

Appendix 10

Robustness of the Budget and Adequacy of Reserves Statement

February 2024



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Section 1 - Introduction

1. Purpose

- 1.1. In accordance with the Section 25 of the Local Government Act 2003, the Section 151 Officer must report to the Council on two areas:
 - the adequacy of the proposed reserves; and
 - the robustness of the estimates.
- 1.2. The statement has been prepared by the Section 151 Officer to fulfil their legal duty in addition to their advice throughout the year in the preparation of the budget for 2024/25.
- 1.3. The Council is required to take this report into account when making its decision in relation to setting the council tax and its annual budget.

2. Legal Framework

- 2.1. The Local Government Act 2003 Section 25 includes the following statutory duty in respect of the budget report to the Council's Chief Financial Officer and Section 151 Officer to report on the robustness of the budget estimates and the adequacy of the reserves when the council tax decision is being made by the Council:

'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.'*
- 2.2. Section 26 of the same Act places an onus on the Section 151 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. For the purpose of the Act 'reserves' include 'general fund balances'.
 - 2.3. The Chief Financial Officer and Section 151 Officer statutory responsibility resides with the Corporate Director of Corporate Finance and Resources. This is his statement under the Section 25 requirement of the Local Government Act 2003.

3. Financial Management Code

- 3.1. The Chartered Institute of Public Finance and Accountants (CIPFA) published a Financial Management (FM) Code in October 2019. One of the 17 standards included within the FM 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.'
- 3.2. Although there is no legal requirement for the Council to comply with the FM code, compliance to the code is something that the Council is working towards and has mapped these to the Finance Improvement Plan activities.
- 3.3. This statement also forms a key element of the Value for Money audit undertaken by the Council's external auditors.

Section 2 – Robustness of Budget Estimates

4. Context

4.1. Overview

4.1.1. Since July 2023, the Council has been advised of the significant financial challenge it faces over the short to medium term, indicated clearly to the Executive Board and City Council through:

- Reports on the increasing budget gap for 2024/25 in July and December 2023 respectively.
- Issuance of Section 114(3) report in November 2023 as the Council forecasts not being able to meet its statutory requirement to deliver a balanced budget for 2023/24.

4.1.2. On 13 December 2023, the Government announced it is 'minded to' appoint Commissioners to the Council. The appointment of Commissioners at the Council would mean that certain council powers and responsibilities would be passed to the Commissioners for a set period of time. Their remit is expected to include broad and wide ranging powers with respect to the Council's finances. At the current time of writing the report, the Council is awaiting on formal decision with this matter.

4.2. Financial Position

4.2.1. The seriousness of the Council's financial position cannot be understated. It faces a financial deficit of c£23m in 2023/24 and a further estimated budget deficit £171.699m to the end of the Medium Term Financial Plan (MTFP) period 2024/25 to 2027/28.

4.2.2. The current estimates for 2024/25 show that the budget requirement is 13.03% greater than sources of funding available to the Council. It is only with the potential Exceptional Financial Support (EFS), yet to be confirmed by the Department for Levelling Up, Communities and Housing (DLUHC) that I can provide the Council with some assurance on the robustness of the budget estimates and the adequacy of reserves for 2024/25. The response from DLUHC remains outstanding to date but have indicated this remains under consideration with a view expected to be provided end of February 2024.

4.2.3. It is clear that the availability of EFS depends on the Council taking all available steps within its power to mitigate the financial deficit forecast in 2023/24 and 2024/25. Entailing difficult decisions in approving and incepting officer developed saving proposals alongside the delivery of extensive Transformation Programme savings previously approved.

4.2.4. These are very challenging times for local government and therefore it is certain that further difficult choices will be required over the coming budget cycles if the Council is to maintain a continued solid financial foundation and

achieve a balanced budget position in future years. Although the Council has been on transformation journey for last two years, there is still a way to go in improving council's overall financial resilience over the medium to long term.

4.3. Budget Approach

- 4.3.1. In recognition of the financial challenge, the Council adopted the Duties and Powers framework (equivalent to legal minimum service levels) to develop proposals primarily targeted at generating the highest level of savings possible and set a balanced budget for 2024/25. The process included two key stages with the first being the mapping of general fund budgets against legal duties and powers and the second being to develop proposals. The second stage of the process involved numerous challenge sessions, with Corporate Leadership Team (CLT) and members, of officer proposals going through various rounds of iterations before forming part of the budget.

