Statement of the Chief Financial Officer on Reserves, Robustness of Estimates and Affordability and Prudence of Capital Investments

1. General Fund Reserves

1.1. In order to comply with Section 25 of the Local Government Act 2003; the Authority's Chief Financial Officer (the Director of Finance) is required to report on the robustness of the estimates made for the purposes of the revenue budget calculations and the adequacy of the proposed reserves. This information enables a longer-term view of the overall financial resilience of the Council to be taken. It also reports on the Director of Finance's consideration of the affordability and prudence of capital investment proposals. The level of general balances to support the budget and an appropriate level of Earmarked Reserves maintained by the Council in accordance with the agreed Council Policy on Earmarked Reserves, are an integral part of its continued financial resilience supporting the stability of the Council.

1.2. Whilst the Council has prepared a detailed revenue budget within a five-year Medium Term Financial Strategy (MTFS), a five-year Capital Programme and continues the closure of accounts within an appropriate timeframe allowing early focus on the upcoming challenges and a robust financial transformation programme, there continues to be a reliance on the use of reserves to balance the revenue budget.

1.3. Since 2016/17, reserves of £95.313m have been used to underpin the Council's revenue budget alongside other one-off measures. This includes £33.989m relating to grant compensation received in 2020/21 (£25.182m) and 2021/22 (£8.807m) and used in 2021/22 and 2022/23 to support the Collection Fund deficit arising from the award by Government of Business Rates Relief. For 2023/24, it is proposed to use corporate reserves of £8.842m increased from an initial £6.000m and specific reserves of £3.944m (£2.900m for Children's Social Care Investment and £1.044m of Waste Reserves Refund) combined with other one-off measures totalling £6.730m. The remaining corporate Balancing Budget reserve of £3.932m will be used to support the 2024/25 budgets.

1.4. There is, therefore, a reliance on the use of reserves to balance the budget over part of the MTFS period. The continued use of reserves and one-off measures has had the impact of deferring the changes that are required to balance the revenue budget by on-going sustainable means. As detailed within the Revenue Budget Report, the implementation of the Council's transformation programme over the MTFS period is expected to address the Council's budget challenge. The expected benefits of the transformation programme will be phased over several financial years and is therefore supported by the use of reserves over the short term.

1.5. Whilst the Council's final Audit Completion Report for 2021/22 has not yet been received from the External Auditor, it is expected that the findings will be positive and that no risks or significant weaknesses in arrangements will be reported. This is encouraging and should be considered in the context of 2023/24 budget setting and the Medium Term Financial Strategy for 2023/24 to 2027/28.

1.6. Financial resilience does depend in part on the Council maintaining an adequate level of reserves and these are detailed within the Revenue Budget Report. In order to scrutinise the level of reserves held by the Council the policy on Earmarked Reserves was considered by the Audit Committee on 21 June 2022 and it is proposed to action the same review again in 2023/24 after the closure of the accounts for 2022/23.

1.7. Whilst the Council is utilising a number of reserves to support the 2023/24 and 2024/25 revenue budget, Members can be assured that Oldham Council currently remains financially resilient. Work has and is taking place to address the on-going financial pressures that the Council is facing with additional investment being made in Children's and Adults Social Care, therefore at the start of 2023/24 it will continue to be well placed to meet the difficult financial challenges ahead. However, this strategy relies on the delivery of the transformation programme over the short to medium term. Public findings reported elsewhere have shown that some Authorities have not, in a small number of cases, been able to deliver the level of transformational savings required so it is important that the Council delivers on current plans.

1.8. In conclusion, the Chief Finance Officer is able to advise Members of the robustness of the estimates and the affordability and prudence of capital estimates 2023/24. Despite the use of reserves over recent years, the level of reserves remains adequate to support the 2023/24 financial position and demonstrates financial resilience.

2. General Fund Balances

2.1. A summary of the balances required to support the 2023/24 revenue budget is shown at Annexe A. It also presents the calculation of an indicative recommended level of balances to support the 2024/25 to 2027/28 budgets.

