

Appendix F - Responsible Financial Officers Opinion

1.1 The 2003 Local Government Act imposes a number of statutory duties on a Council's Responsible Financial Officer (RFO). Guidance on these duties is contained within LAAP Bulletin 55 and CIPFA's updated Statement on the Role of the Finance Director, compliance with which has been supported by the Council's Audit Committee. The primary duties are for me, as RFO, to provide a view on the robustness of the budget process, budgetary risk and the adequacy of reserves and balances.

1.2 Robustness of the budget process

1.3 In terms of robustness of the budget process, I have placed reliance on the work carried out by members of the Strategic Leadership Team in their Directorates involving budget managers and devolved accountants. The process has been undertaken properly and rigorously with notable elements of good practice. These include;

- The use of the Council's Medium Term Financial Plan as an integral part of budget planning
- Cabinet ownership of budget principles and assumptions through the development of the Medium Term Financial Plan and budget proposals
- Anticipating likely and known events through the application of appropriate indices for base costs.
- Applying rigour via Directorate Management Teams, Chief Officers, Strategic Leadership Team and Cabinet Member scrutiny.
- Comparing year on year budgets by using 2019/20 outturn and 2020/21 budget monitoring data.
- Looking at a unit cost analysis for services against other Welsh authorities where necessary.
- Providing Select Committees with opportunity to look at and scrutinize current budgets, gaining an understanding of the budgets within the remit of their Select committee.
- Providing Cabinet and Select Committees with the assumptions underlying the Medium Term Financial Plan.
- Consulting on budget proposals through virtual public meetings, the website and social media as well as virtually with Town and Community Councils, the Schools Budget Forum, Trade Unions (via the Joint Advisory Group), vulnerable groups and with young people at a Young People Session.
- Communicating emerging Settlement considerations to Cabinet members.
- Being clear on risks and assumptions within budget proposals and identifying the links with the corporate priorities of the Council and as set out in the Corporate Plan and the accompanying Winter Strategy and coronavirus strategic aims.
- Ensuring all members are involved in the budget setting process by establishing that budget and Council Tax settings is a function of full Council.

1.4 There are a number of explicit risks in the budget proposals now presented given the continued strain on services, the continued impact of the pandemic and the uncertainties next year and into the medium term. Risks have been identified as the budget proposals have been put together and are captured as part of the MTFP model. Outlined below are the key risks and how they are being managed:

- The extent of significant and ongoing additional costs and income losses that result as a consequence of the pandemic and the extent to which Welsh Government don't continue to fully fund such shortfalls. The Council has benefitted and is grateful to Welsh Government for the extent of the funding during 2020/21 to meet such costs. However, the budget is predicated on this funding continuing and in meeting the full cost of such impacts. In the event that full funding is not forthcoming further savings and recourse to one-off use of reserves may need to be considered as part of a budget recovery plan.
- Continued increase in demand and evidenced based pressures in relation to the financial impact of increasing demand in children's social services, demographic changes such as increasing elderly population, changes in pupil numbers, increase in special educational need provision has been included in the current budget process. The extent of these pressures in both the current year and next year are unprecedented. However, these risks have in part been mitigated by the protection and prioritisation given to these areas in the sense that budget savings continue to be more heavily weighted to other areas of the budget. Or where savings can be achieved to accommodate such pressures without having an adverse impact on the sustainability of these areas. However, given the current year position against the budget in many of these areas, these potential pressures will require careful monitoring over the course of the financial year so that problems can be highlighted early and any appropriate corrective action taken.
- Directorates are being required to manage some pressures within their service areas as only significant pressures have been highlighted and included in the budget build. Whilst individually these pressures are relatively small in total there is a considerable pressure to be managed alongside the achievement of the budget saving proposals contained as part of this budget.
- A number of the savings/efficiency proposals involve the generation of income, changes to current structures, systems and processes, consideration of alternative delivery models or have implications for service design involving community, other partners and entities. These savings involve higher levels of risk than those which broadly maintain current arrangements. At the practical level these risks begin with the income targets not being achieved, possibility of slippage and disruption in the transition from old to new arrangements resulting in further pressures to be managed in the year in which savings are budgeted to be made. Clearly robust and timely monitoring of the delivery of the savings in the budget will be critically important in order to manage the potential for these risks to materialise.
- The need to ensure that the Authority manages within its in-year revenue and capital budgets as the consequence of any resultant overspend removes the ability to replenish reduced levels of earmarked reserve and places an additional risk that Council Fund levels will be compromised below 4%-6% financial planning assumption traditionally volunteered to Members as prudent. Robust budget monitoring arrangements are in place and corrective action will be taken as needed by the Strategic Leadership Team in consultation with Cabinet Members as required.

