

## **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 Councils 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 2021/22 outturn and 2022/23 budget monitoring data.
- Looking at a unit cost analysis for services against other Welsh authorities where necessary.
- Providing Scrutiny Committees with opportunity to look at and scrutinize budget monitoring, the in-year budget recovery plan and draft budget proposals, gaining an understanding of the budgets and allowing the committee to scrutinize performance as well as proposed changes within the remit of their scrutiny committee.
- Providing Cabinet and Scrutiny Committees with the assumptions underlying the Medium Term Financial Plan.
- Consulting on budget proposals through face to face and virtual public meetings, the website and social media, and virtual meetings with MyMates, Youth Council representatives, Joint Advisory Group, School Budget Forum 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 draft Community and Corporate Plan.
- 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 resulting from the impact on services of the cost of living and health crises 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:

- 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 and increase in homeless presentations have 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 strengthened monitoring arrangements over the course of the next financial year such 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. These arrangements will be strengthened for next year and that includes increased formal budget monitoring through the year together with targeted focus in social care where the greatest risk and volatility exists.
- 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. The already robust budget monitoring arrangements will be strengthened and corrective action will be taken as needed by the Strategic Leadership Team in consultation with Cabinet Members as required.
- Significant recurrent pressures evident during in-year monitoring have been addressed as specific pressures in the 2023-24 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. The pressures incorporated into the budget proposals for 2023-24 are based on the latest month 9 forecast. A risk remains going into the end of the financial year and in light of the extent of the in-year over spend and increasing pressures in particular

in social care. The need for continued and robust monitoring is essential to ensure that there is cost control and continued efforts are made to refrain from non-essential spend.

- 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. 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 balances held at the beginning of 2022/23, 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 and further savings 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 in deficit and will be 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 2022/23 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. These arrangements will be reviewed going into 2023/24.
- The risks on the capital side are largely caused by limited additional capital receipts being foreseen 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.

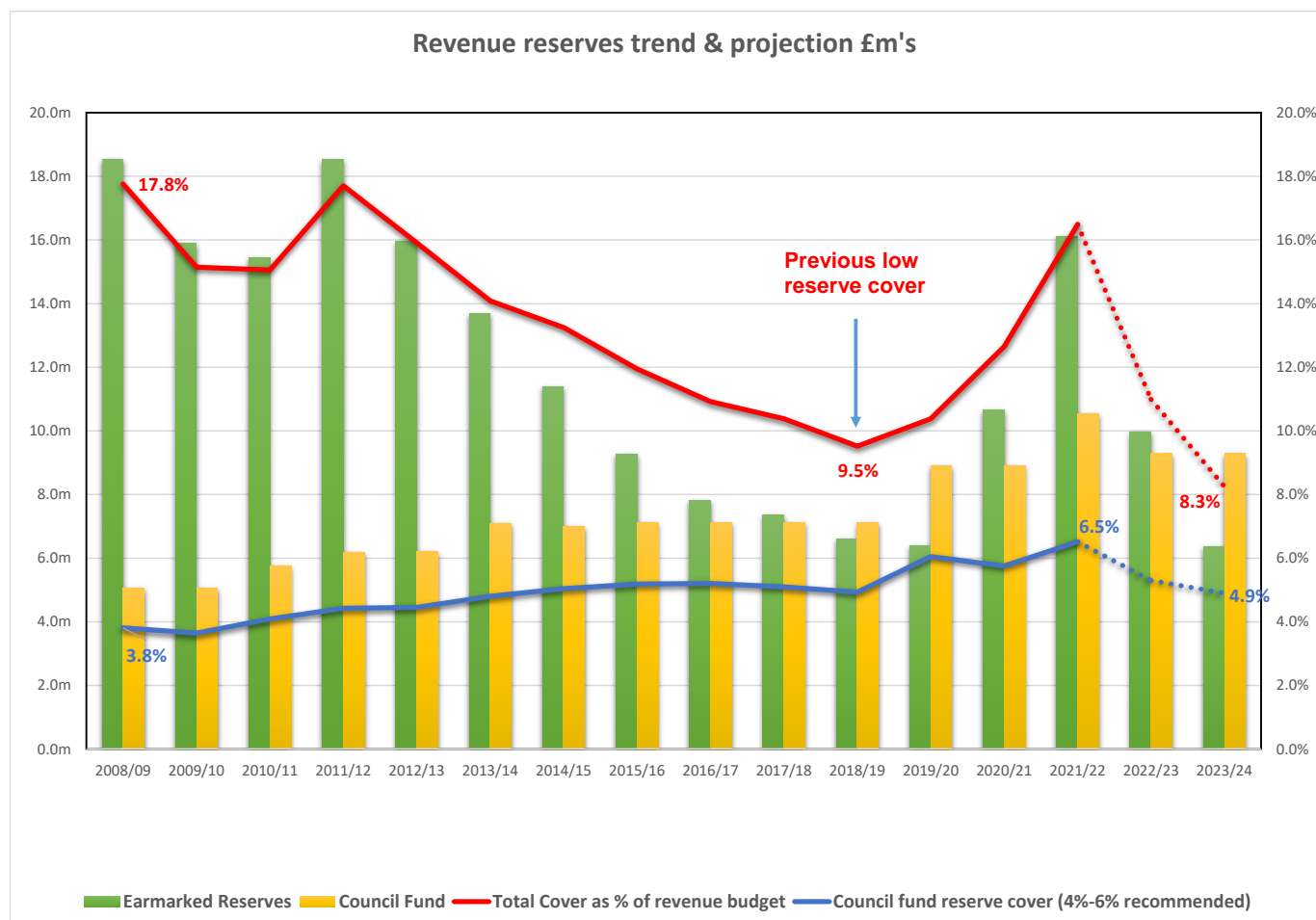
- There are a significant amount of unbudgeted capital pressures and investment plans which can bear on the Council's limited capital resources if policy commitments are made to add further to the capital programme or risks materialize and that require the Council to act to respond to failures in the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

