**Appendix H**

**Section 25 Statement of the Section 151 Officer (DRAFT)**

## 1. Introduction

The Chief Financial Officer is required to make a statement on the adequacy of reserves and the robustness of the budget. This is a statutory duty under Section 25 of the 2003 Local Government Act which states the following:

a) Where an authority to which Section 32 or 43 of the Local Government Finance Act 1992 (billing or major precepting authority) or Section 85 of the Greater London Authority Act 1999 (c.29) (Great London Authority) applies is making calculations in accordance with that section, the Chief Finance Officer of the authority must report to it on the following matters:

- The robustness of the estimates made for the purposes of the calculations, and
- The adequacy of the proposed financial reserves.

b) authority to which a report under this section is made shall have regard to the report when making decisions about the calculations in connection with which it is made. 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.

In 2019 CIPFA published a new Financial Management Code. 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 first full year of compliance with the new FM Code was 2021/22.

This statement must be considered and approved by full Council as part of the budget approval and Council Tax setting process.

This assurance statement covers both the General Fund and HRA revenue and capital budgets.

## 2. Assurance Statement of the Council's Section 151 Officer

The following are the summary assurances and recommendations of the Council's Section 151 Officer (currently the Strategic Director, Resources).

### 2.1 Robustness of General Fund revenue and capital budget proposals

2.1.1 In my assessment of the robustness of the General Fund budget proposals for 20024/25 I have considered the following key factors:

- Overarching approach to the budget setting process and the rigour that has been applied;
- The financial impact of those significant financial risks which have a higher degree of likelihood of materialising over the next 12 months;
- The extent to which I believe risk mitigations will be effective;
- Degree of engagement and assurance from the Executive Team and council more widely;
- Any other factors specific to the following financial year.

2.1.2 Taking each of these factors into consideration, I have set out below my assessment of each of these to arrive at an overall conclusion.

2.1.3 An incremental approach to budget setting for 2024/25 has been followed whereby the budgets for the previous year are rolled forward and adjusted for growth or savings items. Whilst this is a generally adopted practice, this could mean that errors or inadequacies in the 2023/24 base budgets are merely rolled forward.

2.1.4 However, during 2023/24 there has been an intense scrutiny of the base budgets and a number of legacy budget issues identified and now addressed in the proposed budgets for 2024/25.

2.1.5 Where financial management has been identified as weak in some areas, a targeted, risk-based approach has been taken to improve knowledge and understanding of budgets, activity and key cost drivers. Robust financial models have now been put in place for high risk, demand-led budgets. Experienced finance staffing resources have been brought in with specialist knowledge of services where necessary to help support the Council's senior leadership team.

2.1.6 A Debt Steering Group has been established to provide greater scrutiny of the Council's debt and income collection performances which has been supplemented by external advisors for targeted areas. Levels of bad debt provision have also been subject to additional scrutiny which have previously had a budgetary impact.

2.1.7 Detailed budget scrutiny sessions were undertaken during September 2023 with the Chief Executive and Cabinet Member for Finance in attendance. These allowed for forensic analysis and challenge of directorate budgets as well as growth and savings items.

2.1.8 In terms of the General Fund capital budgets, a capital bids process was undertaken to identify capital investment needs, and these were subject to scrutiny by the Capital and Assets Board, using pre-determined criteria. Capital bids were considered and prioritised considering health and safety and other critical aspects. The amount of capital investment required over the MTFS period was identified to accommodate a modest increase in borrowing costs budgets which was deemed affordable within the General Fund budget proposals.

2.1.9 Of the financial risks that have been identified in the main body of the report, my assessment of those risks which are more likely than not to materialise and/or have the greatest financial impact are:

**Inability to deliver savings**

2.1.10 The General Fund revenue budget proposals including £15.60m of savings of which £4.8m are still at a high-level stage of development.

