

COUNCIL BUDGET 2023/24 TO 2027/28SECTION 151 OFFICER'S STATEMENT ON ADEQUACY OF BALANCES
AND THE ROBUSTNESS OF THE BUDGET1. Introduction

1.1. 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) An 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.
- 1.2. CIPFA published a new Financial Management (FM) Code in October 2019. 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.'*** Compliance with the FM Code has been required since 2021/22. This is a good practice approach that Southend-on-Sea have always followed, and the statement is updated in light of the

prevailing circumstances and assessment of relevant risks each financial year.

- 1.3. This statement must be considered and approved by full Council as part of the budget approval and Council Tax setting process.
- 1.4. This document concentrates on the General Fund budget, the Housing Revenue Account and Capital Investment Programme, but in addition it also considers key medium-term issues faced by the Council.
- 1.5. The importance of this overall approach and need for prudent and realistic levels of reserves and provisions was brought sharply into focus by the impact of COVID-19 on both the finances and operations of the Local Government Sector throughout 2020/21 and 2021/22. The importance has continued into 2022/23 with the Council, like most local authorities, who are experiencing major increases in service demand post the pandemic combined with unavoidable rapid inflationary increases in operating costs across almost every aspect of its organisation. This has had a huge impact on the Council's financial plans for 2022/23.

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

- 2.1. The following are the summary assurances and recommendations of the Council's Section 151 Officer (currently the Deputy Chief Executive and Executive Director of Finance and Resources). They must be read in conjunction with the supporting statement in this Appendix, which together make up the Section 151 Officer's statutory duty to report under Section 25 of the Local Government Act 2003.
 - 2.1.1. In relation to the 2023/24 General Fund Revenue budget, I have examined the budget proposals and I believe that, whilst the spending and service delivery proposals are challenging, they are nevertheless achievable given the political and management desire to implement the changes. Good management and the sound monitoring of performance and budgets will be essential. I am satisfied that sufficient management processes exist within the Council to deliver this budget and to identify and deal with any problems which may arise unexpectedly during the year.
 - 2.1.2. The key process risks in making the above statement are the level of resources within the Council dedicated to providing financial support, constructive challenge, insight and advice to service managers, to enable a clear focus to be placed on key high risk budget areas.
 - 2.1.3. My recommendations are also conditional upon:

- a) The Council continuing to assess, learn, report, and respond appropriately to the impact of the prevailing inflationary pressures and cost of living crisis across all aspects of its operations.
- b) The Council approving the updated Medium Term Financial Strategy for 2023/24 to 2027/28
- c) A recognition in the medium-term planning approach that the level of reserves and corporate risk assessment need to be regularly reviewed in the light of changing circumstances and that it may not be possible to match the two at any single point in time. The Council needs to show a commitment to maintain reserves at a level which provides adequate cover for most identified risks during the planning period. This approach is pragmatic and shows a clear commitment to prudent contingency planning.
- d) It must be noted, however, that the recommended levels of reserves could still leave the Council exposed to the very exceptional risks identified in this review and, if all those risks crystallised at the same time, then the total level of reserves could be inadequate.
- e) Cabinet Members, the Chief Executive, Executive Directors and service managers should not exceed their cash limits for 2023/24 (and future years covered by the Medium Term Financial Strategy).
- f) Taking every opportunity to meet the Reserves Strategy as a first call on any windfall underspends.
- g) Not considering further calls on reserves other than for those risks that have been identified, those that could not have been reasonably foreseen and that cannot be dealt with through management or policy actions. The exception to this is where the Reserves Strategy (reviewed annually) is met. Even in those circumstances, it is not prudent to finance ongoing spending from one-off reserves. Any excess reserves should be targeted towards business transformation via the Council's developing blueprint for change (including any redundancies and invest to save initiatives), key services particularly Childrens and Adults, contributions to support capital investment, Local Government funding changes and the impacts of significant changes in national policy.
- h) Where there is a draw-down on reserves, which causes the approved Reserves Strategy to be temporarily off target, that this is replenished as part of a revised Medium Term Financial Strategy. This approach was continued in setting the 2022/23 Budget, where £2.5M was used and it was approved to replenish this amount over 2023/24 – 2026/27. The first repayment instalment of £625,000 will be made to reserves in 2023/24.
- i) That the Council has arrangements and resources in place to consider and assess value for money across the delivery of all its services and operations in preparation for future years' budgets.