1.4 Whilst the above risks in the 2023/24 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 draft Council's community and corporate plan.
- The implications and impact on public services and that result from the longer-term impact of the cost of living and health crises on Monmouthshire's communities and wider economy
- The consequences of war and natural disasters globally and the impact that this has in supporting refugees and asylum seekers rightly having to be supported
- The risk and uncertainty around funding settlements projected for the medium term. Whilst indicative Welsh Government core funding increases have been provided for 2024/25 these remain subject to change and there are concerns beyond this about level of public spending over the medium term
- 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 needed to deliver savings over the medium term and to allow the Council to transition itself onto a more sustainable financial footing
- The national and local emphasis on carbon reduction and climate adaptation
- The deteriorating condition of local roads, associated infrastructure and property
- The lack of certainty and viability of local bus services as a result of anticipated reductions in Welsh Government funding to bus operators
- 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 As can be seen from the table below the Council's reserves have been and will be significantly depleted as a consequence of the budget recovery action needed in 2022/23 and to support the budget proposals for 2023/24. This follows a period through the pandemic where reserves were restored as a result of significant Welsh Government funding. The decisions taken to draw on reserves have been carefully considered as the consequence of not doing so would have led to very significant consequences for service delivery. Ultimately a balance had to be struck and given the extent of the inflationary and demand pressures faced as a result of the Cost of Living and Health crises.



