

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 a formal opinion on the robustness of the budget estimates and the adequacy of reserves.
2. The opinion is being considered by Cabinet on the 10 February and then by Full Council on 22 February as part of the budget approval process.

Section 25 report

3. Section 25 of the Local Government Finance Act 2003 requires that when a local authority is agreeing its annual budget and council tax precept, the Chief Finance Officer must report on the robustness of the estimates made for the purposes of the (council tax requirement) calculations and that the budget includes an assessment of the potential financial risks facing the Council and that the Council has adequate reserves should those risks materialise.
4. The Act requires the council to give consideration to this report when making decisions on the budget.
5. In expressing the opinion, the Director of Finance and Corporate Services (S151 Officer) has considered the financial management and control frameworks that are in place, the budget assumptions, the financial risks facing the council and the level of total reserves.
6. Section 25 of the Local Government Act 2003 concentrates primarily on the uncertainties within the budget year (2022/23), however future uncertainties and increasing pressures on the Council's finances also inform the reserves balances for the medium term.
7. The Council holds a minimum level of reserves, called the Working Balance, to allow for sufficient reserve levels to manage unexpected impacts in line with the risk assessments, this is set at 2% of gross variable income and costs charged in both the General Fund and the HRA, and is recalculated for each year of the 5-year budget plan. This and further information on the reserves held can be seen in the Medium Term Financial Strategy report. The working balances for the budget year 2022/23 are as follows:

Working Balance		
	General Fund	Housing Revenue Account
	£'000	£'000
Gross Costs	44,935	10,463
Gross Income	34,904	16,841
2% Working balance	1,597	546

Financial management and control frameworks

8. The Director of Finance has responsibility for ensuring that an effective system of internal control is maintained to provide an assessment of the current position across the whole

council and identifying areas for improvement where appropriate. Areas for improvement are reported to the Governance Audit and Performance committee.

9. The Code of Practice for Financial Management (the FM Code) was introduced by CIPFA in November 2019. The Code clarifies how Chief Finance Officers should satisfy their statutory responsibility for good financial administration as required in section 151 of the Local Government Act 1972. Full compliance with the FM Code was expected for 2021/22. An assessment of the Standards and the Councils compliance and each Standard was assessed against a Red, Amber or Green rating. The main areas of development across the Council is budgetary control.

Robustness of Estimates

10. A comprehensive process of scrutiny, review and challenge of budgets by managers, finance officers and the Corporate Management Team has taken place to provide a budget that 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. 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 2021/22 and an indication of the possible impact.
12. Demand growth increases have been built into the proposed budget and MTFP at the mid-point of growth projections. Any increase in excess of this would need to be met from reserve if funding does not increase at the same level, the reserves hold adequate levels to cover any divergences from the expectation.
13. The 2022/23 budget has been prepared against the backdrop of unprecedented levels of uncertainty. The 2021/22 budget was approved on the basis of a one-year local government finance settlement which meant for much of the year, plans had to be developed without government spending plans for future years or an indicative settlement for local government. The government announced another one-year settlement for the budget year 2022/23 and for the future years various modelling has been undertaken by the finance team to develop a range of scenarios.
14. The Fair Funding Review which was to be based on an assessment of needs and resources has been paused along with postponed reform of Business Rates Retention. It is expected that all our external funding will be delivered through an adjustment to our Baseline funding level, tariffs/top ups and levies. The New Homes Bonus grant is also planned to end in line with the reforms and there is no defined scheme to replace it.
15. The CIPFA Prudential Code was published in December 2020 which aimed to clarify the position of CIPFA, the Government and the Public Works Loans Board (PWLB) on investments and treasury activities. Although the code allows for deferral for the full monitoring requirement until the 2023/24 budget year the guidance within The Code takes immediate effect. The Council has undertaken material investment activity within its capital program and the assumption is that under the new Code these can continue given prudent levels of reserves are held and provisions are set aside to mitigate risks. More details on the risks identified can be found in the Commercial Strategy.
16. The Treasury Management strategy is a key component of the Council's financial planning. This strategy sets out the proposed approach to borrowing and financial investments of cash reserves, referred to as Treasury activities, other non-treasury investments such as property investment are covered in the Commercial Strategy. The Council's strategy seeks to strike an appropriate balance between security, accessibility and returns from managing the Council's cashflow and balances.

Continuation of Impacts from Covid-19

17. Since March 2020 the pandemic and the emergency health response has required local authorities to make rapid changes to meet demands to both front line and support services, this resulted in additional expenditure along with income losses because of the lockdown periods and changes to consumer behaviour.

The impacts are continuing to be seen albeit on a smaller scale and the council continues to be compensated for the income losses in 2021/22. Budgets have been adjusted in line with changes to working approaches and have identified, as a separate exercise, on-going Covid-19 related risks and an assumption the compensation from government will not continue into 2022/23.