2.1.4. In relation to the adequacy of reserves, I recommend the following Reserves Strategy based on an approach to evidence the requisite level of reserves by internal financial risk assessment. The Reserves Strategy will need to be reviewed annually and adjusted in the light of the prevailing circumstances.

- a) An absolute **minimum level** of unallocated General Fund reserves of **£8 million** is maintained throughout the period between 2023/24 to 2027/28.
- b) An **optimal level** of unallocated General Fund reserves of between **£10 million and £11 million** over the period 2023/24 to 2027/28 to cover the absolute minimum level of reserves, in-year risks, cash flow needs and unforeseen circumstances.
- c) A **maximum level** of unallocated General Fund reserves of **£12 million** for the period 2023/24 to 2027/28 to provide additional resilience to implement the Medium Term Financial Strategy.
- d) A Reserves Strategy to remain within the recommended level of reserves over the relevant period of 2023/24 to 2027/28.

2.1.5. The estimated level of unallocated General Fund reserves as at 31 March 2023, based on current projections is **£11 million** depending on the final outturn position. Therefore:

- a) The absolute minimum level of reserves of £8 million is currently being achieved.
- b) The optimal level of reserves of between £10 million and £11 million will be met including the proposed use of £1 million to support the 2023/24 budget which will be replenished over the life of the Medium Term Financial Plan reverting back to £11 million.
- c) The maximum level of reserves of £12 million is not being exceeded.
- d) Reserves should remain within the recommended range of reserves during 2023/24. This is subject to the cash limited budget for 2023/24 being met.

2.1.6. These recommendations are made based on:

- a) The risks identified by the Chief Executive and Executive Directors reviews of their budgets.
- b) My own enquiries during the development of the current budget proposals.
- c) The resilience and sustainability required to deliver the Medium Term Financial Strategy.
- d) One-off unallocated reserves not being used to fund new on-going commitments.

- e) That the reserves in 2023/24 and the foreseeable future are used only if risks materialise and cannot be contained by management or policy actions.
- f) That where reserves are drawn down, the level of reserves is maintained in line with the latest Medium Term Financial Strategy.

2.1.7. There are also serious exceptional risks which, if they crystallise, could significantly impact the Council's reserves, and leave its financial standing seriously in question. These include:

- a) For the first time in many years there are huge concerns over current inflationary pressures, particularly around energy. Sustained high levels of inflation will have a major impact across the Council's financial plans.
- b) The continuing major increasing cost and demand pressure trends for adult and children social care is of particular concern and it is important in both areas that the relevant management teams ensure these budgets are managed effectively to ensure the Council's future financial sustainability.
- c) The potential for cliff slips, pier remediation works and any other unforeseen Council owned infrastructure issues.
- d) The Waste Collection and Street Cleansing contract is the largest single contract for the Council, a break clause has been activated for October 2023 and there is currently a market engagement exercise underway to assess potential options. There is a lot of volatility, new legislative and environmental requirements, which will potentially add extra risks and significant costs nationally across the market. Careful consideration and evaluation of both the costs and service offer will be undertaken on receiving the market's response to the new contract opportunity. The Council must choose the most relevant waste collection arrangements providing the best value for money. This decision is critical to maintain the Council's future financial viability.
- e) The financial implications from the Care Act, adult social care and other welfare reform changes or other associated Housing legislation have been delayed but there is no clarity on when or if further national policy changes in these areas will be introduced in the future. If they are implemented without appropriate levels of additional government funding, then this could have a major impact on the Council's future financial sustainability.
- f) The high risk surrounding the non-delivery of savings and exceeding investment proposals within the budget package for 2023/24.
- g) The risk of not comprehensively developing and robustly implementing and actioning the new Transformation Blueprint.