- Some of the significant pressures evident during month 7 in-year monitoring have been addressed as specific pressures in 2021-22 budget proposals, and furthermore adjustments that need to be made in respect of previously savings volunteered to members and supported by them which are not subsequently being delivered.
- Late notification of grant funding streams being removed or reduced. There are still significant grant streams that the Council relies upon, that have either not yet been communicated by Welsh Government, have been received late in the budget process or where the impact of notifications is awaiting further clarification. This is particularly an issue where the expenditure backing this grant has an effect on the financing of permanent staff. These will need to be managed on a case by case basis, with the default position being that if the grant ceases the activity also ceases unless a business case can be built that justifies the maintenance of the activity, the expenditure and identifies a means of funding this expenditure following the loss of grant income.
- No allowance for non-pay inflation is afforded in the proposed budget, despite CPI predictions over next three years being between circa 2% per annum. Unless recognised as specific pressures in the budget proposals services will not receive budget to cover the full extent of inflation factors next year if they turn out as expected. This puts further pressure on service budgets to find efficiencies savings to manage this shortfall. There is an expectation that this would need to be managed within overall directorate budgets.
- General pressures on school budgets indicated by the number of schools requiring an agreed deficit budget recovery plan. As previously identified, schools have been protected from the level of savings required from the rest of the Authority. The LEA will be working closely with schools to help costs savings to be established. However, it is understood that some schools still need to establish timely sustainable budget management plans and where necessary budget recovery plans. A loan mechanism being offered to schools assists schools in managing and repaying these deficit balances.
- Treasury estimates established in the budget are based on cashflows, timing of capital spend, forecast interest rate levels and capital receipts occurring as planned.
- The risks on the capital side are largely caused by limited additional capital receipts being foreseen by colleagues during the next MTFP window, placing an additional emphasis on borrowing going forward, at a time when revenue headroom to afford borrowing is compromised by the extent of annual savings necessary to achieve a balanced budget. The need to make use of flexible use of capital receipts to fund revenue costs associated with service reform for 2019-20, 2020-21 and 2021-22 also results in a further depletion of available capital receipts.
- Whilst the Council is not playing a reliance on commercial income generation its commercial activities do naturally present commercial risks. The governance arrangements in place through Investment Committee and Audit Committee ensure that investments are made on the basis of sound recommendation resulting from robust business cases. Investment performance is monitored by Investment Committee, through budget monitoring reports but explicitly by Audit Committee on an annual basis.

- There are a significant amount of unbudgeted capital pressures and investment plans which can bear on the Council's limited capital resources if policy commitments are made to add further to the capital programme or risks materialize and that require the Council to act to respond to failures in the operational nature of assets.

1.5 Whilst the above risks in the 2021/22 budget have been identified, the main budgetary risks going forward in for the MTFP will also need to be managed and outlined are as follow:

- The increasing challenges with sustaining and maintaining existing service delivery and in line with the priorities outlined in the Council's corporate plan
- The implications and impact on public services and that result from the longer term impact of the pandemic on Monmouthshire's communities and wider economy
- The risk and uncertainty around funding settlements projected for the medium term
- The risk of pay awards not being fully funded by UK and Welsh Government
- The financial, service and strategic implications of service redesign and transformation
- The national and local emphasis on carbon reduction
- The deteriorating condition of local roads, associated infrastructure and property
- The ageing population
- Continued uncertainty in financial markets
- Low economic activity leading to increased demand for some services and reduced income in others.

1.6 Adequacy of reserves

1.7 The MTFP has established the principles for general and earmarked reserve utilization. The level of the Council Fund reserve stood at £8.907m at the start of 2020-21, excluding delegated school balances. Whilst the latest month 9 financial monitoring information shared with Members and SLT during the year indicates a favourable non-COVID forecast situation of £142k, contained within this are significant service overspends and pressures. Furthermore, the forecast is predicated on Welsh Government fully funding COVID related cost pressures and income shortfalls.

