

SPECIAL POLICY & FINANCE COMMITTEE
STATEMENT ON THE ROBUSTNESS OF THE ESTIMATES AND BALANCES AND RESERVES

1 SECTION 25 REPORT

Introduction

- 1.1 There is a legal requirement under Section 25 of the Local Government Act 2003 for the Council's Section 151 officer to report on the robustness of the budget and the adequacy of the Council's balances and reserves.

Robustness of the Budget

- 1.2 The Council must set a budget which is a realistic statement of its estimated income and expenditure for the coming year, based upon information currently available, The Council has a duty to take into account the demand for its services and the impact on council tax payers of meeting those demands.
- 1.3 Given the following good management practices and our sound financial control the Council has the platform and expertise to set a balanced budget. In order to ensure the Council sets a robust budget we follow the processes below;

- Accountancy staff carry out monthly budget monitoring in conjunction with budget holders and regularly report the outcomes to Corporate Management Team
- Service Committees also receive regular budget monitoring reports.
- Heads of Service are given responsibility for managing their budgets.
- We prepare our financial plans using a base budget concept whereby any increases/reductions in the level of services are considered over and above the base budget and approval must be sought/virements requested.
- The Budget Working Group consists of members and the Council's Corporate Management Team meets on a regular basis to make recommendations to officers and service committees in order to maintain a high level of control over our financial position and ensure we manage our finances strategically and effectively.
- We prepare a minimum three year budget forecast and also a Medium Term Financial Strategy which considers our budget pressures in the medium to longer term

Budget Risks and Scenarios

- 1.4 The table below sets out the key budget risks and scenarios we have considered and also how we intend to mitigate these risks.

SPECIAL POLICY & FINANCE COMMITTEE
STATEMENT ON THE ROBUSTNESS OF THE ESTIMATES AND BALANCES AND RESERVES

Risk	Likelihood	Impact	Mitigation
Significant reforms are made to local government finance.	Medium	Medium/High	Continue to feed into consultations and monitor Government indications.
Lack of clarity for future Government funding.	Medium	Medium	Reserves are in place to provide protection in the short/medium term.
Business Rate Retention Pooling Ceases.	Medium	High	Continue to feed into consultations and monitor Government indications.
Council exposed to economic downturn & reduced business rates income having forgone safety net protection under pooling arrangements.	Medium	Low	We have created and recently increased our Business Rate Volatility Reserve which currently stands at £2m to protect the Council against loss of BR income
Changes to Waste Services creates significant financial pressures (if not fully funded).	Medium	Medium	Initial announcements made include capital funding. Further new burdens funding will be expected.
Pay Increases are more than the 4% allowed for in 2024/25 or 2.5% in each year of the budget forecast. The National Joint Council Minimum Wage may be agreed at a higher rate than 4% purely to ensure there is enough headroom above the National Living Wage	High	Low	Pay contingency of £200k set aside in next year's budget.
Impact of Global events on utility costs. We have allowed 4% for general inflation next year and 2.5% in each year of the forecast thereafter.	Medium	Low	Utility and Fuel contingency of £200k set aside in next year's budget.
Significant reduction in council tax income due to impact of cost of living.	Low	Low	We will continue to monitor our collection rates and follow the Council's recovery processes.
Planning Fee Income fluctuations beyond the estimated base budget. Whilst fees have been increased nationally by 25% we are anticipating a reduction in our income due to lower numbers of major planning applications.	Medium	Low	We will continue to monitor application numbers.