- h) The financial uncertainty for the public sector arising from the prevailing and continuing global, national and local conditions.
- i) The risk of further significant reductions in income and Government grant funding, particularly in relation to:
 - Growth and decline in the Council's Tax base and Business Rates base.
 - Academies funding.
 - Future Government changes in policy and funding for Local Government, particularly the unknown impact of when the next Comprehensive Spending Round will happen.
 - The need to address the Country's ongoing Public Sector Borrowing Requirement (PSBR) and the structural financial deficit.
- j) Insurance Claims.
- k) Any impact on Council services and Budget in 2023/24 and later years arising from the withdrawal from the European Union on 01/01/2021.

2.1.8. In relation to the Housing Revenue Account (HRA) in 2023/24 and the medium to long term:

- a) Given the current status of housing management provision the recommendation is that general reserves be maintained at the target figure of £3m.
- b) A 2023/24 budget has been agreed with South Essex Homes Ltd. to maintain a balanced HRA.
- c) Forward projections for the HRA beyond 2023/24 are being remodelled. In addition, this is linked to the HRA's own Medium Term Financial Strategy for the period 2023/24 to 2027/28.

The current position demonstrates that it is possible to:

- Maintain a balanced HRA throughout that period.
- Meet current level of capital investment, and
- Repayment of required debt.

2.1.9. In relation to the General Fund and HRA Capital Investment Programme 2022/23 to 2027/28 (including commitments from previous years and new starts):

- a) The HRA Capital Programme will need to be contained within the total programme cost.

- b) The General Fund Capital Budget is substantial and is based on the best information available in terms of project costs. What is less certain is the actual phasing of expenditure, which urgently needs consideration and also the prioritisation of any new projects particularly those still subject to a viable business case.
- c) The key strategic schemes identified in the Capital Investment Programme will be closely monitored in-year.
- d) That the funding identified for the approved Capital Investment Programme is delivered and is proportionate, prudent, affordable, and sustainable.

2.1.10. In relation to the medium to long term Capital Investment Programme:

- a) The delivery of the agreed Capital Strategy and Asset Management Plan is a critical priority to enable the matching of resources to needs and priorities.

2.2. Assurance

Given all these factors, I, as the Council's Section 151 Officer, consider the estimates for 2023/24 to be sufficiently robust and recommend for approval by the Council. I am also able to advise the Council that the level of General Fund Reserves is adequate and to recommend a Reserves Strategy which is achievable for 2023/24 – 2027/28.

3. Supporting Statement

3.1. Processes

3.1.1. Budget estimates are exactly that – estimates of spending and income made at a point in time and which will change as circumstances change. This statement about the robustness of estimates cannot give a 100% guarantee about the budget but gives Members reasonable assurance that the budget has been based on the best information and assumptions available at the time.

3.1.2. To meet the requirement on the robustness of estimates several key processes have been put in place, including:

- a) The issuing of clear guidance to Services on preparing budgets.
- b) The development of a Council wide risk assessment.
- c) The use of extensive budget monitoring and its escalation process to identify risks.
- d) The Council's S151 Officer providing advice throughout the process of budget preparation and budget monitoring.
- e) The Chief Executive and Executive Directors review of their budgets and appropriate sensitivity analysis.
- f) A review of all budget proposals and implications by CMT from April 2022 to January 2023.
- g) A review of budget proposals and implications by Cabinet Members from July 2022 to January 2023.
- h) Enquiries made directly by the Section 151 Officer and Finance Officers.

