Appendix 9

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

1. General Fund Balances

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. 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 put together a financial transformation programme aimed at addressing the financial challenges that the Council faces over the short and medium term.

1.3. Since 2016/17, some £105m of reserves has been approved by members as part of the annual budget setting process to underpin the Council's revenue budget. This is alongside other one-off measures. The 2023/24 revenue budget forecast outturn position highlights a current unfavourable projected variance of £16.2m; which will need to be financed from reserves. This is in addition to the general contribution from reserves of £12.5m towards the 2023/24 budget approved by Council in March 2023 plus contributions from other earmarked reserves for specific projects/initiatives of some £5m. The totality of these actions would mean applying around £33m of Earmarked Reserves to balance the budget in 2023/24. Whilst the level of Earmarked Reserves is sufficient to allow the Council to take this action, it is not a sustainable approach and it significantly reduces the quantum of the Council's available reserve and thus its financial resilience.

1.4. In the light of known financial pressures facing the Council, some £36m was set aside as part of the 2023/24 budget to support the Council's revenue budget in future years – this is held in Balancing Budget and Fiscal Mitigation reserves. The balance on these reserves is forecast to fall to £15.7m by the end of this financial year. As detailed within Section 15 of the Revenue Budget Report, for 2024/25, it is proposed to use corporate reserves of £10.8m (increased from an initial £2.5m approved in March 2023) to balance the 2024/25 budget which, together with other specific contributions from reserves, will mean there is likely to be limited earmarked reserves available to support the 2025/26 budget.

1.5. 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 Section 20 of the Revenue Budget Report, the implementation of the Council's transformation programme over the MTFS period is addressing the Council's budget challenge. However, the expected benefits of the transformation programme will be phased over several financial years and the programme and whilst the programme will contribute to the delivery of significant savings which will assist in reducing the gap, in its current form, the programme will not generate sufficient savings to bridge the overall gap.

1.6. Plans to address this in 2024/24 include:

- The establishment of a Delivery Board, chaired by the Leader to monitor the delivery of proposed savings and ensure they are a primary focus of directors;
- The implementation of detailed service reviews to identify additional cost reduction proposals that can be approved during 2024/25. This will commence as soon as the 2024/25 budget is approved; and
- Additional controls (introduced in January 2024) in respect of authorising expenditure and new recruitment.

2. General Fund Balances

2.1. A summary of the balances required to support the 2024/25 revenue budget is shown at Annexe A. It also presents the calculation of an indicative recommended level of balances to support the 2025/26 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; and
- Unforeseen events.

3.3. The summary at Annexe A provides a financial value against these areas of risk. This shows that for 2024/525 the level of balances available to support the Council's revenue position should be no less than £30.2m. Similar levels are required throughout the MTFS period.

3.4. The General fund balance is currently £18.9m. This together with level of earmarked reserves available to support the Council's revenue budget means that the Council will start 2024/25 with an adequate level of reserves. However, a further programme of additional, sustainable savings will need to be implemented in 2024/25 in order for reserves to remain at an adequate level throughout the period of the MTFS.

4. Affordability and Prudence

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. 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.

4.3. 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 11 December 2023. This review incorporated 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.

4.4. The outcome of this review was that £28.9m was rephased in 2023/24 to future years with some further re-phasing of 2024/25 spend to later in the Capital Programme. The Capital Programme is kept under regular review, including during the preparation of the Capital Strategy and Capital Programme 2024/25 to 2028/29, with updates to the Programme being reported as part of the monthly monitoring reports. The reprofiling of planned capital spending detailed above has facilitated a reduction to forecast financing costs for 2024/25 of some £1.5m.

4.5. The capital spending plans will 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. This additional borrowing is estimated at some £160m forecast to increase debt servicing costs by £15.5m over the MTFS period, which will add further financial pressure to the Council. Therefore, the Council will need to keep the Capital Programme under constant review during 2024/25: In particular, any new projects that require any significant Prudential Borrowing must be supported by business cases that address the additional costs that will result to ensure that the impact on the General Fund and therefore the council taxpayers are minimised.

Financial Resilience

4.6. 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).