18. The following assumptions have been built into the budget that directly relate to the on-going impact of the pandemic:

Service	Assumptions built into budget
Revenues	It is assumed that the Business Team will be able to manage any further business support initiative put in place by Central Government without any further resources.
Revenues	It is assumed that current Officers are able to implement and account for any Business Rate initiatives introduced to support business
Waste Services	It is assumed that agency costs are at normal budget year levels without any impact from the pandemic
Benefits	It is assumed that if the government continue the Test and Trace Payment Scheme into 2022/23, the standard scheme will continue to be fully funded.
Car Parks	Income has been assumed to return to normal levels

19. The risks identified that directly relate to the on-going impact of the pandemic where consideration of the robustness of the estimates has been assessed are:

Service	Risks identified	Probability of variance arising	Favourable Impact	Adverse Impact
Revenues	Further resources maybe necessary dependant on the ongoing management of the pandemic however this will be covered by new burdens funding	M		L
Revenues	Additional consultancy maybe required to provided advice and guidance on new initiatives	M		M
Waste Services	Agency costs could increase if there is another lockdown and staff had to shield.	M		H
Benefits	There is a risk that if the discretionary scheme continues, the finite fund allocated to UDC will not be sufficient to meet demand. Demand levels are difficult to predict as numbers are impacted by covid infection rates and contact tracing in area.	M		L
Car Parks	There is a risk that the impact of COVID could changed the usage of some car park and if the recovery of the high street does not return as predicted and/or any further Covid variants generate restrictions or reduce the users confidence this will reduce income	M	M	M

Budget Assumptions

20. To form the budget for the 2022/23 financial year and then following 4 years to 2026/27 has allowed for best estimates of the total financial picture, making allowances for anticipated unavoidable pressures and future business plans.

21. It is not possible to give a precise estimate of the impact of each identified risk. As a general guide for risk assessments the following has been used:

Probability assessment

Low Possible, but unlikely

Medium Probable

High Almost certain

Impact assessment

Low Possible variance of £5k-£19k

Medium Possible variance of £20k-£49k

High Possible variance > £50k

Risks identified	Probability of variance arising	Impact	Overall Risk
Sales, Fees and Charges There is an overall risk that income levels could drop due to economic conditions, changes in social behaviour and Government legislation. Specific services with higher risk of variable income levels have been identified as food imports, licensing, car parking and monitoring fees.	Medium	Medium Adverse/Favourable	Medium
Contracts Large contracts that are influenced by inflation give rise to a risk of material changes to the costs which are largely out of the control of those managing those contracts, any contracts due for re-tender give rise to risks of increase and decreases in base price	Medium	High Adverse/Favourable	Medium
Joint ventures and partnerships There is a risk with renewals of partnerships and joint ventures due within the budget year that the same level of service can not be agreed at a level similar to estimates built into the budget, or the service provided is no longer available which can require organisation changes and impacts to costs of interim measures if needed.	Low	High Adverse/Favourable	Medium
Transformation When planning changes to working approaches there is risk of variances of estimates built into the budget due to the size and amount of variables included in such projects.	Medium	High Adverse/Favourable	High
Capital Financing Estimates are built using expected project schedules of work, any delay in the scheme or unforeseen costs can create material impacts on the capital financing charges. Funding sources such as capital receipts may not be realised in the planned timescale therefore could create additional capital charges in the budget year.	Low	High Adverse/Favourable	Medium

Risks identified	Probability of variance arising	Impact	Overall Risk
Waste and 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.	Medium	High Adverse	High
Garden Waste There is currently a consultation around Garden waste charging which exposes the council to the risk of both additional costs and loss of income.	Medium	High Adverse	High
Local Plan Local Plan. A work programme is in place to prepare a new local plan. A new project management approach has been implemented which is being monitored regularly at dedicated meetings of the Scrutiny Committee	High	High Adverse	High
Planning appeals 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.	Low	High Adverse	Medium
Rental income Empty office space has been assessed for its use as an income stream and the assumption that the space will be rented in the budget year 2022/23 may not be realised due to finding tenants and lease agreements.	Medium	High Adverse	High
Housing Revenue Account Specific			
Rental income The ring-fenced account is set based on the assumption that the government agreement of allowing rental increases of at CPI+1% will continue over the medium term.	Medium	High Adverse/Favourable	Medium
Right to Buy Scheme The assumption that the authority will have suitable land and schemes to satisfy the right to buy agreement could, if undelivered, give rise to the risk of repayment of Capital receipts at an interest cost of 4% above base rate this would affect the cashflow of the authority and subsequent rental income from replacement properties would be lost. Currently	Medium	High Adverse	High

Conclusion

22. It is the opinion of the Director of Finance and Corporate Services (S151) that in their view the budget estimates are robust and the level of reserve adequate and satisfactory, as required by the Local Government Act 2003, on the assumption that the proposed council tax increases by £5 for the budget year 2022/23.
23. Whilst the 2022/23 budget is balanced, there remains a gap between estimated spend and funding streams for 2023/24 onwards. This is solely due to the uncertainty of funding pending the next spending review alongside the implementation of the new needs led funding formula and business rates reset. Therefore, the council needs to maintain focus on financial sustainability to produce a balanced budget over the medium term.
24. The risks identified will be proactively monitored and mitigating action taken as soon as reliable trends emerge. Budget monitoring reports are presented to Members on a quarterly basis during the financial year and will set out the latest position and action being taken, where applicable. The control environment and associated processes in place are robust. Financial management has been reviewed and actions are in place to strengthen them.
25. It is the opinion of the Director of Finance and Corporate Services (S151) that the reserves are adequate and appropriate, full details of all the reserves held and their purpose are set out in the Medium Term Financial Strategy (Appendix C).

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.