3.1.3. Notwithstanding these arrangements, which are designed to rigorously test the budget throughout its various stages of development, considerable reliance is placed on the Chief Executive, Executive Directors and Directors having proper arrangements in place to identify issues, project costs, service demands, income levels, to consider value for money and efficiency, and to implement changes in their service plans. These arrangements are supported by appropriately qualified financial staff. Going forwards the "Knowing your Business" programme is vital to this process and all budget managers need to be fully engaged in this programme and be held accountable for both operational and financial performance.

3.1.4. A summary of the key budget assumptions considered by all service managers and professional finance staff in terms of assessing the robustness of their budgets are shown below:

- a) The treatment of inflation and interest rates.
- b) The treatment of demand led pressures.

- c) The treatment of efficiency savings/productivity gains.
- d) The financial risks inherent in any significant new funding partnerships, major outsourcing deals, or major capital developments.
- e) The availability of other funds to deal with major contingencies.
- f) The Service's track record in budget and financial management.
- g) The Service's capacity to manage in-year budget pressures.

3.1.5. The full key budget assumptions and comments by the Chief Executive and Executive Directors have been used in constructing all budget proposals.

3.1.6. Corporate and service processes are under continuous review and improvement. Over the last few years there has been a sustained emphasis on a robust scheme of budget and performance monitoring with an improved reporting format to Cabinet and Members in 2020/21, which was further improved in 2021/22 and 2022/23.

3.1.7. There are also clear plans in place for the continuous improvement and development of the ERP system (Business World) covering both Financial and HR systems. This will strengthen the authority's capacity and ability to monitor more effectively the overall budget. Continual improvement in these processes will also assist in the prevention or at least the earlier identification of issues to be dealt with in the budget and Medium Term Financial Strategy and allow for any in-year rebalancing to be undertaken as soon as possible if required. Nevertheless, in preparing a comprehensive budget for such a complex Organisation, unforeseen issues will undoubtedly still arise throughout the year and in the future.

3.2. Robustness of Estimates - General Fund Revenue Budget

3.2.1. The 2023/24 budget and Southend 2050 ambition, new Corporate Plan priorities and five-year roadmap continues the need and our commitment to target our financial resources to delivering better outcomes and effectively manage risks. These arrangements will be enhanced further by the development and introduction of detailed service plans for 2023/24. In addition to improving efficiency, there are clearly choices for the Council in this respect:

- a) To increase financial resources to meet demand and reduce risk, and/or
- b) To reduce (where possible) service levels and standards, frequency of service delivery, and eligibility for services.

- 3.2.2. As part of developing the budget, Members of the administration have considered these options and the outcome of these deliberations are reflected in the proposed overall budget package.
- 3.2.3. Most notably the Council has had to address major cost increases and pressures as well as corporate priorities including:
- a) Employee costs.
 - b) Significant inflationary pressures.
 - c) Increasing demand and cost pressures for Adult and Children Social Care.
 - d) The cost of prudential borrowing within the capital investment programme.
 - e) Some shortfalls in income and grant income.
- 3.2.4. The factors and risks considered in developing the proposed budget and recommendations on reserves are contained in each of the Executive Director's proposals surrounding their Service budget.
- 3.2.5. These assumptions will require the forecasts for future years to be reviewed early in each financial year leading to more detailed budgets during the autumn of each financial year.

3.3. Financial Sustainability Strategy

- 3.3.1. The Council has previously developed and updated a high level long-term strategy that is designed to frame its financial future and intentions. This strategy helps set the context for the Medium Term Financial Strategy, guide the Council's approach to maximising resources, prioritising investment and the effective targeting of resources to deliver the ambitions and outcomes contained within the Southend 2050 programme, Corporate Plan and roadmap phases.
- 3.3.2. Its primary purpose is to outline the Council's approach, desire, and commitment to achieving financial sustainability by embracing the area's economic potential, growing our local tax base and increase sustainable income capabilities.
- 3.3.3. Given the exceptional operating environment caused by the significant inflationary increases and service demand pressures in 2022/23 and that these issues will continue into 2023/24, the Council will not review this strategy as part of the budget process for 2023/24. A refresh of the Financial Sustainability Strategy will be considered as part of the implementation of the Council's new Transformation Blueprint and budget considerations for 2024/25.