2.1.11 More specifically savings of £4.1m identified in the People & Resources Directorate have only been identified at a late stage in the process and require more granular levels of detail to be able to form a clear assessment of their robustness.

2.1.12 However, there are certain additional factors to be considered in the assessment. Firstly, the savings are underpinned by a change of internal staffing structures and reporting lines which are within the direct control of the Council and plans are already in place. Secondly, the high-level plans have been supported by external, specialist support and review provided by the Local Government Association and following best practice in other local authorities.

2.1.13 The Strategic Director, People & Resilience has also articulated those plans well in discussions that were held with both the Chief Executive, myself and relevant Cabinet Members and so there is wider understanding and assurance around those plans.

2.1.14 In addition, permanent options for the proposed budget gap of £8.809m for 2024/25 are already being considered and are likely to deliver additional savings earlier than 2025/26.

2.1.15 The Chief Executive is also establishing a Finance Scrutiny Board which will meet monthly to scrutinise and challenge Directorate financial performance and progress on savings delivery and alternative plans.

2.1.16 For the first time this year, all Strategic Directors are being asked to provide an assurance statement in acceptance of their budgets which states that they will operate within their approved budget envelope and find alternative savings where delivery of identified ones is at risk.

**Growth is insufficient**

2.1.17 A total of £54.12m of growth has been added to the 2023/24 budgets in setting the revenue budgets for next year. This is a significant amount of growth and £25.62m of this relates to 2023/24 base budget pressures. This should ensure that the base budgets for 2024/25 are more robust, based on current demand and activity.

2.1.18 However, growth for any other factors e.g. general contract inflation or demand has been kept to an absolute minimum. Instead, two central contingency budgets have been established which will be released to offset demand or inflationary pressures subject to my approval.

2.1.19 With the demand-led budgets there is the inherent risk in the budget proposals that they are insufficient to cope with increases in demand, particularly in adult and children's social care or temporary accommodation pressures. However, an assessment at this time is that a reasonable maximum exposure for 2024/25 based on trends would be less than £10m. As demand management plans are being put in place and a central contingency has been established then there are risk mitigations in place. In an extreme situation, this could always be accommodated within the General Fund balance currently maintained at £12m.

**Backlog of audited accounts**

2.1.20 The Council's external auditors, BDO have still not concluded their audit of the 2019/20 accounts and have now given a further revised forecast timeline for conclusion of 31 August 2024.

2.1.21 Without a formal audit opinion, this does introduce the potential for material misstatements to be identified on conclusion of their audit and which have a financial impact on the Council's General Fund. However, the audit has been substantially completed with many key risk areas reviewed and signed off. A number of material adjustments have been identified from the conclusion of this work, but these have already been adjusted for as appropriate.

2.1.22 Given the delays to the 2019/20 accounts it is inevitable that later years to 2022/23 will be subject to the new arrangements being considered by the government to deal with the audit backlog and not subject to a full audit.

2.1.23 Grant Thornton have been appointed for as the Council's external audit for 2023/24 and have provided assurance that this would be undertaken on a timely basis (subject to any matters beyond their control). There is a risk that material matters are identified during 2024/25, given that this will be the first full audit for the Council in over three years.

2.1.24 However, a new, experienced Chief Accountant has joined the Council in 2023 and has undertaken a review of the later years. An external advisor was also commissioned to undertake an independent review of those accounts prior to the previous Chief Accountant leaving. I, therefore, have a degree of confidence that there will be no significant matters arising from the audit backlog that will have a significant financial impact on the Council's General Fund budgets in 2024/25.

**Investment and Acquisition Strategy**

2.1.25 The Council's Investment and Acquisition Strategy (IAS) was established to fund investment in housing and regeneration schemes across the borough and was approved on the basis that it would be both self-financing and generate a target rate of return if possible.