- 1.6 The MTFP has established the principles for general and earmarked reserve use. The level of the Council Fund reserve stood at £10.53m at the start of 2022/23, excluding delegated school balances. The Council tactically created headroom in its general reserve in the last few years as a result of significant additional Welsh Government funding received through the pandemic.
- 1.7 As a consequence and due to the extent of the in-year over spend and the budget recovery plan in place a draw on the Council Fund of £1.25m is forecast and subject to 2022/23 year-end. With this anticipated draw taken into account the level of the reserve remains in the range of 4-6% at 4.9% of net revenue budget and considered to be at a prudent level. The final revenue budget proposals do not include a requirement to use any of the general reserve to balance the budget in 2023/24.
- 1.8 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 2023/24 resulting from pay award announcements in excess of the modelling assumptions and reserve funded contingency in the final budget proposals;
- Any continuing pressures caused by the cost of living and health care crisis, particularly in the areas of Homelessness, Adult social care and Children's Services;
- Any one-off contributions needed in 2023/24 and to the extent that in-year budget recovery action is unable to mitigate service pressures and over spends;
- To allow for any future reserve cover across the MTFP and beyond and as the Council looks to put its finances back on a sustainable footing, and to the extent that they cannot be funded from capital receipts under Welsh Government guidance allowing for one-off costs of service reform to be met.

- 1.9 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 had looked to ensure support for schools and their pupils during a period of significant disruption to learning. This has resulted in schools balances being in surplus at the beginning of 2022/23 of £6.95m.
- 1.10 The investment plans enacted by schools look to deliver the best learning outcomes for pupils in line with the purpose of the grant funding provided over the past two financial years. Whilst it is clear that the investment plans enacted will bring many school balances more in line with those levels guided by Welsh Government, it is disappointing to note that a further nine schools are now forecast to move into deficit by year-end based on the month 9 forecast.
- 1.11 There remains significant concern from a financial perspective that the inherent structural budget deficits that led to a significant number of schools being in deficit pre-pandemic in some cases remain. Whilst the current economic climate is severely challenging with schools being required to find 2.8% of savings for 2023/24, school balances are designed to provide a level of financial resilience to mitigate and smooth such risks and are not expected to fund ongoing day-to-day expenditure. Officers will continue to work closely with those schools of concern and look to aid the return to a more sustainable budget plan over the medium term.
- 1.12 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 put in place for schools that move into deficit and these are being closely monitored by the LEA and relevant Cabinet members.
- 1.13 The total planned use of earmarked reserves in support of the 2023/24 revenue and capital budget is £3.61m. This adds to the currently forecast use of earmarked reserves for 2022/23 of £6.15m, nearly £10m over a two year period.
- 1.14 Total planned reserve use in support of current year revenue and capital budgets means that by the end of 2022/23 the balance of earmarked reserves is likely to be £9.96m. The further call in 2023/24 means that the earmarked reserves will then fall to £6.35m, with the useable balance down to £4.99m. The low level of revenue reserves now requires the reserves policy to adapt such that revenue reserves are very much protected to provide cover for foreseen or unforeseen risks that might result. Improved budget management

and discipline going forward will need to ensure that in-year over spends are quickly identified and to the extent they cannot be mitigated for in-year savings to be found.

- 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 needed to make use of this flexibility since 2019/20. The planned use in 2022/23 has been extended to support the budget recovery plan and will continue for 2023/24.
- 1.16 Useable capital receipts are forecast to reduce to £3.0m by the end of 2026/27 based on the capital MTFP. The continued use of capital receipts for this purpose is recognized as a necessary approach to support the Council to transition itself on to a more sustainable financial footing. However this is not a sustainable approach in itself 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.
- 1.17 My judgement, taking into account the current month 9 budget forecast, the 2023/24 budget proposals, the medium term outlook and its associated risks and notably around funding certainty, is to certify that reserves are adequate but approaching a minimum acceptable level. 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 such as to ensure that reserve use is seen as exceptional and to deal with foreseen or unforeseen risks crystallizing.
- 1.18 Extra savings may need to be drawn up and communicated to members after the budget process, if the 2022-23 outturn position or in-year forecasts in 2023-24 indicate at any stage a Council Fund balance falling below 4%. Alongside this a review of the reserves policy will be undertaken subsequent to 2022/23 outturn and in readiness for the financial strategy and plan for 2023/24 and over the MTFP period. Which will be developed and be informed by an approved community and corporate plan.
- 1.19 The schedule of reserves estimated at the end of the financial year is included as an appendix to the budget report.

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