SPECIAL POLICY & FINANCE COMMITTEE
STATEMENT ON THE ROBUSTNESS OF THE ESTIMATES AND BALANCES AND RESERVES

Sensitivity Analysis

- 1.5 We have calculated the sensitivity analysis of our key variables in order to quantify the potential financial impact on our budget

Return on Cash Investments						
Interest Rates are outside of the Council's control. Investment income will be closely monitored and the safety of the return on our investments is paramount. We will operate within our agreed Treasury Management Policies and Practices.						
	Average Rate of Return	Average cash balances invested				
		£20m	£23m	£26m	£28m	£30m
Average investment income						
	000s	000s	000s	000s	000s	000s
2%	400	460	520	560	600	
3%	600	690	780	840	900	
4%	800	920	1,040	1,120	1,200	
5%	1,000	1,150	1,300	1,400	1,500	
6%	1,200	1,380	1,560	1,680	1,800	
Pay Inflation						
Each 1% over the amount allowed for costs approximately						£92,000
General Inflation						
Each additional 1% of general inflation costs approximately.						£81,000
Fees and Charges						
The 2024/25 budget includes 4% for increases in fees and charges and 2.5% in future years. Each 1% fall in fees and charges would reduce income by.						£37,000
Council Tax Collection						
The Collection Fund assumes a collection rate of 99.25%. For the current year each 1% reduction in our collection rate would result in a loss of collection fund income of						£528,000

