

## **Section 25 Report – Robustness of Estimates and Adequacy of Reserves**

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### **Summary**

1. As part of the annual budget setting process, the Section 151 Officer is required to give the Council formal advice on the robustness of estimates and the adequacy of reserves. This is so Members can set a budget in full awareness of the risks and uncertainties, and ensure that adequate contingency reserves exist.
2. The advice, known as the “Section 25 report”, is being considered by Cabinet on the 12 February and then by Full Council on 21 February as part of the budget approval process.
3. The Scrutiny Committee reviewed the budget reports on 31 January. Comments from the Committee are in a separate item on the agenda.

### **Section 25 report**

4. Section 25 of the Local Government Act 2003 requires each local authority, when setting its annual General Fund budget and level of Council Tax, to take account of a report from its Section 151 Officer on the robustness of estimates and adequacy of reserves. This document is the report made under Section 25 by the Director of Finance and Corporate Services, as UDC’s Section 151 Officer, applicable to the setting of the General Fund budget and Council Tax for 2019/20.
5. The purpose of this requirement is to ensure that when deciding on its budget for a financial year, a local authority is formally made aware of any issues of risk and uncertainty by the Section 151 Officer. The local authority is then expected to ensure that its budget provides for a prudent level of reserves to be maintained.
6. The Director of Finance and Corporate Services has assessed that the minimum safe contingency level for the Working Balances are;
  - a) General Fund - £1.308 million
  - b) Housing Revenue Account - £0.499 million
7. The working balance is calculated using the following formula:

Total gross service expenditure + total gross service income + capital financing costs + investment income + interest charged + recharge to HRA + HRA share of corporate costs) x 2%

General Fund 2019/20 working balance reserve equates to;

$£35.931 + £22.983 + £1.892 + £2.119 + £0.495 + £1.693 + £0.366 = £65.479$   
 $2\% = £1.309$  million (this calculation uses rounded figures, the actual working balance is £1.308 million)

Housing Revenue Account 2019/20 working balance reserve equates to;

$£4.491 + £15.351 + £3.005 + £0.042 + £1.693 + £0.366 = £24.948$  million x 2%  
= £0.499 million

8. Section 26 of the Act empowers the Secretary of State to set a minimum level of reserves for which a local authority must provide in setting its budget. Section 26 would only be invoked as a fallback in circumstances in which a local authority does not act prudently, disregards the advice of its Section 151 Officer, and is heading for financial difficulty.

### **Basis of advice for the Section 25 report**

9. In forming the advice for this report, the Director of Finance and Corporate Services has considered the following:
- The requirement established in the Council's Medium Term Financial Strategy to ensure that a safe level of contingency is maintained.
  - The degree to which the Council's financial plans are aligned to the Council's statutory obligations, local priorities and policy objectives.
  - The adequacy of the information systems underpinning the Council's financial management processes.
  - Risks associated with the Council's activities, as identified within the risk register.
  - The level of earmarked and unearmarked reserves within the General Fund.
  - The degree to which uncertainties exist within the draft 2019/20 budget.

### **Robustness of Estimates**

10. There has been detailed scrutiny, review and challenge of budgets by managers, finance officers and Corporate Management Team. The aim has been to ensure that the budget is based upon realistic estimates, for example, ensuring that contractual commitments are provided for, salary budgets reflect the approved establishment and current staff in post, and income budgets are based on an assessment of price and demand.
11. No budget can ever be completely free from risk. Necessarily, assumptions are made which means that the budget will always have an amount of uncertainty. The analysis below sets out the major risks applicable to 2019/20 and an indication of the possible impact.
12. It is not possible to give a precise estimate of the impact of each identified risk. As a general guide, the following broad definitions have been used:

Probability	Low Medium High	Possible, but unlikely Probable Almost certain
Impact	Low Medium High	Possible variance of £5,000 to £20,000 Possible variance of £21,000 to £50,000 Possible variance of over £50,000