3. Risk Assessment

3.1. There are two approaches for deciding the optimum level of the general contingency reserve (General Fund Balance) required for the Council to support its annual budget process. This is either a percentage of expenditure, which at one stage was recommended by the External Auditor to be at a minimum 5% of net expenditure, or an approach based on an assessment of risk.

3.2. The agreed Council approach adopted for a number of years is to use a risk-based approach based upon 11 areas of assessed risk:

- Inflation is underestimated in the original estimates
- Interest rates are underestimated
- Changes to grant funding regimes
- Some budgets are only indicative at the time the budget is agreed
- Volatility in some budget headings between years
- Efficiency gains expected in the agreed budget are not achieved
- Unforeseen insurance costs
- Emergencies which cannot be foreseen which occur on an ad hoc basis
- Changes to budgets where targets are not met
- Financial and Partnership guarantees given by the Council including Health Devolution
- Unforeseen events

3.3. The summary at Annex A provides a financial value against these areas of risk. This shows that for 2023/24, the proposed level of General Fund Balances remains unchanged from that currently held i.e., £20.012m. There is a marginal increase, based on the current risk assessment for both 2024/25 and the period 2025/26 to 2027/28. Given the small increase (£0.056m to 2024/25) and a further ££0.166m to 2025/26 to 2027/28, then no budgetary adjustment has been included in the respective years budget estimates as this could be addressed during the preparation of the final accounts for either 2022/23 or 2023/24, depending on the outturn for respective years.

4. Affordability and Prudence of Capital Investments

4.1. The current prudential borrowing regime places a duty on the Chief Financial Officer to ensure that the financial impact of decisions to incur additional borrowing over and above that supported by direct Government resources are affordable both in the immediate and over the longer term.

4.2. However, given the changes in Local Government finance introduced in 2006/07, there is no longer any direct relationship between supported borrowing and the grant to finance it. Consideration of all new capital schemes and their revenue impact is therefore undertaken alongside other revenue issues to ensure that resources are allocated appropriately and are affordable.

4.3. In December 2021 the Chartered Institute of Public Finance & Accountancy (CIPFA) issued revised Prudential and Treasury Management Codes in response to concerns about high levels of borrowing to fund commercial investment in a small number of Local Authorities which required all Local Authorities to prepare a Capital Strategy report. The Council was already compliant with this requirement.

4.4. In accordance with previous practice, the Annual Review of the Capital Programme (known as the Summer Review) was completed and subsequently approved by the Capital Investment Programme Board and then approved by Cabinet as part of the Month 6 monitoring report at its meeting of 12 December 2022. This review incorporated extensive discussions with Project Managers and Finance Officers to determine an updated profile of expenditure for all schemes. It also examined any further opportunities to reallocate resources or decommission schemes whilst also including an in-depth analysis of capital receipts. The outcome of this review was that £10.313m was rephased in 2022/23 to future years with some further re-phasing of 2024/25 spend to later in the Capital Programme.

4.5. A further review of the Capital Programme was undertaken when preparing Capital Strategy and Capital Programme 2023/24 to 2027/28. The reprofiling of planned capital spending detailed above in accordance with current projections has facilitated a less than initially anticipated increase to the base budget for capital financing costs for 2023/24 of £1.115m.

4.6. The Capital Strategy and Capital Programme 2022/23 to 2026/27 has therefore been updated following these reviews and the impact of the Council's current investment plans detailed in the Capital Strategy and Capital Programme 2023/24 to 2027/28, which is included elsewhere on the agenda. The capital spending plans are expected to be financed as far as appropriate utilising capital grant and capital receipts, Housing Revenue Account (HRA) resources for HRA projects, with the balance being funded through Prudential Borrowing. Related capital financing charges are included in the revenue budget for 2023/24, with future year's charges being estimated in the MTFS. As can be seen from the level of investment in the Capital Strategy, the Council has committed to deliver regeneration objectives for the Borough. Despite the challenging financial position, the Council has ensured that there is sufficient revenue budget to meet capital financing commitments and it is essential that this remains so going forward. Subject to that, the capital estimates are considered prudent and affordable while supporting the aspirations and ambition of the Council.

