BRENTWOOD BOROUGH COUNCIL

Section 151 Officer's Assurance Statement

Introduction

Section 25 of the Local Government Act 2003 requires the Section 151 Officer to report to the Council on the robustness of the budget calculations and the adequacy of reserves as part of the budget and council tax setting decision.

The Council's budget is based on a range of assumptions. In considering the overall budget position, it is necessary for Members to be aware of the range and scale of risk and uncertainty surrounding the budget projections, particularly with regard to external factors.

While the Act itself does not provide any specific detail on how to evaluate the robustness of the estimates, accompanying guidance notes state that it should be based on an assessment of all circumstances considered likely to affect the authority.

The following factors have been taken into account when considering the overall levels of reserves:

- Assumptions regarding inflation
- Treatment of demand-led pressures
- Treatment of savings and efficiencies
- Financial standing of the authority (for example level of borrowing, debt outstanding)
- The authority's track record in budget management (including the robustness of medium term plans)
- The authority's capacity to manage in-year budget pressures
- The authority's virement and year-end procedures in relation to under and Overspends
- The adequacy of insurance arrangements
- The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions
- The risks inherent in the council's investment activities
- Risks inherent in partnerships
- Estimates of the level and timing of capital receipts
- The general financial climate to which the authority is subject

This report considers the robustness of the Council's budget calculations including a summary of the key risks inherent in the budget forecast, and it reviews the adequacy of reserves in light of these risks.

General Budget Uncertainties

This section updates Members on a number of key activities and responsibilities that have a significant financial impact for the Council but also by their nature carry inherent risk and uncertainty as to the full extent of that impact. Generally specific budget allocation or provision has been set aside for such associated costs but the scale of some of the risk means that reserve levels must take these into account.

a) Government Grant and Support

The scope for local authorities to maximise government grant and support lies in incentive schemes such as are offered by business rates retention and the New Homes Bonus (although these schemes are subject to further review by the government). Any significant benefit, however, will depend on growth policies being implemented and being sustained over several years.

The business rates retention scheme is being reviewed by central government with a proposal that 75% of business rates be retained at the local level from 2021/22 (previously from 2020/21) but these proposals have been deferred due to the pandemic and are as yet underdeveloped and no conclusions can be drawn at this stage.

There is no direct control over business rates by local authorities because the multiplier is set by the Government and the rateable value by the Valuation Office Agency (VOA).

Local risks specifically include:

- Risks associated with appeals by ratepayers against their rateable values, for example one large appeal could have a big impact on business rate income.

b) COVID-19

There is continued uncertainty over the financial impact of the pandemic on the council. The budget has been prepared on the basis of normal business and issues will therefore be dealt with as they arise during the year. Reserves have been set aside to mitigate any in year pressures. However working balances are also held for emergency situations.

c) Delivery of savings

The budget for 2021/22 is balanced and creates surpluses to replenish working balances. However, this does include significant level of savings assumed within the MTFS. Decisions and delivery must be required in order to achieve these savings which will provide sustainability for the Council's finances.

d) Council tax and Business Rates

The tax base projections used in the MTFS include a target of 0.5% growth. The predications of housing targets as set out in the emerging Local Plan, have not yet been incorporated. Delivery will need to be closely monitored to ensure the assumptions are realised.

There is a great deal of volatility in the Business Rates system that has been exaggerated by the pandemic. Close monitoring is required to ensure that assumed income is realised.

e) Investment & Regeneration income

The budget and forecast assume significant levels of income from council property acquisitions, regeneration activity and investment income from the Council's company, Seven Arches Investment Limited (SAIL). This income can be affected by a number of factors, for example:

- The general economic climate
- Interest rates and financing costs
- Government policy

The alterations to the PWLB borrowing criteria have prevented further investment for yield at this time and therefore unless regeneration opportunities are discovered and acquired within the Borough no further investment will take place. This is a risk in respect to further diversification of the income stream.

f) UK leaving the European Union

The Council is not immune from the effects of uncertainty surrounding the UK's exit from the EU on 31 December 2020, but these effects are likely to be manifested through changes in the external environment (for example interest rates and inflation). The Council is not exposed to the risk of the withdrawal of EU funding and none of the current regeneration plans are predicated on the receipt of such funding. The risk to these projects lies rather in the impact of the exit on the economy as a whole, for example a decline in the availability of labour, and the ability of public and private sector partners to deliver their contractual obligations. The Senior Leadership Team regularly review and monitor the developments in this area.

g) Legal risk

It is usual for a number of judicial processes and challenges to be in progress at any given point in time. These will relate to various issues including planning, planning enforcement, contract disputes, property disputes, business rates, housing issues and other matters. It is not practicable to estimate the financial effect or timing of these issues but they may give rise to unanticipated expenditure. To the extent that it is possible provisions are made in respect of known issues.

h) Local Government Pension Scheme

The local scheme is administered by Essex County Council and Brentwood is a scheduled body to the scheme. The scheme is valued every 3 years by an actuary. The results of the valuation and the assumptions that the actuary makes about the future of the fund (e.g. investment performance, longevity) determine the payments that the Council has to make for any deficit arising from past service and the ongoing contributions that have to be made by both the Council and its employees who are members of the scheme in the future.