1.8 Any further adverse volatility in service costs and pressures, the delivery of the in-year budget recovery plan or shortfall in Welsh Government COVID funding could have a material effect on Council's prudent financial planning assumption of keeping general reserve levels between 4-6% of net expenditure. However, late notification and receipt of specific grant funding from Welsh Government, together with reasonable assurance that Welsh Government will fund COVID costs and income losses, have greatly assisted in mitigating this risk going into year-end.

1.9 Based on a budgeted net expenditure (excluding Police and Community Council precepts) and before financing totalling £168.5m, a £9.05m balance (i.e. brought forward reserve

balance plus £245k) equates to 5.37% cover, which sits just above the middle of agreed acceptable levels.

- 1.10 Based on this current assessment the headroom above the de minimum 4% threshold in general reserves stands at £2.167m. This headroom was created tactically as part of the 2019/20 outturn strategy. The latest in-year forecast and the final budget proposals are not suggesting any need to call on general reserves.
- 1.11 The focus therefore turns to the uncertain outlook and future financial challenges and where the headroom in the Council Fund balance is reserved and if required to cover the following, and where mitigating budgetary recovery action is unable to manage such pressures on the Council's budget:
- Any budget pressure in 2021/22 resulting from pay award announcements in excess of the 1% modelling assumption in the final budget proposals
 - Any COVID related pressure caused by a shortfall in Welsh Government funding in 2021/22
 - Any one-off contribution to support the 2022/23 budget proposals
 - To allow for future reserve cover across the MTFP and beyond
- 1.12 Net school balances have remained at low levels and have reduced in recent years to a net deficit balance of £435k. As at month 9, school balances were forecast to increase to a net deficit of £166k. The improvement has resulted from positive recovery action being taken by schools together with Welsh Government grants that have looked to ensure that the costs that schools have had to bear during the pandemic have been met. Continued emphasis is placed by LEA finance colleagues to agree budgets with schools that are sustainable to the resources available rather than passporting additional deficits to their school reserve. Recovery plans are in place for all schools in deficit and are being closely monitored by the LEA and relevant Cabinet members.
- 1.13 The 2021/22 budget anticipates some limited use of earmarked reserves to support the budget proposals. Earmarked reserves have been established over time for use for designated purpose over time, and whilst not currently earmarked for use provide a level of contingency for some of the risks associated with the budget recommendations highlighted in this report.
- 1.14 Earmarked reserve usage over the MTFP is projected to decrease the balance on earmarked reserves from £5.5 million forecast at end of 2020/21 to £5.1 million at the end of 2021/22 (See appendix H1). Taking into account that some of these reserves are specific, for example relating to joint arrangements or to fund capital projects, this brings the usable balance down to circa £3.4 million.
- 1.15 Useable capital receipts also provide a limited one-off resource to support financing of the capital programme. In recent years the Council has also made use of Welsh Government's guidance allowing flexible use of capital receipts to meet one-off costs associated with service reform. The Council has had to make use of this flexibility in 2019/20 and 2020/21 and plans to do similarly in 2021/22 and indicatively in 2022/23. Useable capital receipts are forecast to reduce to £4.9m by the end of 2024/25 based on MTFP capital budgets. The continued use of capital receipts for this purpose is recognized as a necessary but unsustainable approach and has the added consequence of requiring the Council to fund any further and future capital investment through prudential borrowing where it cannot be met from other sources.

- 1.16 My judgement, taking into account the current budget forecast, the 2021/22 budget proposals, the medium term outlook and its associated risks and notably around funding certainty, is to certify that reserves are adequate presently. Both in terms of the quantum of earmarked reserves as well as the General Reserve. However, given that the financial outlook is not set to improve significantly into the medium term, and fundamentally remains uncertain it is vital that the reserve position continues to be closely monitored. This will require continued sound budget management in future years and close Cabinet scrutiny of any further proposals to make use of reserves in the coming months.
- 1.17 Extra savings may need to be drawn up and communicated to members after the budget process, if the 2020-21 outturn position or in-year forecasts in 2021-22 indicate a Council Fund balance falling below 4%. Alongside this a review of the reserves policy will be undertaken subsequent to 2020/21 outturn and in readiness for the budget strategy for 2022/23 and over the MTFP period.
- 1.18 The schedule of reserves estimated at the end of the financial year is included as an appendix to the budget report.

Peter Davies
Responsible Financial Officer