5. Budget Estimates

- 5.1.1. 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 provide the Council with reasonable assurance that the budget has been based on the best information and assumptions available at the time.

- 5.2. The calculation of the budget in its simplest form, is dependent on the following three key factors, viewed alongside the risks:

- 1) The growth and savings across council expenditure or income.
- 2) The increase in council tax and social care precept.
- 3) The adequacy level of reserves and balances held.

- 5.2.1. In order to meet the requirement of assessing the robustness of estimates the Section 151 Officer has considered and relied upon the following:

- Respective Corporate Leadership Team (CLT) to ensure growth and savings have been prepared in accordance with the guidance and instructions issued and their professional assessments to both adequacy of overall budget provision and deliverability of change agendas
- The use of in-year budget monitoring by service managers to identify projected recurring pressures.
- A review of saving proposals and their achievability by the Executive Board, Leadership, Corporate Leadership Team and Departmental Management Teams throughout the budget process.
- Considering professional recommendations and advice on savings and growth proposals from respective CLT leads.

- Respective Corporate Directors and CLT to sign-off growth and saving proposals taking accountability and ownership of budgets to be managed within the agreed financial envelope.

5.2.2. Notwithstanding these arrangements that are designed to test the budget throughout its various stages of development, considerable reliance is placed on Corporate Directors and their management teams having proper arrangements in place to identify issues, project demand data, to consider value for money and efficiency and record key risks within their operational risk register.

5.2.3. Set out below is the approach undertaken to assess budget estimates which have fed into the overall assessment of the robustness of budget estimates.

1) Savings

As set out above the savings were developed using Duties and Powers Framework which went through many challenge sessions with CLT and members, at each stage proposals being refined and iterated.

Corporate Directors led on the formulation of savings proposals with their respective management teams, which were brought forward to separate challenge sessions with CLT and Members over 4 to 5 sessions.

The S151 Officer has placed reliance on the assurances provided by the respective Corporate Directors in deliverability of the proposals. Following the launch of the budget consultation on 19 December 2023, Corporate Directors and their management team have been working on undertaking final verifications to develop implementation plans. For some proposals this work has led to proposals being withdrawn and/or replaced with alternatives, giving further assurance to the S151 Officer and Members of the rigorous review.

Throughout the process services have been supported by Finance and other enabling services such as HR, Legal, Transformation etc

2) Service Growth

A rigorous process has been undertaken with CLT and Corporate Directors collectively and on an individual basis in assessing growth assumptions between September 2023 to February 2024.

Corporate Directors led the growth process with their management teams, to test and assess both the basis on which the estimate is being derived from, the legitimacy of the growth requirement, the impact on saving deliverability if the growth is not provided and can this be managed within existing resource.

The process looked at testing previous MTFP assumptions to ensure that the basis of any growth included in the MTFP was still credible.

Due to the largest budget areas and pressure residing in People's and Growth and City Development directorates, particular focus and time has been spent by Corporate Directors on reviewing the basis and options for demand led budget areas such as adults, children's, Special Educational Need and Disabilities (SEND) Transport and temporary accommodation, including the inflationary impact of required provider fee uplifts.

3) Council Tax and Social Care Precept

The decision to increase the council tax is for members to take but requires having due regard to the professional advice of officers, and in particular to the advice of the Section 151 Officer as it forms a key element of setting a balanced budget.

The MTFP has always included an assumption for officers to recommend the permitted maximum increase in the core Council Tax and Social Care Precept.

In light of the significant financial challenge and request for EFS to set a balanced budget officers are still recommending the maximum increase of 4.99% to Council tax.

4) Reserves

Given the Councils recent history, and in the context of the strategic risks set out in the budget report and below, it is reasonable and prudent to set aside material amounts within reserves to provide for either a single or multiple scenarios manifesting, which have been considered when determining adequacy of overall reserves detailed below.

5) Capital Receipts

In light of the application for EFS from DLUHC and the expectation that this will result in a capitalisation direction which needs to be repaid from capital receipts, work has been undertaken to consider:

- How disposals can be bought forward on the existing programme more quickly.
- How the capital receipt pipeline can be increased significantly.

