

Section 25 Report – Robustness of Estimates and Adequacy of Reserves

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 5 February and then by Full Council on 25 February as part of the budget approval process.

Section 25 report

3. 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 2020/21.
4. 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.
5. The Director of Finance and Corporate Services has assessed that the minimum safe contingency level for the Working Balances are;

- a) General Fund - £1.300 million
- b) Housing Revenue Account - £0.463 million

6. 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/from HRA + HRA share of corporate costs) x 2%

General Fund 2020/21 working balance reserve equates to;

£36.134m + £21.820m + £1.672m + £2.912m + £0.788m + £1.375m + £0.372m
= £65.073m x 2% = £1.300 million (this calculation uses rounded figures)

Housing Revenue Account 2020/21 working balance reserve equates to;

£4.818m + £16.397m + £0.505m + £0m + £1.049m + £0.379m = £23.148m x
2% = £0.463 million (this calculation uses rounded figures)

7. 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

- 8. 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 2020/21 budget.

Robustness of Estimates

- 9. There has been detailed scrutiny, review and challenge of budgets by managers, finance officers and the 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.
- 10. No budget can ever be completely free from risk. 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 2020/21 and an indication of the possible impact.
- 11. 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	Possible, but unlikely
	Medium	Probable
	High	Almost certain
Impact	Low	Possible variance of £5,000 to £20,000
	Medium	Possible variance of £21,000 to £50,000
	High	Possible variance of over £50,000

Risk item	Probability	Impact	Overall Risk of budget variance
<p>Government Funding. Government is consulting on the future funding for Local Authorities to be implemented in 2021/22; Fair Funding Review, which will assess the level of funding required based on an assessment of need and resources. This will coincide with the introduction of 75% Business Rates Retention 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 New Homes Bonus will cease in its current form, but it is expected that legacy payments will continue.</p>	High	High (adverse)	High
<p>Investment regulations. CIPFA/LASAAC continuous reviews of the code of practice and IFRS', this may require changes to the accounting definition, presentation and disclosure of income and costs in the budget</p>	Medium	High (adverse)	Medium
<p>Commercial Investment income. The investment income that has been included in the budget is not achieved. This could be from tenant failure or investment opportunity 2 fails to proceed</p>	Medium	High (adverse)	High
<p>Treasury management. 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</p>	Low	High (adverse)	Low
<p>Waste & Recycling. 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 risks</p>	Medium	High (adverse or favourable)	Medium
<p>Local Plan. The Council has received the letter from the Inspectors examining the Local Plan, work is currently being undertaken to ascertain the level of consultancy and/or resources needed to take the Local Plan process forward.</p>	High	High (adverse)	High
<p>Planning appeals. The current position of the Local Plan process following receipt of the inspector's letter raises the risk levels in the cost of defending appeals and any awards that may be made against the planning authority.</p>	High	High (adverse)	High
<p>Efficiency Savings. Work continues to find ways of achieving the same or improved outcomes at lower cost. It is probable that some savings opportunities will be realised with unbudgeted savings arising in 2020/21. It is also possible that unbudgeted costs will arise. Where budgets have already been reduced because of identified savings, the revised budget level is</p>	Medium	Medium (adverse or favourable)	Medium

Risk item	Probability	Impact	Overall Risk of budget variance
untested so there is an inherent risk of adverse variances			
Fees & Charges income. 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	Medium	Low (adverse)	Medium
Universal Credit and reforms to Housing & Council Tax Benefit. Housing benefit reforms and the rollout of Universal Credit could have an impact on collection rates and increased claims for discretionary housing payments 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	Medium (adverse)	Medium
Supplies & Services contracts. 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
Capital Financing costs. 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

12. The Medium Term Financial Strategy (MTFS, Appendix C) shows a cumulative deficit from 2021/22 through the life of the MTFS. To support the council in addressing this deficit the Commercial Strategy (Appendix B) recommends that the Council approves up to £300 million of borrowing for investment to generate additional income over the next 5 years. Any use of this borrowing will be subject to approval by Council.

13. 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.

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

Adequacy of reserves

15. The Reserves Strategy sets out the purpose, risks and calculation for each reserve held by the council and this is set out in Annex A1.
16. 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

17. 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 the Council needs to look for other avenues of income and/or efficiencies in the next 12 months and continuing thereafter.
18. The Commercial Strategy is a key part of addressing this challenge; this is evidenced in the MTFS. If the recommendations contained within the Commercial Strategy are not approved by members this will have a significant impact on how the council operates in the future.

Impact

Communication/Consultation	Corporate Management Team and Joint Executive Team
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.