

Annex 10

Robustness of the 2023/24 Budget and Adequacy of Reserves Statement

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S151 Officer Statement on the Adequacy of Reserves and the Robustness of Estimates

Introduction

- 1.1 Section 25 of The Local Government Act 2003 includes the following statutory duty in respect of the budget report to Council:

‘the Chief Financial Officer (CFO) of the authority must report to it on the following matters: a) the robustness of the estimates made for the purpose of the calculations; and b) the adequacy of the proposed financial reserves.’

- 1.2 The Council is required to take this report into account when making its decision in relation to setting the annual budget and setting the council tax. Section 26 of the same Act, places an onus on the CFO (The Corporate Director of Finance and Resources and s151 Officer) to ensure the Council has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget.
- 1.3 This report has been prepared by the CFO to fulfil this duty and gives the required advice relating to the 2023/24 financial year including a consideration of the budget proposal as a whole and all the financial risks facing the Council.

S151 Officer Conclusion

- 2.1 The Chief Finance Officer (Section 151) therefore advises that, in relation to the financial year 2023/24, the proposed budget estimates are robust. However, the overall level of reserves and balances in the draft MTFP are now at a level below which further depletion would be inadequate, given the volatile economic climate and the financial risks that this presents for the Council. The proposed MTFP aims to re-build reserves in order to provide increased financial resilience within the term of the MTFP.

The key considerations, conditions and assumptions in arriving at this conclusion are summarised below:

- a) The environment in which the Council operates continues to be one of unprecedented financial challenges arising from the continued recovery from Covid-19, the cost of living crisis and the associated period of high inflation driving high energy costs, pay, demand pressures and weak commercial trading conditions impacting the Council's companies and some of its major contracts such as the NET PFI.
- b) The economic outlook beyond 2023/24 remains uncertain in relation to interest rates, inflation and future Government funding.
- c) The Council will need to undergo significant reform and transformation to ensure that its ambitions for serving the citizens of Nottingham can be delivered within its available resources. The timely delivery of the projects and initiatives contained within the Transformation Programme and Directorate plans to realise agreed savings will be essential to maintaining financial balance and building financial resilience over the period. Robust programme management will need to be

exercised within a robust governance framework and performance management regime.

- d) The Council needs to substantially improve its financial management and accounting practice and in particular deliver substantial improvement in its budget monitoring and forecasting capability to improve the robustness of its decision making. In addition, independent review work is currently underway to review the Council's control environment and compliance with the management control framework over the period 2019/20 to 2021/22, which may result in unforeseen financial pressures associated with resolution of any issues identified. Therefore carrying a level of financial contingency within earmarked reserves to deal with these issues is prudent.
- e) General Fund Balances are forecast to grow from **£14.6m** (5.6% Net Revenue Budget) to **£17.6m (6.1%)** over the period, but remain below the s151 Officer's recommended **7.5%**, which for 2023/24 equates to **£19.6m**. Whilst this is above the minimum level of 5% recommended by the now disbanded Audit Commission, it is considered that given the volatile and challenging economic environment that the Council is operating in, combined with the risks inherent in its current operations, that 7.5% provides a more robust position. Further consideration will be given to increasing the General Fund Balance in light of the 2023/24 financial outturn with the first call on any underspend being to prioritise the strengthening of GF balances.
- f) Earmarked Reserves are funds set aside to provide for specific future expenditure plans. The Councils balance on earmarked reserves as at 31 January 2023 is **£183.3m**. Details of the categories of reserves together with a full breakdown of each reserve is included within **Annex 3 – Financial Reserves policy**. **Table 1** below shows the reserves forecast over the period of the MTFP.

Table 1: MTFP Reserves Forecast					
	Balance 31 March 2023	Balance 31 March 2024	Balance 31 March 2025	Balance 31 March 2026	Balance 31 March 2027
	£m	£m	£m	£m	£m
Controllable Ringfenced Reserves	(21.279)	(20.733)	(22.247)	(22.247)	(22.247)
Controllable Non-Ringfenced Reserves	(20.854)	(24.702)	(28.390)	(28.390)	(28.390)
Ringfenced Technical Reserves	(56.795)	(60.596)	(61.556)	(61.556)	(61.556)
Schools Balances	(24.453)	(24.453)	(24.453)	(24.453)	(24.453)
Sub-Total General Fund Earmarked Reserves	(123.381)	(130.484)	(136.646)	(136.646)	(136.646)
General Fund Working Balance	(13.643)	(14.643)	(15.643)	(16.643)	(17.643)
Total General Fund	(137.024)	(145.127)	(152.289)	(153.289)	(154.289)
HRA Controllable Non-Ringfenced Reserves	(0.598)	(0.598)	(0.598)	(0.598)	(0.598)
HRA Ringfenced Technical Reserves	(37.476)	(29.955)	(29.212)	(33.866)	(41.709)
HRA Working Balance	(54.994)	(48.076)	(42.670)	(42.340)	(42.340)
Total HRA	(93.068)	(78.629)	(72.480)	(76.804)	(84.647)
Total Reserves	(230.092)	(223.756)	(224.769)	(230.093)	(238.936)

- g)** The Financial Resilience Reserve (FRR) is forecast to be overcommitted by the end of 2022/23 given the calls upon it arising in the year, together with the forecast overspend of **£13.6m** by the year end. It is necessary to replenish the FRR by the temporary re-purposing of **£20m** of other earmarked revenue reserves, to be repaid at the earliest opportunity over the period of the MTFP as reflected in the plan.
- h)** The General Fund Budget is provisionally balanced over the period of the MTFP, after allowing for the repayment of **£20.0m** borrowed from earmarked reserves at the earliest opportunity. Budget proposals have been subject to due diligence with regard to deliverability, risk and quantification of savings and income and signed off in the form of an 'R2' summary business case by Corporate Directors jointly with their Strategic Finance Business Partner. The profiles provided in the R2 forms will be used to profile budgets and inform the savings tracker over the course of the year through financial and performance monitoring.
- i)** The Council's Strategic Plan and Together for Nottingham plan aligns with the MTFP and the development of supporting divisional and service plans incorporating approved budgets will provide the golden thread aligned to the MTFP is underway and will ensure that service delivery is managed within the context of available funding.
- j)** Controls over the management and use of earmarked reserves will be enhanced further to ensure proactive and stringent management in accordance with the Reserves Policy with use of reserves continuing to require approval by the s151/Deputy s151 Officers.
- k)** Adequate resourcing to be made available to enable delivery of the Finance Improvement Plan in order to implement and embed Financial Management practices that are compliant with the CIPFA Financial Management Code.

This statement has been prepared in good faith and having made best endeavours to consider all known prevailing relevant issues.

Ross Brown

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February 2023