



**WATFORD
BOROUGH
COUNCIL**

FINANCE SCRUTINY COMMITTEE

10 January 2024

7.00 pm

Annexe, Town Hall, Watford

Contact

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For information about attending meetings please visit the [council's website](#).

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Committee Membership

Councillor A Khan (Chair)

Councillor P Kloss (Vice-Chair)

Councillors K Clarke-Taylor, S Johnson, R Martins, L Nembhard, D Walford, D Watling and R Wenham

Agenda

Part A - Open to the Public

5. Financial Planning 2024/25 to 2026/27 (Pages 3 - 6)

Report of the Chief Finance Officer

Chief Finance Officer's Statutory Report

Introduction

1. Under Section 25 of the Local Government Act 2003 I am required, as the designated Chief Financial Officer, to report on the following matters to members when agreeing its annual budget and council tax requirement:
 - a) the robustness of the estimates made for the purposes of the budget calculations, and
 - b) the adequacy of the proposed financial reserves
2. Under the law, the Council is required to have due regard to this report when making decisions on the budget.
3. In making this report, I have considered the governance and financial management arrangements in place and the adequacy of the budget planning process.

Governance and control frameworks

4. The Council has good governance arrangements in place as set out in the Annual Governance Statement and supported by the Internal Audit Annual Statement of Assurance.
5. The external audit of the Statement of Accounts is outstanding for 2021/22 and 2022/23 and the 2020/21 audit is due to be concluded shortly with an unqualified opinion as set out in the External Auditor's Draft Audit Results Report to Audit Committee. Adjustments arising from the audits could result in changes to the draft accounts, however these are most likely to be technical accounting adjustments that will not have an impact on the general fund balance.
6. The recent LGA Corporate Peer challenge found that Watford has a 'good record of financial stewardship and has a clear understanding of its financial position.' The report highlighted that the recommendations made by the peer challenge team are 'designed to assist the council in its journey to achieving continuous improvement and excellence in financial management.'
7. Alongside taking forward the peer challenge recommendations, we will continue to embed a finance business partnering approach to enhance our already good budget management. This will ensure that we have early notice of emerging pressures and risks, so these can be managed in a planned way, reducing the need to call on reserves.
8. The savings within the draft budget are significant. Therefore, appropriate governance arrangements have been put in place to oversee the delivery.
9. The Budget Delivery Programme Board has been established, chaired by the Executive Director of Place, to oversee the implementation of agreed savings. The board is an internal officer board that reports into the Corporate Management Board, Portfolio Holders and Elected Mayor, monitoring key milestones and risks.
10. The delivery of savings will also be reported to Finance Scrutiny Committee and Cabinet through the financial monitoring report as is already done for savings within the current MTFs.

Budget Planning Process

11. There has been a robust budget planning process for 2024/25 with budget proposals considered in detail by the Corporate Management Team and Portfolio Holders and subject to peer challenge. All budget proposals have been supported by impact assessments which set out the risks and mitigations associated with the delivery of savings.
12. The Finance Scrutiny Committee provides challenge to financial forecasts throughout the year through scrutiny of the in-year financial monitoring reports. Finance Scrutiny Committee will consider the draft budget, including assumptions used to set the budget at the meeting on 10 January 2024 and these comments will be available to Cabinet and Council when considering recommendation and approval of the budget.

Robustness of Estimates

Government Funding:

13. 'Uncertainty' has been a recurring theme for local government and local government finance over the last few years as the sector has responded to emerging financial challenges as a result of COVID-19, high inflation and the impact they have had on the economic environment, our residents, and directly on our own budgets. The Local Government Association (LGA) estimates that there is £4 billion funding gap across English Councils over the next two years.
14. In addition to this uncertainty around cost pressures, there has also been uncertainty about the level of funding available from one year to the next as a result of one-year finance settlements.
15. The 2024/25 settlement is the sixth consecutive one-year settlements with 2019/20 being the final year of the last multi year settlement. Over that period, there has been an expectation that funding reform would take place including implementation of a review of relative needs and resources and resetting the base line for accumulated business rate growth. The 2024/25 Local Government Finance Policy Statement issued by the Department for Levelling Up, Housing and Communities (DLUHC) confirmed that government 'remains committed to improving the local government finance landscape in the next Parliament.'
16. The Chair of the Local Government Association (LGA), Cllr Shaun Davies has said that:

"No council is now immune to the growing risk to their financial sustainability. The Government urgently needs to address the growing financial crisis facing councils and come up with a long-term plan to sufficiently fund local services through multi-year settlements."
17. Given that there will be a general election during 2024/25, it is highly likely that the 2025/26 settlement will also be a one-year settlement as there will not be time for the implementation of meaningful reform with appropriate transition arrangements. However, there is no certainty that the Services Grant, New Homes Bonus, or Funding Guarantee grant streams will remain for 2025/26 or beyond.
18. For the purposes of setting the MTFs, it is assumed that government grant funding will continue in 2025/26 and 2026/27 but at a reduced rate with New Homes Bonus forecast to reduce from £1.238m to £0.450m. This is a prudent position on the basis that:
 - New Homes Bonus is a variable funding stream,
 - there is no commitment to continuing the Funding Guarantee Grant which would otherwise offset reductions in New Homes Bonus,
 - government has previously consulted on ending New Homes Bonus, and
 - there is no clarity on the allocation methodology for a replacement grant stream.

Other areas that require significant estimation or carry inherent risk:

19. Forecasts for commercial investment income are based on known information about lease events and estimates for void periods, market rents and lease incentives. In arriving at these estimates we utilise expert advice from external advisors and consider risk appetite, ensuring that a prudent forecast is set.
20. Capital financing costs are subject to three main variables:
 - delivery of the capital programme,
 - core cash balances, and
 - interest rates
21. The forecast is based on delivery of the capital programme as per the budgeted capital investment programme, core cash balances reducing as reserves and capital contributions are utilised, and PWLB interest rates reducing from 5% to 3.8% over the MTFS. Interest rate forecasts are arrived at utilising forecasts provided by our external Treasury Management Advisors and other market information and projections including the Bank of England Monetary Policy Committee reports.
22. The proposed MTFS is balanced based on the delivery of service redesign savings totalling £1.346m by the end of the MTFS period. The budget includes the creation of a redundancy reserve which will fund the cost of redundancy and enable savings to be delivered to the revenue budget in full without a payback period.
23. In identifying how these savings will be delivered, we will be mindful of the recommendation from the LGC Corporate Peer Challenge that, 'implementation of 2025/26 savings during 2024/25 would further reduce revenue pressures and provide a contingency against unforeseen budget issues.'
24. Whilst there is a risk that the savings target will not be achieved, the governance arrangements that have been put in place will ensure that there is early visibility and enable this risk to be managed.

Adequacy of Reserves

25. CIPFA define financial resilience as the ability to respond to changes in delivery or demand without placing the organisation at risk of financial failure. Reserves are critical to a local authority being able to achieve this as they enable authorities to manage one off financial pressures or provide space and time to find effective long term solutions to issues by providing short term funding.
26. The Council holds a General Fund which is set at a risk assessed level of £2.000m across the MTFS to manage unexpected cost pressures. This is 13.7% of the net revenue budget and is sufficient to manage in year overspends across the MTFS accepting that, if drawn upon, the MTFS will have to be replenished in future years.
27. In addition to the General Fund, Watford has a good level of Earmarked Reserves which are forecast to be £28.792m at 31 March 2024 which is 197% of net revenue expenditure for 2024/25.
28. The CIPFA Financial Resilience index identifies the use of reserves as a risk factor. However, depletion of reserves is not of itself an indicator of financial stress provided that the use of reserves is in line with the purpose that the reserves are held for and are available over the time frame required.
29. The MTFS includes planned use of earmarked reserves of £10.123m which is a 35.2% reduction. Of this, £7.453m relates to the Croxley Park Reserve which is forecast to reduce from £11.357m at 31 March 2024 to £3.904m at 31 March 2027. This forecast is in line with the Croxley Park financial

model which currently shows that the reserve will remain at a sufficient level to manage fluctuations in income over the life of the finance lease.

Summary Statement

30. It is my opinion that the budget for 2024/24 has been prepared based on reasonable and prudent estimates and that the level of reserves is sufficient to meet the financial risks that the Council faces.
31. I can therefore confirm that:
 - a) the estimates made for the purposes of the calculation of the Council's budget requirement under Section 32 of the Local Government Finance Act 1992, contained in this report, are robust in the context of information available,
and
 - b) the financial reserves that will remain available to the Council as a result of agreeing the proposals contained in this budget are adequate to enable the setting of a lawful budget for 2024/25

Hannah Doney
Chief Finance Officer and Section 151 Officer