proposals and implications by the Corporate Leadership Team (CLT).
  - g) A review of budget proposals and implications by Cabinet Members.
  - h) Enquiries made directly by the Section 151 Officer and Finance Officers.
- 7.18 Notwithstanding these arrangements, which are designed to rigorously test the budget throughout its various stages of development, considerable reliance is placed on the Chief Executive, Executive Directors and Directors having proper arrangements in place to identify issues, project costs, service demands, income levels, to consider value for money and efficiency, and to implement changes in their service plans. These arrangements are supported by appropriately qualified financial staff.
- 7.19 A summary of the key budget assumptions considered by Services and financial staff in terms of assessing the robustness of their budgets are shown below:
- a) The treatment of inflation and interest rates.
  - b) The treatment of demand led pressures.
  - c) The treatment of efficiency savings/productivity gains.
  - d) The financial risks inherent in any significant new partnerships or major capital developments.
  - e) The availability of other funds to deal with major contingencies.
  - f) The service's track record in budget and financial management.
  - g) The service's capacity to manage in-year budget pressures.
- 7.20 There are plans in place for the improvement and development of the council's core systems including both Financial and HR systems and the Housing system. This will strengthen the authority's capacity and ability to monitor more effectively the overall budget.
- 7.21 Continual improvement to these processes will also assist in the prevention or at least the earlier identification of issues to be dealt with in the budget and Medium-Term Financial Strategy and allow for any in-year rebalancing to be undertaken as soon as possible if required. Nevertheless, in preparing a comprehensive budget for an organisation such as Norwich City Council, unforeseen issues will undoubtedly still arise throughout the year and in the future.

## **Robustness of Estimates - General Fund Revenue Budget**

- 7.22 The 2023/24 budget and Medium-Term Financial Strategy, the 2040 Norwich City Vision and our COVID-19 recovery plans continues our commitment to target our financial resources to delivering better outcomes and effectively manage risks. In addition to improving efficiency, there are clearly choices for the Council in this respect:
- a) To increase financial resources to meet demand and reduce risk, and/or
  - b) To reduce (where possible) service levels and standards, frequency of service delivery, and eligibility for services.
- 7.23 As part of developing the budget, Members of the administration have considered these options and the outcome of these deliberations are reflected in the proposed overall budget package.
- 7.24 Most notably the Council has had to address major cost increases and pressures as well as corporate priorities including:
- a) Employee costs.
  - b) The cost of prudential borrowing within the capital programme.
  - c) Shortfalls in income and grant income.
  - d) Inflation particularly relating to energy costs, petrol/ diesel.
- 7.25 These assumptions will require the forecasts for future years to be reviewed early in each financial year leading to more detailed budgets during the autumn of each financial year.

## **Financial Sustainability Strategy**

- 7.26 The Council has developed its corporate plan which is designed to frame its financial future and intentions. This helps set the context for the Medium-Term Financial Strategy, guide the Council's approach to maximising resources, prioritising investment, and the effective targeting of resources to deliver the ambitions and outcomes contained within the corporate plan and 2040 Vision.
- 7.27 Its primary purpose is to outline the Council's approach, desire, and commitment to achieving financial sustainability, given the level of funding uncertainty, by embracing the area's economic potential, growing our local tax base, and increasing our sustainable income capabilities.

## **Medium Term Financial Strategy**

- 7.28 The Council needs to deliver its Medium-Term Financial Strategy reflecting the continuing impact of the proposed budget and only planned growth in relation to issues that are unavoidable. Within the current uncertain financial climate, it is very likely that service improvement and reasonable Council Tax increases, without key service reductions, will only be achieved through improving efficiency, clear prioritisation and adopting a commercial approach to income generation.

## **Adequacy of Reserves – General Fund Revenue Budget**

- 7.29 Under the Local Government 2003 Act the Secretary of State has powers to set a minimum level of reserves. The most likely use of this power is where an authority is running down its reserves against the advice of their S151 Officer.