3.4. Medium Term Financial Strategy

- 3.4.1. The Council needs to deliver its Medium Term Financial Strategy reflecting the continuing impact of the proposed budget and only planned growth in relation to issues that are statutory and unavoidable. Within the current uncertain financial climate, it is very likely that service standards for discretionary services will need to be reviewed and Council Tax increases will need to be implemented to the referendum limit. This is an expectation of Central Government as part of their local Spending Power calculations. The Council also requires a clear commitment to improving efficiency and productivity whilst adopting a new more commercial approach to income generation will be required.
- 3.4.2. An updated Medium Term Financial Strategy (2023/24 – 2027/28) will be developed and considered for approval in February 2023, as part of the budget setting process for 2023/24.

3.5. Adequacy of Reserves – General Fund Revenue Budget

- 3.5.1. Under the Local Government 2003 Act the Secretary of State has powers to set a minimum level of reserves. The most likely use of this power is where an authority is running down its reserves against the advice of their S151 Officer.
- 3.5.2. Determining the appropriate levels of reserves is not a precise science or a formula e.g. a simple percentage of the Council's budget. It is the Council's safety net for risks, unforeseen or other circumstances. The reserves must last the lifetime of the Council unless contributions are made from future years' revenue budgets. The minimum level of balances cannot be judged merely against the current risks facing the council as these can and will change over time.
- 3.5.3. Determining the appropriate levels of reserves is a professional judgement based on local circumstances including the overall budget size, risks, robustness of budget preparation, major initiatives being undertaken, budget assumptions, other earmarked reserves and provisions, and the Council's track record in budget management. It is also a professional judgement on the external factors that influence the Council's current and future funding position.
- 3.5.4. The consequences of not keeping a minimum prudent level of reserves can be serious. In the event of a major problem or a series of events, the Council would run the serious risk of a deficit or of being forced to cut spending during the year in a damaging and arbitrary way.
- 3.5.5. The recommendation on the prudent level of reserves has been based on the robustness of estimate information and the Corporate Risk Register. In addition, the other strategic operational and financial risks

considered when recommending the minimum level of unallocated General Fund reserves include:

- a) There is always some degree of uncertainty over whether the full effects of any economising measures and/or service reductions will be achieved. The Executive Directors have been requested to be prudent in their assumptions and that those assumptions, particularly about demand led budgets, will hold true in changing circumstances.
- b) The Bellwin Scheme Emergency Financial Assistance to Local Authorities provides assistance in the event of an emergency. The Local Authority can claim assistance with the cost of dealing with an emergency over and above a threshold set by the Government.
- c) The risk of major litigation, both current and in the future.
- d) Risks in the inter-relationship between the NHS and Social Service authorities coupled with the responsibilities of Public Health.
- e) The Local Council Tax Support Scheme with less Government funding and increases in caseload at the Council's own risk
- f) Issues arising from the final Housing Benefit Subsidy Claim.
- g) The localisation of Business Rates including the impact of businesses declining in the city boundaries.
- h) New and impending legislation.
- i) Unplanned volume increases in major demand led budgets, particularly in adult and children's services, learning disabilities, physical and sensory impairment, and housing benefits.
- j) The potential for income generated from fees and charges reducing
- k) The need to retain a general contingency to provide for some measure of unforeseen circumstances which may arise. This part of the reserves is not provided for directly but indirectly on the assumption that the financial risks identified will not all crystallise.
- l) The need to retain reserves for general day-to-day cash flow needs. This is minimal given the level of cash the Council holds at any given time.
- m) The potential impact nationally, regionally, and locally of new climate change initiatives and commitment to our green agenda.
- n) The longer-term impact of the inflationary pressure and cost of living crisis on the finances and operational arrangements of the Council.
- o) There remains some ongoing uncertainty over the impact of Brexit.