The planned receipts estimated to the Council can be volatile depending on both the prevailing local economic conditions and timing which have an adverse impact on the financing of the EFS, Transformation Programme and other capital priorities. However, the capital receipts forecast undertakes a risk assessment by reducing the forecast capital receipts over the MTFP period.

Any delay in asset disposals will lead to a cost to the General Fund, as temporary borrowing will be required to fund any shortfall in the EFS in 2023/24 and 2024/25. An estimate for this cost has been included with the 2024/25 budget and MTFP.

6) Other Budget Factors

The main budget report sets out the basis of the other estimates such as pay inflation, contract inflation, grants, and core funding.

6. Risks Impacting Budget Setting

6.1. Given the unique operating context of Nottingham City Council, the following risks need to consider, in addition to the budget factors set out in the main report:

- Commitment from the DLUHC to the approval the EFS request of up to c£65m necessary for balancing in-year budget for 2023/24 and setting a legally balanced budget for 2024/25.
- Organisational ability to develop and deliver
 - 2023/24 in-year General Fund balance budget following issuance of s114(3) report; and
 - the scale of change required in delivering the officer developed saving proposals, as presented within the budget report.
- Delivery record on approved savings programmes to date
- Likelihood of further in year variances (overspends) against approved budget in particular social care placement and temporary accommodation pressures, which continue to be partly mitigated by one-off spend controls and transformational cost reduction programmes which are closely monitored by Leadership and CLT
- Unforeseen shocks or circumstances resulting in financial cost spikes
- Subsidiary company risk - loans and risk of liabilities materialising
- Prior year accounts and historic accounting treatments & practice corrections
- Assumptions regarding debt collection and impact on the collection fund
- Economic factors such as inflation and interest rate environment
- Major project challenges and failure
- Capital receipts not being sufficient to meet existing capital obligations including funding the EFS and transformation programme
- Unfunded income loss pressures as a result of the long-term impact of the pandemic and cost of living crisis, particularly in relation to Council Tax and Business rates income.
- There continues to be issues council-wide with regards to reliability and quality of data required to support robust financial management.

6.2. It is recognised that the Council continues to be on a journey of improved financial monitoring and awareness but are not at this stage of maturity to have certainty on growth and saving estimates.

6.3. The 2024/25 budget needs to be seen in this context and it is expected further iterations of the budget will be required during the financial year as both further impacts and savings are identified.

7. Other Risks

- 7.1. As a Unitary authority the Council provides the broadest possible range of services and has an inherently higher level of risk simply due to the complexity and nature of the services it provides. Additionally, the Council has many subsidiaries which increases the Council's risk profile.
- 7.2. Other risks include:
- Significant staffing shortages within finance and potential difficulties in recruiting sufficient qualified staff given the Council's financial position and reputation.
 - Potential risk of grant clawback including Government capital and revenue funding and housing benefit subsidy shortfalls.
 - The Council's risk as an employer which will require the Council to budget for the cost of severance packages incurred in the delivery of the required budget savings, service transformation and restructuring. An estimate has been included within the budget to be funded from reserves but there is a risk for the funding set aside being not sufficient as detail of these will not be known until respective services undertake the assessment and consultations.
 - The risk of major litigation, both currently and in the future.
 - The risk of continued increase in service pressures above what has been provided for though the budget proves including risk of delay in implementing savings requires for a general contingency to be set aside to provide for any unforeseen circumstances, which may arise.

8. Summary Assessment of Robustness of Budget Estimates

- 8.1. Having made best endeavours to consider all known prevailing relevant issues, the assessment has been undertaken in good faith and on reliance of information and advice provided by respective Corporate Leader Team members.
- 8.2. As set out above and within the main budget report, setting a budget for 2024/25 that is robust, balanced and deliverable has been challenging and has involved a number of difficult decisions for the Council. Even with those difficult decisions the Council is still reliant on material sums of financial support from the Department of Levelling Up, Homes and Communities to set a balanced budget for 2024/25, the impact and ramifications of such support is highly significant to the Council both in the immediate and longer term. The Council is faced with increasingly challenging choices over the medium-term period within the context of its own funding position, the national economy, and the level of funding available to the public sector as a whole.