- 7.30 Determining the appropriate levels of reserves is not a precise science or a formula e.g. a simple percentage of the Council's budget. It is the Council's safety net for risks, unforeseen or other circumstances. The reserves must last the lifetime of the Council unless contributions are made from future years' revenue budgets. The minimum level of balances cannot be judged merely against the current risks facing the council as these can and will change over time.
- 7.31 Determining the appropriate levels of reserves is a professional judgement based on local circumstances including the overall budget size, risks, robustness of budget preparation, major initiatives being undertaken, budget assumptions, other earmarked reserves and provisions, and the Council's track record in budget management. It is also a professional judgement on the external factors that influence the Council's current and future funding position.
- 7.32 The consequences of not keeping a minimum prudent level of reserves can be serious. In the event of a major problem or a series of events, the Council would run the serious risk of a deficit or of being forced to cut spending during the year in a damaging and arbitrary way.
- 7.33 The recommendation on the prudent level of reserves has been based on the robustness of estimate information and the Corporate Risk Register. In addition, the other strategic operational and financial risks considered when recommending the minimum level of unallocated General Fund reserves include:
- a) There is always some degree of uncertainty over whether the full effects of any economising measures and/or service reductions will be achieved. The Executive Directors have been requested to be prudent in their assumptions and that those assumptions, particularly about demand led budgets, will hold true in changing circumstances.
  - b) The Bellwin Scheme Emergency Financial Assistance to Local Authorities helps in the event of an emergency. The Local Authority can claim assistance with the cost of dealing with an emergency over and above a threshold set by the Government.
  - c) The risk of major litigation, both current and in the future.
  - d) The Local Council Tax Support Scheme with less Government funding and increases in caseload at the Council's own risk
  - e) Issues arising from the final Housing Benefit Subsidy Claim.
  - f) The localisation of Business Rates including the impact of businesses declining in the city boundaries and the mitigation of risks and rewards through pooling.
  - g) New and impending legislation.
  - h) The need to retain a general contingency within the budget estimates to provide for some measure of unforeseen circumstances which may arise.
  - i) The need to retain reserves for general day-to-day cash flow needs. This is minimal given the level of cash the Council holds at any given time.
  - j) The potential impact nationally, regionally, and locally of new climate change initiatives and commitment to our environmental agenda; the

impact that Nutrient Neutrality is having on planning permissions and the subsequent income streams associated with development.

- k) The longer-term impact of the pandemic on the finances and operational arrangements of the Council.
- 7.34 Further exceptional risks identified may have a potential and serious call on reserves. The Council is advised to be cautious about these risks and commit to restoring any drawn down reserves in line with the Medium-Term Financial Strategy.
- 7.35 In these circumstances, I will require the Council, Cabinet, Chief Executive, Executive Directors and Directors:
- a) To remain within their service budget for 2023/24 and within agreed medium term financial strategy parameters for future years with a strict adherence to recovering overspends within future years' financial plan targets.
  - b) Repayment to reserves in line with the Medium-Term Financial Strategy should these risks materialise.
  - c) Direct any windfall revenue savings/underspends to reserves should the General Fund Revenue Reserves Strategy require it.

### **Estimated Earmarked General Fund Revenue Reserves**

- 7.36 I have reviewed the Council's General Fund earmarked revenue reserves which are estimated to amount to circa. £14.6 million at 1st April 2023. The main components are: unapplied revenue grants £3.7m, budget risk reserve £2.4m, commercial property reserve £1.5m, invest to save reserve £1.5m and insurance reserve £1.1m. Further details can be found in Section 2 Table 2.4.

### **Estimated Earmarked Housing Revenue Account Reserves**

- 7.37 I have also reviewed the Council's Housing Revenue Account overall revenue reserves which are estimated to amount to £46 million as of 1st April 2023. Including the Major Repairs Reserve.

### **Capital Investment Programme – 2023/24 to 2027/28**

- 7.38 Projects, included in the capital investment programme, were prepared by Directors and managers in line with financial regulations and guidance. All projects were considered by the relevant member of CMT and Cabinet Member and are fully funded for their estimated cost.
- 7.39 Projects have been costed at outturn prices with many subject to tender after inclusion in the programme. This may lead to variance in the final costs.
- 7.40 Services are required to work within the given cash envelope so any under or over provision must be found within these limits.

### **Capital Investment Programme Risks**

- 7.41 The risk of the Council being unable to fund variations in the programme is minimal mainly due to phasing of projects. The Council can freeze parts of the programme throughout the year to ensure spend is within the agreed financial envelope, although this may have service implications.



- 7.42 A further key risk to the capital investment programme is the ability of the Council to fully deliver it within the agreed timescales.
- 7.43 In relation to the General Fund and HRA Capital Investment Programme specifically for 2023/24 (including commitments from previous years and new starts):
- a) The HRA Capital Investment Programme will need to be contained within total programme cost by delaying or stopping specified schemes.
  - b) The General Fund Capital Budget is substantial but is based on the best information available in terms of project costs. What is less certain is the phasing of expenditure.
  - c) The strategic schemes identified in the Capital Investment Programme will be closely monitored in-year.
  - d) That the funding identified for the approved Capital Investment Programme is delivered and is proportionate, prudent, affordable, and sustainable.