

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 Governance & 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.

Robustness of the budget process

1.2 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 Planning tool 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 2020/21 outturn and 2021/22 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, via the MyMonmouthshire digital newsletter, as well as through a Countywide virtual budget livestream event, and virtual meetings with MyMates, Engage to change (young people) and Head Teachers.
- 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 set of strategic aims and as set out in [Looking Ahead, Delivering Now: Our Strategy to Summer 2022](#).
- Ensuring all members are involved in the budget setting process by establishing that budget and Council Tax settings is a function of full Council.

1.3 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 as a result of its COVID Hardship Fund ending in March 2022. The Council has benefitted and is grateful to Welsh Government for the extent of the funding to meet such costs. However, a number of significant risks remain and that are carried into 2022/23 in relation to the fragility of the social care sector, pressures resulting from the lack of temporary homeless accommodation and footfall and memberships for our leisure centres not returning to pre-pandemic levels. 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 and complexity 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 significant and increasing. 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 and pressure mandates incorporated into the budget 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 and budgetary control over expenditure 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 in-year monitoring have been addressed as specific pressures in the 2022-23 budget proposals, and furthermore adjustments needed to be made in respect of savings previously volunteered to members and supported by them but that are now not deemed deliverable.
- Late notification of grant funding streams being removed or reduced. There are still significant specific 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 the medium term, forecast to peak at 4% for 2022 before retreating to 2.6% in 2023 and then to 2.0% over the medium term. 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.
- Irrespective of the significant one-off funding given to schools and the surplus balance now held, it is clear that the inherent structural budget deficits that led to a significant number of schools being in deficit over the past few years remain and these will require resolution regardless. It is expected that the additional funding made available to those schools will allow a period of transition and as to allow those underlying budgetary issues to be rectified without impacting on educational standards. 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 those schools remaining in deficit and are being closely monitored by the LEA and relevant Cabinet members.
- Treasury estimates established in the budget are based on cashflows, timing of capital spend, forecast interest rate levels and capital receipts occurring as planned. Mitigation has already taken place through long term borrowing being undertaken in 2021/22 at preferential rates and in order to manage interest rate risk and fluctuations.
- 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 the Governance & 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.
- 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 continued need to make use of flexible use of capital receipts to fund revenue costs associated with service reform results in a further depletion of available capital receipts. As such the Council will need to move towards a more sustainable budget strategy over the medium term and therefore a significant reduction and subsequent removal over the medium term is planned.

- 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.

1.4 Whilst the above risks in the 2022/23 budget have been identified, the main budgetary risks going forward in for the MTFP will also need to be managed and outlined are as follows:

- The increasing challenges with sustaining and maintaining existing service delivery and in line with the priorities outlined in the Council's corporate plan, and that will be updated post May to align with the priorities of an incoming administration
- 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. Whilst indicative Welsh Government core funding increases have been provided for 2023/24 and 2024/25 these remain subject to change
- The impact of inflationary pressures and interest rate rises, both on the Council and its communities
- The risk of pay awards being greater than modelled budget assumptions and not being fully funded by UK and Welsh Government
- The financial, service and strategic implications of service redesign and transformation needed to deliver savings over the medium term
- 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.

Adequacy of reserves

1.5 The MTFP has established the principles for general and earmarked reserve utilization. The level of the Council Fund reserve stood at £8.9m at the start of 2021-22, excluding delegated school balances. The latest month 9 financial monitoring information to be shared with Cabinet on 2nd March indicates a favourable non-COVID forecast under spend

of £2.2m, resulting for significant late Welsh Government grants and further in-year budget recovery action. Furthermore, the forecast is predicated on Welsh Government fully funding COVID related cost pressures and income shortfalls.

- 1.6 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 affect the extent to which a further contribution can be made to reserves at the end of 2021-22. 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.
- 1.7 Based on a budgeted net expenditure (excluding Police and Community Council precepts) and before financing totalling £174.87m, an £8.90m balance equates to 5.09% cover, which sits in the middle of the range of 4-6% of net revenue budget and is considered to be at a prudent level.
- 1.8 Based on this current assessment the headroom above the de minimum 4% threshold in general reserves stands at £1.912m. 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.
- 1.9 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 2022/23 resulting from pay award announcements that exceed the 3.5% modelling assumption in the final budget proposals
 - Any other pressures that result in 2022/23 and that cannot be contained through budget recovery action, notably the aforementioned risks in 1.3 above
 - Any one-off contribution to support the 2023/24 budget proposals
 - To allow for future reserve cover across the MTFP and beyond
- 1.10 Pre pandemic, net school balances had remained at low levels and had reduced to a net deficit balance of £435k. Receipt of unprecedented levels of grant support from Welsh Government during 2020/21 and 2021/22 have looked to ensure support for schools and their pupils during a period of significant disruption to learning. This has resulted in schools balances currently being forecast to be in surplus at the end of 2021/22 of £4.105m and despite significant investment plans being implemented during the year by schools.
- 1.11 And previously noted and irrespective of the improvement in school balances it is clear that the inherent structural budget deficits that led to a significant number of schools being in deficit over the past few years remain and will require resolution regardless. It is expected that the additional funding made available to those schools will allow a period of transition and as to allow those underlying budgetary issues to be rectified without impacting on educational standards.
- 1.12 The 2022/23 budget anticipates some limited use of earmarked reserves to support the revenue and capital 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.

- 1.13 The total planned net earmarked reserve utilization in support of the 2022/23 revenue and capital budget is £0.41m. Total planned reserve utilization in support of current year revenue and capital budgets means that by the end of 2021/22 the balance of earmarked reserves is likely to be £10.1m. The further call in 2022/23 means that the earmarked reserves will fall to £9.7m, with the useable balance down to £6.57m. And forecast to fall further based on anticipated and known reserve utilization to £6.0m at the end 2025/26.
- 1.14 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 made further use of this flexibility in 2022/23 and over the remaining three years of the MTFP. Useable capital receipts are forecast to reduce to £7.2m by the end of 2025/26 based on the capital MTFP. 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.
- 1.15 My judgement, taking into account the current budget forecast, the 2022/23 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.
- 1.16 Extra savings may need to be drawn up and communicated to members after the budget process, if the 2021-22 outturn position or in-year forecasts in 2022-23 indicate at any stage a Council Fund balance falling below 4%. Alongside this a review of the reserves policy will be undertaken subsequent to 2021/22 outturn and in readiness for the budget strategy and plan for 2023/24 and over the MTFP period. Which will be developed and be informed by an updated corporate plan produced by an incoming political administration.
- 1.17 The schedule of reserves estimated at the end of the financial year is included as an appendix to the budget report.

Peter Davies

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Responsible Financial Officer