- 8.3. In relation to the 2024/25 General Fund Revenue budget, the budget proposals have been examined on an understanding that the spending and service delivery proposals are challenging and to some degree uncertain, they nevertheless are achievable given the management commitment to control cost and stay within departmental approved budgets. Good management and the sound monitoring of performance and budgets will be essential. The Section 151 Officer is 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.
- 8.4. The key process risks in making the above statement are the level of resources within the Council dedicated to providing financial support services and advice to managers, which will need the finance team and services to focus on key budget risks areas.

8.5. The Robustness of the General Fund Budget Estimate

- The 2024/25 budget and the Council's Plan set out the roadmap to target our financial resources to delivering better outcomes and effectively manage risks. In addition to improving efficiency, there are clearly choices for the Council in this respect:
 - To increase financial resources to meet demand and reduce risk, and/or
 - To reduce (where possible) service levels and standards, frequency of service delivery, and eligibility for services.
- Most notably the Council has had to address major cost increases and pressures as well as corporate priorities including:
 - Employee costs.
 - Demand led costs.
 - Shortfalls in income and grant income.
 - Inflation.
 - Historic budget issues.
 - Write back off previously approved savings where these have been identified as no longer deliverable.
- Budget growth and saving proposals incepted into the MTFP are based on assurances provided by relevant Corporate Directors on budget assumptions, cost drivers, factors, risks, and management of these risks within the cash-limits. These assumptions will require the forecasts for future years to be reviewed early in each financial year leading to more detailed budgets starting autumn of each financial year.

8.6. Conditions to Section 151 Officers recommendations

- 8.6.1. The Council needs to deliver its MTFP reflecting the continuing impact of the proposed budget and only planned growth in relation to issues that are unavoidable. Within the context of the current financial challenge faced by the Council, it is very likely that service provision and the requirement to set a

balanced budget annually can only be achieved through combination of service transformation, improving efficiency, reduction in provision levels, clear prioritisation, and maximising where appropriate opportunities to generate income.

8.6.2. The Section 151 Officers recommendations are also conditional upon:

- a) The Council continuing to assess, learn, report, and respond appropriately at the earliest point to the existing and emerging financial pressures across all aspects of its operations and identify for CLT leads to identify and formulate corrective and mitigating actions in managing any pressures from within their service areas.
- b) The Council approving the updated MTFP and 2024/25 budget.
- 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) This budget report is based on the current financial outturn forecast for 2023/24 and accounts yet to be audited for 2019/20 to 2022/23. Budget process for future years will need to reflect any impact of prior year accounting adjustments and 2023/24 outturn.
- e) Portfolio Holders, Chief Executive, Corporate Directors, and managers not exceeding their cash limits for 2024/25.
- f) 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 Section 151 Officer has approved otherwise, as it is not prudent to finance ongoing spending from one-off reserves.
- g) Where there is a draw-down on reserves, which causes the approved Reserves Policy to be off target, that this is replenished as part of a revised MTFP.
- h) 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.

8.7. These recommendations are based on:

- The risks identified by Corporate Leadership Team through reviews of their budgets.
- Information provided by respective Corporate Directors in the assessment

of growth needs and delivery of saving proposals.

- The resilience and sustainability required to deliver the MTFP.
- One-off unallocated reserves not being used to fund new on-going commitments.
- That the reserves are only used if risks materialise and cannot be contained by management or policy actions, with the exception of those commitments already approved separately.
- That where reserves are drawn down, the level of reserves is maintained in line with the latest MTFP.

Section 3 – Adequacy of Reserves

9. Context

- 9.1. 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 Section 151 Officer.
- 9.2. 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.
- 9.3. 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.
- 9.4. 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.
- 9.5. The recommendation on the prudent level of reserves has been based on the robustness of estimate information and the assessment of risks.
- 9.6. The level of reserves and balances are principally the responsibility of the Section 151 Officer and are key to ensure the financial sustainability of the Council. The Council must pay due regard to the advice of the Section 151 Officer and be satisfied that they have met their responsibilities in setting of a balanced budget and council tax.
 - 9.6.1. To reflect both the heightened financial risk that the Council is facing and an increase to support the commensurate revenue budget increase the Section 151 Officer recommends that the Council continues to work towards increasing the General Fund balance to hold it at 7.5%. To transition the Council towards establishing a 7.5% level of General Fund balance the Section 151 Officer intends to make a contribution to the General Fund balance of £9.560m in 2024/25 that equates to approx. 7.34%. There will be further opportunity to increase the General Fund balance to the recommended level as part of the final outturn.