2.1.26 The IAS forms the basis for the Council's Annual Investment Strategy (AIS), included within the TMSS, which sets out the Council's approach to non-treasury investments. The AIS is based on investment in income-generating residential and commercial assets. All schemes are funded through borrowing but the costs of which should be met through revenue flows either from assets owned directly or under lease/loan arrangements within the Council's subsidiary (Reside).

2.1.27 The Treasury Management Strategy Statement sets out the impact of the IAS borrowing. By the end of 2023/24 the Council will have borrowed £880m to fund the IAS with a further £170m planned over the MTFS period.

2.1.28 The Council's General Fund revenue budgets contain both IAS interest payable and interest receivable budgets and the key matter for my consideration is whether the revenue flows will cover the borrowing costs for 2024/25 and beyond.

2.1.29 For 2024/25, I am satisfied that this will be the case and in this respect the budget proposals are robust. However, there are a significant number of financial risks which have begun to materialise and these are detailed within the Treasury Management Strategy Statement, mainly relating to increased interest rates, decreases in operational returns and decreases in overall net surpluses.

2.1.30 There are ongoing problems e.g. voids, all of which have a financial impact.

2.1.31 The Council currently has a number of workstreams underway and is strengthening its governance and oversight arrangements of the IAS. External support is also being given to ensure that the governance and assurance framework is robust. The Council will also be seeking to de-risk the IAS portfolio where appropriate. It will be important that all work is concluded at pace in this calendar year in readiness for the following year's budget setting.

2.1.32 In 2023/24 the Council also has an income core budget of £5m to be achieved through an overall net return on the IAS. This has been reduced to £4m and forecasts included within the Treasury Management Strategy demonstrate that this is achievable. However, the ability for the IAS to generate this overall net return on an ongoing basis will be need to considered, once the IAS work above is completed.

2.1.33 The Council also has pipeline regeneration schemes for which significant costs of c£16m have already been incurred but for which scheme viability is proving challenging. A solution will need to be found to progress these schemes otherwise there is the potential for these schemes to become a revenue charge in future years in the event of a scheme being aborted. These costs would need to be funded from the Council's General Fund revenue budgets or the IAS reserves (see below).

2.1.34 The Council's subsidiary structures and financial interactions with the Council are complex. The Council's 2023/24 base budget has a dividend income budget of £10.3m and this has been rolled forward into 2024/25. Removing this budget would have increased the budget gap. Strategic discussions are currently taking place between the Council and its subsidiary in terms of the dividends that will be declared in 2024/25. Any shortfall in income will need to be met through the IAS reserves (see below).

2.1.35 The Council will also need to address the dividend income budget that is embedded in its base to ensure that reserves are not needed to fund this budget from 2025/26 onwards.

**Overall, my conclusion is that the Council's General Fund budget proposals for 2024/25 are robust**

2.2 **Adequacy of the Council's Reserves**

2.2.1 The forecast reserve balances at 31 March 2025 take into account the potential use of reserves to balance the 2023/24 financial year as well as the planned use to bridge the budget gap for 2024/25.

2.2.2 The Council ended 2022/23 with an earmarked Budget Smoothing Reserve (BSR) of £16.84m, set aside to smooth the delivery of savings over the medium term. However, £13.51m of was used in setting the budget for 2023/24 reducing the reserve to £3.33m.

2.2.3 A review of all other earmarked reserves was undertaken during 2023/24 to ensure that reserves set aside were still needed for the intended purposes or whether they could be released to enhance the Budget Smoothing reserve. This increased the BSR during 2023/24 but this will now be fully utilised in setting the 2024/25 budget and balancing the current financial year.

2.2.4 Therefore, there is no longer a specific earmarked reserve which could be called upon should savings not be delivered. However, as noted above, Strategic Directors have provided assurance statements that savings will be delivered, or alternative plans put in place. Permanent savings for 2025/26 are already being worked up and should deliver savings earlier to mitigate this risk further.