3.5.6. Further exceptional risks identified may have a potential and serious call on reserves. The Council is advised to be cautious about these risks and

commit to restoring any drawn down reserves in line with the Medium Term Financial Strategy.

3.5.7. In these circumstances, I will require the Council, Cabinet, Chief Executive, Executive Directors and Directors:

- a) To remain within their service budget for 2023/24 and within agreed medium term financial strategy parameters for future years (2024/25 to 2027/28) with a strict adherence to recovering overspends within future years' financial plan targets.
- b) Repayment to reserves in line with the Medium Term Financial Strategy should these risks materialise.
- c) Direct any windfall revenue savings/underspends to reserves should the General Fund Revenue Reserves Strategy require it.
- d) To make appropriate evidenced based value for money decisions.

3.6. Estimated Earmarked General Fund Revenue Reserves

3.6.1. I have reviewed the Council's General Fund earmarked revenue reserves which are estimated to amount to circa. £71.6 million as at 1st April 2023. This will be compiled of key reserves for Capital at £20.8 million, Corporate at £21.8 million, Grants at £17.1 million, Insurance at £6.0 million and Service Reserves at £5.9 million. Further consideration and potential reassessment of all earmarked reserves will be undertaken considering budget decisions taken in February 2023.

3.7. Estimated Earmarked Housing Revenue Account Revenue Reserves

3.7.1. I have reviewed the Council's Housing Revenue Account earmarked revenue reserves which are estimated to amount to £30.6 million as at 1st April 2023. This is compiled mainly of a Capital Investment reserve of £19.7 million and Major Repairs reserve of £10.2million.

3.8. Schools' Balances

3.8.1. Schools' balances, while consolidated into the Council's overall accounts, are a matter for Governing Bodies. Nevertheless, under the Council's Scheme for Financing Schools the Council has a duty to scrutinise whether any school holds surplus balances. In Section 5.1 of the Council's Scheme is "The right to carry forward surplus balances" identifies that Schools may carry forward from one financial year to the next any surplus/deficit in net expenditure relative to the school's budget share for the year plus/minus any balance brought forward from the previous year.

3.8.2. Any revisions to the Council's Scheme for Financing Schools in respect of balances will be amended in line with the requirements of the

Secretary of State for Education with minor amendments agreed by the Schools' Forum.

3.8.3. I am satisfied that the arrangements in place are adequate.

3.9. Capital Investment Programme – 2023/24 to 2027/28

The Capital Budget

3.9.1. Projects, included in the capital investment programme, were prepared by Directors and managers in line with financial regulations and guidance. All projects were agreed by the relevant member of CMT and Cabinet Member and are fully funded for their estimated capital and revenue cost.

3.9.2. Projects have been costed at outturn prices with many subject to tender after inclusion in the programme. This may lead to variance in the final costs.

3.9.3. Services are required to work within the given cash envelope so any under or over provision must be found within these limits.

Capital Investment Programme Risks

3.9.4. The risk of the Council being unable to fund variations in the programme is minimal mainly due to phasing of projects. The Council can freeze parts of the programme throughout the year to ensure spend is within the agreed financial envelope, although this may have service implications.

3.9.5. A further key risk to the capital investment programme is the ability of the Council to fully deliver it within the agreed timescales.

3.9.6. In relation to the General Fund and HRA Capital Investment Programme specifically for 2023/24 (including commitments from previous years and new starts):

- a) The HRA Capital Investment Programme will need to be contained within total programme cost by delaying or stopping specified schemes.
- b) The General Fund Capital Budget is substantial but is based on the best information available in terms of project costs. What is less certain is the actual phasing of expenditure, which urgently needs consideration and also the prioritisation of any new projects particularly those still subject to a viable business case.
- c) The strategic schemes identified in the Capital Investment Programme will be closely monitored in-year.
- d) That the funding identified for the approved Capital Investment Programme is delivered and is proportionate, prudent, affordable, and sustainable.