9.7. The Section 151 Officer is responsible for managing the general fund balance reserve and use of this can only be made on the recommendation of the Section 151 Officer to the Executive Board. An assessment of the adequacy of the general fund balance reserve will continue to be carried out on an annual basis and form part of the annual budget report.

9.7.1. The 2023/24 revenue budget at Period 6 was forecasting to overspend by c£23m which is proposed to be funded from EFS and where there is a capital receipts shortfall to either borrow or utilise reserves.

9.7.2. The 2024/25 budget includes a one-off budgeted contribution of c£10m towards the financial resilience reserve.

9.7.3. In determining the level of reserves and balances key factors include:

- The risks inherent in the budget;
- The level of specific reserves and associated provisions;
- The identified efficiencies to be achieved;
- The future financial risks the Council may be exposed to both quantifiable and unquantifiable; and
- The Authority's history of delivering services within the budgetary provision set.

9.7.4. Earmarked Reserves are funds set aside to provide for specific future expenditure plans. The Councils forecast balance on earmarked General Fund reserves as at 31 March 2024 is £164.047m. Details of the categories of reserves together with a full breakdown of each reserve is included within Appendix 9. Table below shows the reserves forecast over the period of the MTFP period 2024/25 to 2027/28.

Reserve / Balance	31/03/2025 (estimate)	31/03/2026 (estimate)	31/03/2027 (estimate)	31/03/2028 (estimate)
Non-Controllable Restricted Reserves	(26.140)	(26.148)	(26.141)	(26.174)
Controllable Ringfenced Reserves	(69.069)	(69.112)	(73.910)	(79.931)
Controllable Non-Ringfenced Reserves	(18.238)	(11.612)	(11.709)	(11.806)
Total Earmarked Reserves	(113.447)	(106.873)	(111.761)	(117.912)
General Fund Balance	(25.203)	(26.203)	(27.203)	(28.203)
Total General Fund Reserves and Balances	(138.650)	(133.076)	(138.964)	(146.115)
HRA Balance	(10.000)	(10.000)	(10.000)	(10.000)
HRA Reserve	(87.860)	(92.634)	(103.600)	(120.606)
Total HRA Reserves and Balances	(97.860)	(102.634)	(113.600)	(130.606)
TOTAL	(236.510)	(235.710)	(252.564)	(276.721)

9.7.5. In 2023/24 c£20m was repurposed from other reserves to the Financial Resilience Reserve (FRR) with repayment originally profiled at the earliest opportunity over the period of the MTFP. Due to the Council's financial position this was reviewed as part of the MTFP update to the Executive Board in July 2023 and adjusted to be paid back over 8 years (two MTFP cycles).

9.7.6. Budget proposals have been subject to due diligence with regard to

deliverability, risk and quantification of savings and income and being signed off in the form of an 'R2' summary business case by Corporate Directors supported by enabling services including Strategic Finance Business Partners. 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.

- 9.7.7. 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.
- 9.7.8. 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 Section 151 and Deputy Section 151 Officers.
- 9.7.9. 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.
- 9.7.10. Despite budgets being calculated on most likely estimates, not the best estimates basis, the budget contains significant challenges in terms of savings delivery as well as demand led pressures. The Council has set plans to deliver savings of £37.299m. Whilst the financial environment remains volatile the budget process provides for significant revenue investment of c£81m for 2024/25.
- 9.7.11. Clearly delivering against a budget with a significant amount of savings whilst coping with an increased population driving further pressures on services is demanding.
- 9.7.12. The Section 151 Officer has also made a professional assessment of future known funding requirements c£20m (£7.6m in 2023/24 and remaining in 2024/25) which are not currently approved, and will need to be funded including:
 - professionally assessed estimated commitments;
 - prior year accounting adjustments identified to date; and
 - the need to establish a higher level of General Fund balance commensurate with the increased revenue budget and risk assessment (section 13).
- 9.7.13. These have been reflected in the MTFP forecast.