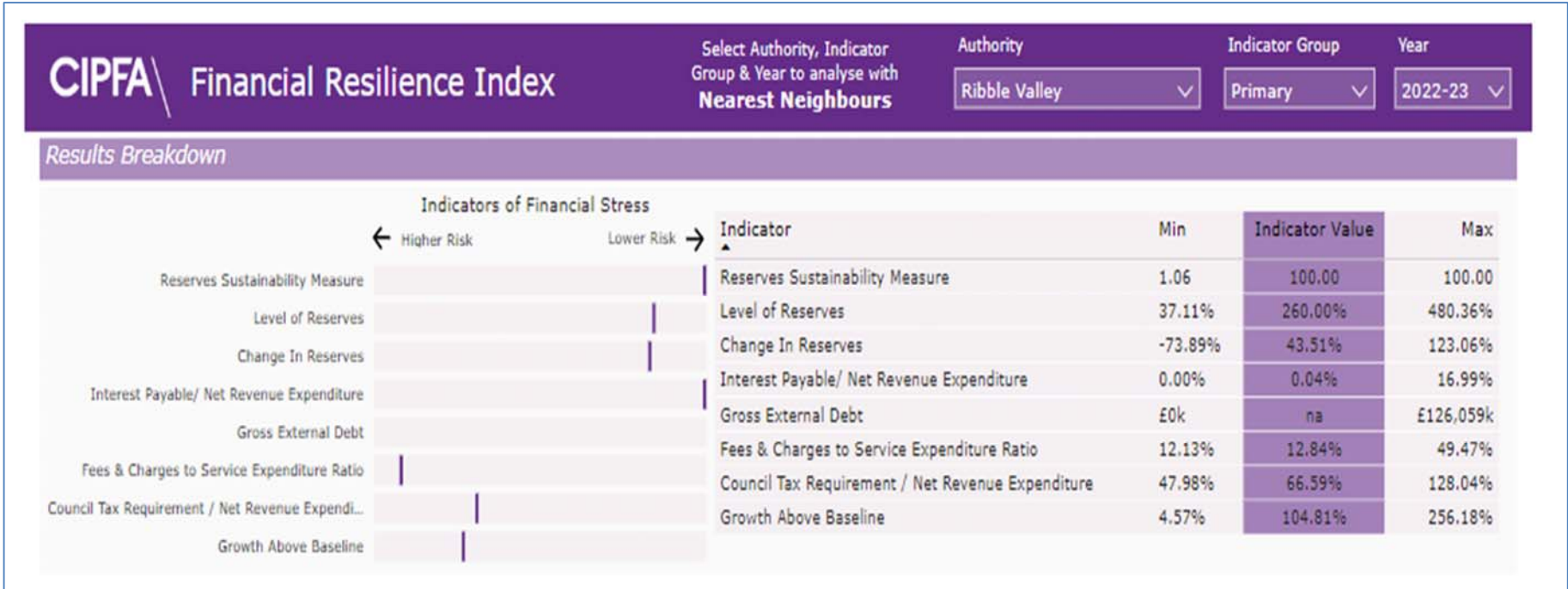
Financial Resilience Index

- 1.6 The Chartered Institute of Public Finance and Accountancy (CIPFA) have produced a tool for considering financial resilience.
- 1.7 This Index is a comparative analytical tool to support good financial management and generate a common understanding of the financial position of Councils.. It is designed to support and improve discussions surrounding local authority financial resilience and shows a council's performance against a range of measures associated with financial risk.
- 1.8 The index has recently been updated to reflect the 2022/23 outturn data from local authorities. Whilst the index is not publicly available yet, the figures for Ribble Valley are shown below as an indication.. You will see Ribble Valley is at the lower end of the risk spectrum for indicators such as; level of reserves, reserves sustainability, change in reserves and interest payable as a proportion of net revenue expenditure. We are however

**SPECIAL POLICY & FINANCE COMMITTEE
STATEMENT ON THE ROBUSTNESS OF THE ESTIMATES AND BALANCES AND RESERVES**

at the higher risk level for business rate growth and council tax income compared with net revenue expenditure.

SPECIAL POLICY & FINANCE COMMITTEE
 STATEMENT ON THE ROBUSTNESS OF THE ESTIMATES AND BALANCES AND RESERVES



**SPECIAL POLICY & FINANCE COMMITTEE
STATEMENT ON THE ROBUSTNESS OF THE ESTIMATES AND BALANCES AND
RESERVES**

Adequacy of Reserves

- 1.9 The requirement for financial reserves is acknowledged in statute. Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 1.10 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued Local Authority Accounting Panel (LAAP) bulletin 99 in July 2014 regarding Local Authority Reserves and Balances. This replaced bulletin 77 and gives important guidance to local authorities.
- 1.11 *CIPFA guidance states that:* when reviewing their medium term financial plans and preparing their annual budgets local authorities should consider the establishment and maintenance of reserves. These can be held for three main purposes:
- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves.
 - a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves.
 - a means of building up funds, often referred to as earmarked reserves to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.
- In order to assess the adequacy of unallocated general reserves when setting the budget, it is crucial to take account of the strategic, operational and financial risks facing the authority. The assessment of risks should include external risks, such as flooding, as well as internal risks, for example, the ability to deliver planned efficiency savings.

General Fund Balances

- 1.12 At this stage general fund balances are estimated as follows:

	£000
Opening Balance 1 April 2023	2,719
Estimated Amount to be taken from Balances in 2023/24	0
Estimated Balances in Hand 31 March 2024	2,719

- 1.13 The level of balances to retain is a matter of professional judgement but should be set in the context of the authority's budget forecast and the risks facing the authority.
- 1.14 My view previously has been that the minimum level of General Fund Balances we should hold is £700,000. However last year due to uncertainties I recommended this be increased to £1m.
- 1.15 If our assumptions regarding our budget forecast prove correct we estimate General Fund Balances will stand at £1.638m at the end of 2028/29. This is shown at the end of Annex 7.

**SPECIAL POLICY & FINANCE COMMITTEE
STATEMENT ON THE ROBUSTNESS OF THE ESTIMATES AND BALANCES AND
RESERVES**

Earmarked Reserves

- 1.16 Annex 7 shows the Council's earmarked reserves together with any forecast movements for the current year 2023/24 through to 2028/29.
- 1.17 The earmarked reserves are set aside for a specific purpose. Our earmarked reserves categorised as "Reserves for Longer Term Strategic or Corporate Items" are available to support mainly the revenue budget but are also used to fund the capital programme.

Conclusion

- 1.18 In the light of the risk assessment and the details of the budget as set out in this report, which are based on the best information available at the time, and the strength of the Council's Internal Control Systems, it is the opinion of the Section 151 Officer that the budget estimates for 2024/25 are robust, and the level of reserves adequate.
- 1.19 However, the Council faces significant budget gaps beyond 2025/26. Whilst the level of reserves is relatively high, the use of reserves to fund our budget gaps is not sustainable. The Budget Working Group needs to consider a savings and transformation plan in order to address how a balanced budget could be set beyond 2025/26.