APPENDIX G

Section 151 Officer's Assurance Statement

Introduction

1. 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.

2.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.

3.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.

4.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

5.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

6. 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. Local risks specific to Business Rates 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.

c) Delivery of savings

The forecast for 2023/24 is for a small underspend. Bearing in mind the cost of inflation during the year, it demonstrates the strength of financial management that has enabled action to be taken to contain the unexpected in-year pressures. The budget for 2024/25 is balanced. Many local authorities are facing similar challenges to Brentwood, with the need to draw upon reserves over the MTFS to accommodate cost pressures, particularly inflation.

Reserves are not projected to be drawn upon until 2026/27. New savings initiatives are scheduled to become effective in 2025/26 but existing efficiency initiatives will need to be delivered as programmed for 2024/25. There is strong assurance that next year's budget can be delivered.

d) Council tax and Business Rates

The tax base projections will in part be driven by predictions of housing targets as set out in the Local Plan. 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, not least the economic conditions and the escalating cost of living. Close monitoring is required to ensure that assumed income is realised. Brentwood remains outside of the Essex Pool.

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.

It is not possible to borrow for yield, so unless regeneration opportunities are discovered and acquired within the Borough no further investment will take place, beyond what is in the capital programme. This is a risk in respect of further diversification of the income stream.

f) Macro-economic factors

Inflation represents the primary risk, along with interest rates. Whilst both inflation and interest rates are forecast to go down over time, there will be a medium-term financial and service risk to the Council. For inflation, this will manifest as higher costs to Council direct spending on staff, supplies and services, as well as contracts held with third parties. Added to this is the likely additional demand on Council services during a recession, as well as the potential to impact on Council income. The main risk of higher interest rates is that some of the Council's capital spending plans may have to be deferred or cancelled if rates are so high as to make business cases unattractive, or to expose the Council to undue risk.

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.

i) Treasury strategy

The overall level of Council borrowing is relatively high and projected to increase, which increases the risk of raised interest rates. The Council has ongoing use of expert advisers; and most Council debt will be (and should be) at fixed, long term rates. This helps manage the risk. However, in future, careful consideration will be given to any further borrowing beyond that already assumed in the treasury strategy. Indeed, there are plans to reduce planned borrowing over the medium term, through a combination of reductions in the capital programme and capital receipts.

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, 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

7. 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. Potential changes to the NHB scheme, the Fair Funding Review, business rates reset and the risk of appeals in the business rates system exacerbate uncertainty and risk. The table below sets out the arrangements in place to mitigate such risks.

Risk	Mitigation
Government Grant Support	Forecast assumes prudent resources additional to those currently being received.
Legal	Specific provision set aside as well as Earmarked reserve for specific casework.
Pensions	Contingency within forecast costs.
Interest rates	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

8. The Council remains ambitious and is continuing to deliver some significant capital and revenue investment projects. These projects, combined with 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.

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

10. Earmarked Reserves have been re-aligned to reflect the anticipated outturn position for 2023/24 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 is allocated for specific purposes and therefore not generally usable.

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

12. Although there is no statutory minimum level of reserves, the level of the General Fund working balances is reviewed annually as part of the budget process and an annual risk assessment is undertaken alongside the Council's strategic risk register. Given the overall levels of risk the Section 151 Officer considers that the General Fund working Balance should be maintained above £2 million when setting the budget for 2023/24. £2 million represents approximately 20% of the total spending requirement and approximately 5% of the Council's gross expenditure.

13. 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 to provide a short-term contingency to manage the risks identified in this report.

Robustness of the Budget Calculations

14. 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 chair and corporate leadership team. 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

15. Financial monitoring reports are subject to review by Finance, Assets, Investment and Recovery Committee and by the corporate 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.

16. 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.

CIPFA Financial Resilience Index

17. 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.

Conclusion

18. 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 2024/25.