5. Financial Resilience

5.1. The Section 151 Officer has to consider the financial resilience of the Council and its ability to withstand and mitigate the impact of the unknown costs as a result of local and national changes across the MTFS period. There are a number of ways in which the Council demonstrates its financial resilience:

- MTFS review and update – continual update of the key assumptions and forecasts that underpin the Council's MTFS to ensure they remain robust and accurate;
- Budget Risk Assessment – annual assessment of the adequacy of the Council's General Fund Balance to mitigate the impact of risks;
- Reserves Policy – annual review and update of the Council's Reserves Policy to ensure the Council has a strategic approach to the creation and maintenance of Earmarked Reserves;
- Annual Review (Summer Review) of the Capital Programme – annual review to ensure estimates are affordable and prudent;
- Scrutiny and Audit Committees – regular Member scrutiny of the Council's Revenue and Capital financial position throughout the year alongside reports on Financial Resilience and the Reserves Policy; and
- Internal and External Audits – independent audits of the Council's financial management and governance throughout the year including reviews of Fundamental Financial Systems (FFS).

5.2. Since 2019, CIPFA has published its Local Authority Financial Resilience Index which was aimed at supporting the Local Government sector as it faced continued financial challenges. An updated Financial Resilience Index based on 2021/22 data was issued on 21 December 2022.

5.3. The December 2022 Index, based upon 2021/22 data, highlighted that the indicator for change in Earmarked Reserves has moved to high risk on the indicator of financial stress scale when compared to our nearest neighbour Local Authority comparator group and since the release of the last Financial Resilience Index. Alongside this, the indicator for Unallocated Reserves has moved from lower risk to medium risk. These increases are due to the use of reserves to support the revenue budget which is set to continue over the medium term. However, a number of indicators decreased in risk i.e., the Children's Social Care Ratio which has moved to low risk and indicates the percentage of spend for this area against the Council's Net Revenue Expenditure is at an acceptable level. The remaining Oldham indicators were not to be considered to be extremely high risk or a cause for immediate concern.

5.4. The Index has provided some useful information and confirmed the position that, leading into 2022/23 the Council was financially resilient although it did highlight the reliance on Earmarked Reserves. This can provide Members with some assurance as to the financial position of the Council.

5.5. Furthermore, as a result of the financial challenges facing the Local Government sector, CIPFA introduced the Financial Management Code with the objective being "to support good practice in financial management and to assist Local Authorities in demonstrating their financial sustainability".

5.6. The Code is based upon a series of principles which are supported by specific standards of practice which CIPFA consider necessary for a strong foundation. The foundation being the ability to:

- Financially manage the short, medium, and long-term finances of a Local Authority
- Manage financial resilience to meet foreseen demands on services
- Financially manage unexpected shocks in their financial circumstances

5.7. The Financial Management (FM) Code builds on the success of the CIPFA Prudential Code which requires Local Authorities to demonstrate the long-term financial sustainability of their capital expenditure. The FM Code is also consistent in that it is based upon principles rather than prescriptions and each Local Authority must demonstrate that they meet the requirements of this Code.

5.8. A report was considered by the Audit Committee on 17 January 2022, which set out how the Council complies with the FM Code with an update to be reported during 2023. Whilst there are a few areas for improvement, the Council's compliance is generally good which can give Members some further assurance about the financial management arrangements within the Council.

Annex A - General Balances Calculation

Area of Risk	2023/24 Value by Risk Factor £000	2024/25 Value by Risk Factor £000	2025/26 to 2027/28 Value by Risk Factor £000
Inflation	1,955	1,869	1,923
Interest rates	500	250	250
Changes to grant funding regimes	388	397	304
Estimated Budgets	100	100	100
Budget Volatility	1,557	1,002	1,053
Budget Reductions	1,247	5,000	4,379
Unforeseen insurance costs	100	100	100
Emergency Planning	5,250	4,750	4,525
Changes to budgets	100	100	100
Financial and Partnership guarantees	5,000	3,750	3,500
Unforeseen events	3,815	2,750	4,000
Total General Fund Balance Requirement (based on Risk Assessment)	**20,012**	**20,068**	**20,234**