2.2.5 However, the Council will need to continue to find additional and/or accelerated savings to enable the Budget Smoothing reserve to be replenished. Going forward, it is recommended that the Council seeks to create an annual budget to transfer funds to this or another reserve to create an additional contingency to act as a buffer for managing demand cost pressures.

2.2.6 In balancing 2024/25, the General Fund general reserve will be reduced to the minimum balance of £12m to be maintained under the approved Reserves Policy, This will represent approximately 5% of the Council's net revenue budget. I consider this to be a reasonable percentage.

2.2.7 The Council does have general fund earmarked reserves of £29.56m that have been generated through returns on the Investment & Acquisition Strategy (IAS). However, as highlighted above, and in the Treasury Management Statement, there are significant financial risks within the delivery of the IAS.

2.2.8 It is important, therefore, that the IAS reserves are retained and continue to be ringfenced to mitigate risks with schemes revenue flows into the Council not meeting the related borrowing costs, the overall £5m net return required not being achievable or any shortfall in subsidiary dividend income.

2.2.9 However, my assessment at this stage is that the IAS reserves are sufficient to cover the related IAS financial risks for 2024/25.

2.2.10 My residual question in my assessment of the adequacy of reserves is how any potential overspend in 2024/25 would be funded given that the remaining forecast earmarked reserves are either ring-fenced or committed as set out above.

2.2.11 Given that: there is provision within the General Fund budgets by way of contingency, that there are plans to accelerate savings and manage demand and considerable growth has been given in 2024/25, the risk of an overspend has been reduced. Should that situation arise, then it would be possible to utilise a small amount of the IAS reserves, but this approach should only be taken as a last resort.

**Overall, my conclusion is that the Council's forecast General Fund reserves are adequate for the risks that it is facing in the forthcoming financial year. However, the Council will need to seek to replenish General Fund reserves over the MTFS period.**

## 2.3 HRA Revenue and Capital budgets and Reserves

2.3.1 The Housing Revenue Account (HRA) 2024/25 budget was developed through collaboration between Finance, colleagues in My Place and the Council subsidiaries to arrive at the best estimates of cost and income required for managing and maintaining the HRA stock in 2024/25.

2.3.2 This considered prior and current year activities, data from suppliers and insights from ongoing contract procurement processes and relevant government regulation.

2.3.3 The capital investments in the existing stock captured in the HRA capital budget reflect estimates developed from stock condition surveys on the investment need of the stock and provides funding for what can be realistically achieved in the 2024/25 while capping future years to funding generated within the HRA excluding borrowing.

2.3.4 Inflation and interest rate assumptions used to develop the budgets are based on current prices while future forecasts are informed by Bank of England (BOE) inflation and interest rate forecasts and takes into consideration the BOE' inflating targeting policy.

2.3.5 These estimates have also been used to produce a draft 30-year HRA business plan.

2.3.6 In developing the business plan, the Council has set a minimum HRA reserve balance of 10% of the total revenue for the year. The reserve balance enables the Council to maintain adequate reserves to help cushion the Council against unexpected future challenges while facilitating better planning on how to use income generated above the minimum reserves levels to fund the management and maintenance of the HRA stock and develop new affordable housing.

2.3.7 Sensitivity analysis was undertaken to determine the affordability of the 2024/25 revenue and capital budgets over the short and medium term of the HRA business plan. The final budget proposal being the budget estimates that delivers the longest period of viability for the HRA.

2.3.8 While a capital budget has been proposed for the HRA, this has been achieved by capping capital investment to the level of funding generated within the HRA excluding borrowing. The underfunding of the existing stock's maintenance requirement has been flagged as a risk and the Council has set a strategic objective to work towards delivering efficiency savings within the HRA to generate more resources to increase investment in the existing stock and tackle decarbonization.

**Overall, my conclusion is that the Council's HRA budgets are robust for 2024/25 and reserves are adequate for the shorter-term risks that it is facing. However, the Council will need to continue its work on the securing the longer-term viability of the HRA and the ability to afford the required levels of capital investment.**