Risk item	Probability	Impact	Overall Risk of budget variance
<p><b>Government Funding</b></p> <p>Government is consulting on the future funding for Local Authorities to be implemented in 2020/21; <b>Fair Funding Review</b>, which will assess the level of funding required based on an assessment of need and resources. This will coincide with the introduction of <b>75% Business Rates Retention</b> and it is expected that all our external funding will be delivered through an adjustment to our Baseline funding level, tariffs/top ups and levies. It has also been announced that <b>New Homes Bonus</b> will cease in its current form, but it is expected that legacy payments will continue.</p>	High	High (adverse)	High
<p><b>Waste &amp; Recycling.</b> This is a complex area financially and at greatest risk of volatility. Fuel costs and disposal costs, particularly around cost of dry recycling disposal are variable. Other budget risks have been identified regarding trade waste and green waste, all of which have income budgets that depend upon accuracy of forecasting activity levels. The Council maintains a Waste Management reserve to mitigate the risk</p>	Medium	High (adverse or favourable)	Medium
<p><b>Local Plan.</b> Additional consultancy spends or resources may be needed in order to take forward the Local Plan process; however the Planning Reserve exists to meet additional costs. Due to recruitment issues the need for agency staff has increased and these are at a higher cost than substantive posts</p>	Medium	High (adverse)	Medium
<p><b>Planning appeals.</b> The current position of the Local Plan process raises the risk levels in the cost of defending appeals and any awards that may be made against the planning authority.</p>	Medium	Low (adverse)	Medium
<p><b>Efficiency Savings.</b> Work continues to find ways of achieving the same or improved outcomes at lower cost. It is probable that some savings opportunities will be realized with unbudgeted savings arising in 2019/20. It is still possible that unbudgeted costs will arise. Where budgets have already been reduced because of identified savings, the revised budget level is untested so there is an inherent risk of adverse variances</p>	Medium	Medium (adverse or favourable)	Medium
<p><b>Fees &amp; Charges income.</b> If economic conditions deteriorate or demand fluctuates there may be unbudgeted loss of income. Building Control, Planning, Land Charges, Licensing, Lifeline and Food Imports are all income streams where risk of volatility has been noted</p>	Medium	Low (adverse)	Medium

Risk item	Probability	Impact	Overall Risk of budget variance
<b>Treasury management.</b> Investment risks are spread between public and private sector counterparties including UK banks systemically important to the UK economy. In the unlikely event of a banking failure, there could be a serious impact on the Council	Low	High (adverse)	Medium
<b>Reforms to Housing &amp; Council Tax Benefit.</b> Housing benefit reforms and benefit caps may have an adverse impact on amount of claimants benefit awards and this could have an impact on collection rates and increased claims for discretionary housing payments	Medium	Medium (adverse)	Medium
<b>Universal Credit.</b> There is still debate on the date for the full rollout of the 'one benefit' and implications of delay are primarily around the Working Balance level	Medium	Low (adverse or favourable)	Medium
<b>Supplies &amp; Services contracts.</b> Where contracts have indexation clauses, estimates have been made of the inflationary increase that will be applied. In addition some contracts are due to be re-tendered during the year which could affect the base price. Accordingly there is an inherent risk of price volatility	Medium	Low (adverse or favourable)	Low
<b>Capital Financing costs.</b> These are influenced by variable factors such as cash flow, variations in the Capital Programme and availability of capital receipts. In some circumstances greater revenue financing of capital expenditure may make economical sense over the longer term	Medium	Low (adverse or favourable)	Low

13. The Medium Term Financial Strategy (MTFS, Appendix C) shows a cumulative deficit over the next 5 years and to support the Council. In addressing this deficit the Investment Strategy (Appendix B) recommends that the Council approves up to £100 million of borrowing for investment to generate additional income over the next 3 years. Any use of this borrowing will be subject to approval by Council.

14. Taking all of the above issues into consideration, the Director of Finance and Corporate Services is unable to provide a full assurance that there will be no unforeseen variances. This is an expected and acceptable situation for any organisation that has to deal with a large number of variables. any variations arising in the estimates should be manageable

15. Provided that the minimum safe level of balances is maintained (as set out in the attached Reserves Strategy, Annexe A1) and it is advisable that no new drawdowns on the Strategic Initiative fund should be made until the 2020/21 funding position is confirmed.

16. The risks identified will be proactively monitored and mitigating action taken as soon as reliable trends emerge. Budget monitoring reports to Members during the financial year will set out the latest position and action being taken, where applicable.

### **Adequacy of reserves**

17. The Reserves Strategy which sets out the purpose, risks and calculation for each reserve held by the council is detailed in Annexe A1.
18. It is the opinion of the Director of Finance and Corporate Services that the reserves as set out in the Strategy are adequate and appropriate.

### **Risks – Future Years**

19. In previous years there has been commentary around the uncertainty of future funding. However, the current level of uncertainty is unprecedented with major funding streams ending whilst others are being reformed. The funding position for future years means that we need to look for other avenues of income and/or efficiencies in the next 12 months and continuing thereafter.
20. The Investment Strategy is a key part of addressing this challenge; this is evidenced in the Medium Term Financial Strategy (Appendix C). If the recommendations contained within the Investment Strategy are not approved by members this will have a greater impact on how the council operates in the future.

### **Impact**

Communication/Consultation	A comprehensive budget consultation exercise was undertaken with in excess of 2,400 responses
Community Safety	None
Equalities	None
Health and Safety	None
Human Rights	None
Legal implications	The report is prepared in order to comply with Section 25 Local Government Act 2003
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

### **Risk Analysis**

Risk	Likelihood	Impact	Mitigating actions
Actual events may differ from the assumptions and estimates used to produce the draft budget, which will lead to variances from the budget.	4 (variances will occur requiring action to be taken)	3 (potential impact which could adversely affect the council's financial position if not managed)	Budget monitoring and corrective action taken as necessary. Maintain sufficient reserves and Working Balance.