

SECTION 25 STATEMENT FEBRUARY 2022

STATEMENT OF THE CHIEF FINANCIAL OFFICER

- 1.1 Section 25 of the Local Government Finance Act 2003 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 estimates included in the budget
 - and the adequacy of the financial reserves in the budget
- 1.2 The Act requires councillors to have regard to the report in making decisions at the Council's budget setting and council tax setting meeting(s).
- 1.3 The Council's Revenue Budget, Medium Term Financial Strategy and Capital Programme have been prepared with reference to the Chartered Institute of Public Finance and Accountancy's (CIPFA) guidance on prudential property investment. As Section 151 Officer, I have also had regard to CIPFA's Financial Resilience Index and the CIPFA Financial Management Code (FM Code).
- 1.4 CIPFA published the Resilience Index 2022 in February. Rushmoor's highest risk on the Index for the last year of data available (2020/21) concerned Business Rates Growth above Baseline (i.e., the difference between the baseline funding and the level of business rates income) and the ratio covering Council Tax Requirement (i.e. the ratio of Council Tax as a proportion of net expenditure).
- 1.5 Measures concerning Gross External Debt and Interest Payable (on the external debt) scored above the average for all District and Borough Councils (but below average for nearest neighbours). Other Index measures were generally classified as Lower Risk when compared to nearest neighbours.
- 1.6 COVID-19 has had an impact on the 2022 Resilience Index, as the data is drawn from the Revenue Expenditure and Financing Outturn (RO) reports. CIPFA state that it should therefore be viewed in the context of this having been a transitional year. The index continues to illustrate the financial resilience of authorities during the pandemic but figures on reserves have been affected by a series of coronavirus-related payments at the very end of the financial year and will require additional explanation at a local level.
- 1.7 The next release will cover the financial year 2021/22 and measures around Gross External Debt and Interest Payable can be expected to increase. The cost of servicing this debt is adequately provided for within the revenue budget and over the medium-term plan period.
- 1.8 Paragraphs 5.4 to 5.6 of the Revenue Budget, Capital Programme and Council Tax Level report to Cabinet (FIN2210) outlined the compliance requirements of the CIPFA FM Code. CIPFA have provided clarification on compliance with the Financial Management Code to reflect Covid pressures. CIPFA has concluded that while the first full year of compliance is 2021/22, a more flexible framework where a proportionate approach is encouraged. In practice this is likely to mean that adherence to some parts of the Code will demonstrate a direction of travel.

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Over the coming weeks the s151 Officer will be reviewing compliance with the CIPFA FM Code and identifying actions required to address any areas of weakness.

Robustness of Estimates

- 1.9 The budget setting process at Rushmoor Borough Council has been operating effectively over many years and is based on a standstill approach in cash terms, with inflationary provision only made for specified expenditure (e.g., Pay Award, contracts with agreed uplift mechanism).
- 1.10 Service areas are then required to undertake a review of service revenue budgets and produce detailed estimates for the forthcoming financial year. Proposed changes to service budgets are carefully reviewed, with consideration of savings and unavoidable budget pressures by the Executive Leadership Team (ELT).
- 1.11 Capital Expenditure estimates are supported through the Regeneration and Property and Major Works programme board. For service led capital projects Service managers prepare working papers to include projects in the Council's capital programme in line with the budget development timeline. The Finance service calculate the financing cost (which can be nil if the project is fully externally financed) so that the full cost of the project is understood. Larger property and regeneration projects are managed through the Council's Regeneration and Property and Major Works programmes. These projects undergo scrutiny and review by the Project Board at different stages (e.g., feasibility, design, planning, due diligence) and costs and financing are reviewed by the finance service. All projects to be recommended for inclusion in the Capital programme appraised by the Executive Team before being included in the draft budget. The final capital programme is then presented to Cabinet early February and to Full Council in late February each year Variation to capital bids and new capital bids can be received during the year.
- 1.12 Financial management remains robust as demonstrated by the regular budget monitoring reports to Cabinet (September 2021, January 2022, and April 2022) and the outturn position (due to be reported in June or July 2022 subject to completion of the outturn process)
- 1.13 It is important that the council is able to balance the budget over the medium term in a sustainable and manageable way through a combination of income, sensible and prudent use of reserves and a robust cost reduction and savings programme.
- 1.14 The Council adopted a revised approach to its Savings Programme to address the funding gap identified in the February 2021 MTFS. The programme set out a revised process for how savings are identified, evaluated, and approved, with clearer reporting and monitoring and governance arrangements. This approach was approved by Cabinet during March 2021, with significant work being undertaken by officers and members over the course of the current financial year.

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- 1.15 The Savings and Transformation programme has developed a number of workstreams that help the Council achieve a robust, balanced, and proportionate reduction in cost/additional income. The programme has considered and reviewed service delivery options, organisational redesign programmes such as ICE, improved procurement outcomes, and how to embed a commercial approach to service delivery and improved utilisation of property and income-generating assets.
- 1.16 As can be seen from Tables 4 and 5 in Cabinet report, the requirement to reduce costs and balance the budget are substantial. The Savings and Transformation Programme has been established to ensure sustained focus over the MTF period. The programme is supported by a project team which reports to the Executive Leadership Team Board monthly to ensure identified opportunities are on target and can be delivered. Member oversight on the programme is through the Budget Strategy Working Group
- 1.17 There is a risk associated with delivery of savings and this will be addressed within the programme in terms of timing and delivery. Should savings not materialise at the level or within the timeframe assumed this will increase the pressure on the Council balances and reserves. The Council will need to identify the specific risks within the savings programme and take steps to minimise this risk.
- 1.18 The basis on which the budget for 2022/23 and the MTF period have been prepared has been set out clearly in this report. I am satisfied that the budgets for the General Fund and the Capital Programme have been based on sound and reasonable assumptions.