The last actuarial valuation took place at 31 March 2019 and this set the employer's ongoing contribution rate for the Council at 19.9% (an increase of 2.8% over the previous rate) for the period 1 April 2020 to 31 March 2023. In line with other local government schemes the pension fund deficit fell at this valuation indicating a better fund performance than in previous periods.

i) Interest Rates

While interest rates have remained relatively stable for a considerable amount of time the continued uncertainties in the global economy and the impact of UK's departure from the European Union means there is always the risk of fluctuations in interest rates and therefore a significant risk to the Council's finances. The decision to increase PWLB rates by 1% overnight in October 2019 highlighted the risk of dependency on the PWLB as the main source of borrowing. This risk is increasing with the council's growing level of borrowing need (to support investment and income generation activities). However due to changes within PWLB rules following the results of a government consultation the rates have dropped back down to much more sustainable levels. The key mechanisms to manage this risk in respect of borrowing are:

- Ongoing use of external Treasury Management (TM) advisors to provide information on interest rate forecasts.
- Maturity structure of borrowing designed to minimise exposure in any one year.
- Retention of core fixed rate borrowing within the portfolio.

j) Inflation

Budgets have been prepared in accordance with the Budget Setting Guidelines for 2021/22 as distributed to Senior Leadership Team.

The following assumptions have been made on inflation:

- Inflation of 1.9% has been applied to service employee budgets for 2021/22
- Inflation has been applied to expenditure that is subject to legal contractual obligations in accordance with the terms set out in the relevant contract.

k) Treatment of demand-led pressures

Certain budgets are particularly susceptible to demand-led pressures. These include Benefits and Homelessness. The level of budgeted income for Council services, particularly planning, land charges, and building control is also subject to changes in customer preference and demand. While every effort is made as part of the budget setting process to identify current trends, review historic patterns and assess the likelihood of change, such budgets will always have inherent risk. This risk is particularly heightened in the current economic climate.

The Council has a range of mechanisms in place to respond to changes in expenditure/income patterns including the option to review service levels, virements from other budget heads and the use of contingency and/or reserves.

l) Value Added Tax (VAT)

VAT is a complex issue for Local Authorities and active management of VAT is essential both to avoid significant unexpected costs and also to ensure that the Council is able to take advantage of opportunities to recover VAT previously paid when possible. The major VAT risk is that the Council exceeds its partial exemption threshold. If this is exceeded it would mean that a substantial payment, estimated to be in excess of £500,000 for 2021/22, would need to be paid to HMRC. In general it is large capital projects that would cause this to happen and VAT issues are, therefore, considered at an early stage in the development of all such projects.

Adequacy of Reserves

As outlined above, the Council's finances are subject to a range of external influences and significant risk particularly in the current economic climate and the associated impacts on local government funding. Continued reductions to government grants, reductions and potential further changes to the NHB scheme, the Fair Funding Review, business rates reset and the risk of appeals in the business rates system, together with the uncertainty regarding the impact of 75% business rates retention exacerbates uncertainty and risk. The table below sets out the arrangements in place to mitigate such risks.

Risk	Mitigation
Government Grant Support	Forecast assumes no resources additional to those currently being received.
COVID-19	Earmarked Reserve and General Fund reserves
UK leaving the European Union	Combination of measures to mitigate other risks. Business Continuity Plans reviewed. Earmarked reserve available from grant funding.
Legal	Specific provision set aside as well as Earmarked reserve for specific casework.
Pensions	Contingency within forecast costs.
Interest rates	Financing Volatility Reserve and contingency within forecast costs.
Inflation	Reserve balance would be used to manage significant demand pressures
Demand	Reserve balance would be used to manage significant demand pressures
VAT	Careful management of partial exemption position.
Regeneration projects	Robust management of assets. Regeneration reserve.
Insurance	Earmarked reserve available
Business rates and fair Funding review	Earmarked reserve available
Investment asset returns	Prudent assumptions made in forecasting income. Earmarked reserve available

The Council remains ambitious and is continuing to deliver on a number of significant capital and revenue investment projects. These projects, combined with exceptional financial uncertainty, mean that the financial scale of risk and complexity that the Council will be managing is substantial. Financial resilience and adequate reserves are therefore, paramount. This, together with the overall scale of the Council's financial transactions and complexities of its core operations, means that such risk cannot be eliminated but must be managed effectively.