The Chartered Institute of Public Finance and Accountancy (CIPFA) - Financial Resilience Index

4.7. Since 2019/20, the Chartered Institute of Public Finance and Accountancy (CIPFA) have published their Financial Resilience Index, essentially as an early warning indicator to prompt discussion and action. The level of reserves and balances are a key element in the CIPFA Financial Resilience Index. The latest index was published in December 2023.

4.8. The Oldham position for initial years did not highlight any major areas of concern but the December 2022 Index highlighted that the Council had moved to an increased risk level when compared to the Council's Local Authority comparator group. The December 2023 Index, based upon 2022/23 financial results, has maintained the Council at medium risk, albeit with slightly worsening indicators in respect of the Council's level of reserves. Overall, the Council remains to be considered as robust, particularly relative to its comparator authorities. However, when considering the 2023 index it is important to recognise the following:

- The index is based upon the Council's financial results for 2022/23 that showed a deficit of just £1.6m and a relatively healthy level of earmarked reserves. As such it is a lagging indicator and does not take into account the use of reserves and overspend occurring in 2023/24.
- The list of comparator authorities are ones that are facing the same financial challenges as Oldham

Therefore, whilst the 2023 index does provide some comfort, it does need to be treated with some caution.

4.9. Financial resilience is a key consideration for Councils which has become more topical over the last couple of years as a number of Councils have issues Section 114 notices, effectively declaring their inability to meet their financial commitments. During 2023/24 a number of Councils, including Birmingham City Council, Nottingham City Council and Woking District Council have issued Section 114 Notice. A number of other authorities have issued notices that they are at risk of issuing a S114 notice if they do not quickly limit expenditure and deliver savings. Whilst the reasons for the issuing of these notices vary, demand pressures, failure to achieve savings and failure to take the action necessary to correct underlying structural budget gaps have in most cases contributed to weakening financial resilience and ultimately the issuance of Section 114 Notices.

4.10. It is important to note that the Council's External Auditor (Mazars LLP) is required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The opinion requires the demonstration of:

- Financial Sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

4.11. The Council has not yet received the final Annual Report on the financial year 2022/23 from the External Auditors. The report will contain a commentary on the audit of the financial statements as well as an opinion on the Council's Value for Money (VFM) arrangements (outlined above). Although it has not yet been received, in relation to each of the three areas examined, an interim update provided to the Audit Committee of 31 October 2023 indicated that it is expected that the findings will be positive and that no risks or significant weaknesses in arrangements will be reported. As such, Members can have further confidence in the current financial position.

4.12. Financial resilience does depend in part on the Council maintaining an adequate level of reserves and these are detailed within Section 16 of 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 in June 2023 and it is proposed to action the same review again in 2024/25 after the closure of the accounts for 2023/24 with a review undertaken by the Governance, Strategy & Resources Scrutiny Board.

4.13. Members can be assured that Oldham Council remains financially resilient in the short term. 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. This strategy relies on the delivery of the transformation programme over the short to medium term and therefore it is vital that the Council delivers on current plans.

4.14. 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 for 2024/25. However, this is only the case provided that general balances remain at £18.9m for 2024/25 and strategies are put in place to increase to a level approaching £30m over the MTFS period, as calculated and shown in **Annexe A** to this report. Furthermore, all budget options, or in year alternatives, must be monitored closely and delivered as planned.

Annexe A - General Balances Calculation

Area of Risk	2024/25 Value by Risk Factor £000	2025/26 Value by Risk Factor £000	2026/27 to 2028/29 Value by Risk Factor £000
Inflation	5,367	5,199	5,245
Interest rates	500	250	250
Changes to grant funding regimes	830	232	192
Estimated Budgets	2,600	2,650	2,750
Budget Volatility	1,719	1,782	1,805
Budget Reductions	7,152	9,214	5,896
Unforeseen insurance costs	100	100	100
Emergency Planning	5,250	4,750	4,750
Changes to budgets	500	500	500
Financial and Partnership guarantees	4,500	4,250	4,250
Unforeseen events	1,750	2,250	3,750
Total General Fund Balance Requirement (based on Risk Assessment)	**30,267**	**31,176**	**29,488**