Risk

- 1.19 As indicated in the reports to Cabinet and Council, there are a number of financial risks that the Council will face over the medium-term. The 2022/23 Budget and the MTF period have been prepared with consideration of these risks, but as with any forecast, an inherent level of risk will remain.
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- 1.21 For Local Government, there are 2 significant strategic risks.
- 1.22 The first key risk is around the nature and scope of local government funding from central government from 2023/24. The implementation of the Fair Funding Review and Business Rates changes has already been delayed (originally due from April 2020) and will be reviewed based on commentary provided in the Local Government Finance Settlement in December 2021

“The government is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources. The data used to assess this has not been updated in a number of years, dating from

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2013-14 to a large degree, and even as far back as 2000. Over the coming months, DLUHC will work closely with the sector and other stakeholders to update this and to look at the challenges and opportunities facing the sector before consulting on any potential changes.

As part of this options will be considered to support local authorities through transitional protection. Councils should note that one off grant funding provided in the Local Government Finance Settlement in 2022/23 will be excluded from potential transitional protections.”

- 1.23 The forecast impact on District and Borough Councils is likely to be significant as resources are moved around Local Government to recognise Social Care cost pressures.
- 1.24 It is very difficult to estimate the with certainty the impact on Rushmoor. Fundamental changes to the way in which each Council's needs are assessed and funded are difficult to model despite some engagement from Government with local authorities. Therefore, considerable risk and uncertainty remains in the estimates for 2023/24 and beyond. However, an initial estimate of a 30-40% reduction in the level of retained business rates income has been included in the MTFs assumptions. An estimate has been made around transitional arrangements, but these are not based on any indication or commitment from the Government.
- 1.25 The second key risk is around the continued impact on the Council from pressures within the wider economy including Covid-19 and inflation. This will have an impact on income and expenditure budgets during 2022/23 and will require timely and accurate financial reporting to Cabinet. These risks include:
- Income from Council Tax and Business Rates will continue to be under pressure in 2022/23 with an expectation that the taxbase for Council Tax and Business Rates may take time to recover.
 - Increased demand for certain services (e.g., Homelessness) may put additional financial pressure on the Council
 - Cost of services where the Council is exposed to risk sharing in contract costs
 - Energy cost pressures
 - Inflationary pressures and Interest rates in early 2022 being an increasing risk. Further interest rate increases are forecast over the next 3 months with CPI inflation currently at 5.5% (RPI 7.8%) which will have an impact on the Council's budgets and forecasts.
- 1.26 The budget has been prepared in light of key financial risks facing the Council over the medium- term, principally:
- Business Rates Retention and changes to the Local Government Finance system/Levelling Up Agenda
 - Replacement of New Homes Bonus from 2023/24 at a time this Council will be continuing to delivering a significant number of new homes.
 - Treasury management issues including interest rates, level of capital expenditure, use of internal resources, borrowing costs.

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- Impact of the UK having left the European Union on the UK economy.
- Financial impact of the Capital Programme on the revenue budget – the affordability of the capital programme and future schemes needs to be carefully considered.

Adequacy of the Reserves

- 1.27 The Budget Strategy set a target for the General Fund balance to be maintained at a minimum of £2m, with the Stability and Resilience Reserve balance held at a level that would allow the Council to mitigate short-term fluctuations in income and expenditure (e.g., Business Rates, Government funding changes). Given the funding gap identified over the MTFS period, the Council must identify and deliver new savings to ensure this reserve is replenished.
- 1.28 A number of earmarked reserves are held for specific purposes and to mitigate risk across the Council's budgets. Paragraphs 5.12 to 5.24 of the Revenue Budget, Capital Programme and Council Tax Level report to Cabinet (FIN2210) set out the detailed position on the Council's balances and reserves.
- 1.29 The Council actively increased the level of balances and reserves it holds over the preceding years in recognition of the risks outlined earlier in the report. This does provide the Council with options and flexibility in its approach to addressing the financial challenges over the medium-term.
- 1.30 It is acknowledged that the impact of Covid-19, cost and income pressures, and delivery of the Council priorities has placed pressure on the MTFS Equalisation Reserve (formerly part of the Stability and Resilience reserve) in the short-term with planned deployment of the reserve in 2021/22 and 2022/23 of £2.285m. However, it is not sustainable or prudent to rely on the MTFS Equalisation reserve over the medium-term.
- 1.31 The Council plans to maintain a minimum balance of £2.500m in the Business Rates Equalisation Reserve (formerly part of the Stability and Resilience reserve) over the MTFS period.
- 1.32 Whilst the level of balances and reserves shown in Table 3 of the report indicates that the Council is in currently a good financial position, the cumulative funding gap of £4.227m over the MTFS period (£13.727m prior to applications of Savings and Income Targets) would reduce the MTFS Equalisation Reserve to a nil balance during 2024/25. This will need to be addressed over the coming months as the Council will need to make significant decisions on future mitigation options
- 1.33 Utilisation of the Commercial Property reserve in 2022/23 to mitigate reduced rental income from assets is a concern in the short-term. The expected balance on the reserve by the end of the 2022/23 financial year is £0.388m and must be reviewed over the coming months to ensure the reserve balance is adequate to mitigate risks over the MTFS period.

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- 1.34 Therefore, I am satisfied that the level of reserves the Council holds for the forthcoming year is adequate to support the budget although members should consider the level of reserves utilised in 2022/23 and the need to ensure reserves remain adequate over the medium-term.
- 1.35 In conclusion, I am satisfied that the budget is robust and is supported by adequate reserves.

David Stanley
Executive Head of Finance and Section 151 Officer

20 February 2022