Particular attention is also drawn to the reserves section in Appendix A that identifies the reserves currently retained by the Council over the forecast period together with the rationale for each reserve.

Given the overall levels of risk the Section 151 Officer considers that the General Fund reserve should not be budgeted below £2.5 million when setting the budget for 2021/22. £2.5 million represents approximately 29% of the total Spending requirement for 2021/22

The general fund balance will, therefore, be used to manage unusual or unanticipated events, for example a borough wide emergency situation, failure to deliver savings targets or unprecedented increases in demand or costs.

Earmarked Reserves are currently budgeted at March 2021 totalling £4.404 million. These have been re-aligned to reflect the anticipated outturn position for 2020/21 and the council's current priorities and changing risk profile. It is important to note that while the council does have discretion to use its reserves in any manner it sees fit, the current position means that the majority of this sum (some £1.034 million) is allocated for specific purposes and therefore not generally usable.

It is anticipated that these earmarked reserves will be used over the forecast period to support the council's ongoing investments and the delivery of budget reductions.

Robustness of the Budget Calculations

The budgets and forward financial forecasts represent the current assessment of the costs of providing services in line with the Council's existing policies and strategic priorities. The estimates are based on assumptions about levels of pay (including an allowance for pay awards, increments and vacancies), inflation and other external factors such as legislative changes, and changes in demand for services. These assumptions are considered to be appropriate. Service Fees & Charges have been considered by the relevant service committee. Any significant changes in external factors, compared to the assumptions made at this time, could result in a variance in the actual levels of expenditure and income against the budget provision and the council's financial targets not being met. Similarly, there will be a risk to the delivery of services at both operational and strategic levels.

The Authority's track record in budget management, including its ability to manage in-year budget pressures and the robustness of the Medium Term Financial Strategy

Financial monitoring reports are subject to review by Policy, Resources & Economic Development Committee and by the senior leadership team. The budget includes prudent contingencies that can and are used to manage in year budget pressures. The council's in year budget management is effective. Earmarked reserves are used for non-recurring expenditure to assist in producing a smooth profile of expenditure over the forecast period. The council also has a track record of delivering savings and efficiencies as required.

However, reserves can only be used once and the ability to continue to deliver savings and efficiencies cannot be taken as a given, particularly in the light of the current funding circumstances. In particular a significant shift in expenditure or income outside the parameters considered in the budget or a combination of several issues at once could constitute a serious shock to the Council's level of resources and threaten its potential ongoing financial viability.

The assumptions underpinning the Medium Term Financial Strategy are set out in Appendix A These are considered to be as robust as is possible given the continuing uncertainty over the future of government funding.

As part of their value for money work during the 2019/20 audit the external auditors considered whether or not the council was taking appropriate measures to ensure that its financial position remains sustainable. Specifically they:

- Governance arrangements for Joint Venture decision making.
- Delivering Financial Resilience

They had no concerns to report as a consequence of this work to date.

CIPFA Financial Resilience Index

This index measures resilience in relative terms by placing authorities on an axis of risk as expressed by various financial metrics relative to all other (or groups of) authorities. It does not take account of future plans, as expressed in medium term financial planning, for example planned use of reserves, and it is not an absolute measure of financial resilience. As such it is of limited value in its current form.
However, it can be seen to demonstrate that the council is well placed, both absolutely and compared to its peers, to manage the financial challenges of the future.

CIPFA Financial Management Code

CIPFA published the first edition of their 'Financial Management Code' for local authorities in October 2019. CIPFA considers that compliance with this code is mandatory for all local authorities but it is important to note that such compliance is not specifically mandated by statute. CIPFA state that the first year in which it expects authorities to be compliant with the code is 2020/21.

The code is essentially a best practice guide to financial management in the local authority sector. It covers the following areas:

- The responsibilities of the chief financial officer (section 151 Officer) and the leadership team
- Governance and financial management style
- Medium to long term financial management
- The annual budget
- Stakeholder engagement and business plans

- Monitoring financial performance
- External financial reporting

Officers are yet to complete a full assessment of the extent of compliance with the requirements of the code. However, on initial consideration it can be confirmed that in general terms the council's arrangements follow the recommended best practice set out in the code.

Conclusion

Taking all of the above factors into account it is considered that the budget calculation is robust and that the level of reserves are adequate at this time. Members are reminded of the need to consider all of the factors discussed in this section and their potential impact on the ongoing sustainability of the Council's medium term financial position when considering the budget and level of council tax to be set for 2021/22.