

Section 25 Report – Robustness of Estimates and Adequacy of Reserves

Introduction

1. Section 25 of the Local Government Act 2003 requires that, when the Council is setting its annual budget and council tax requirement, the Director of Finance and Corporate Services (Section 151 Officer) must report on the robustness of estimates made, and the adequacy of the Council's financial reserves.
2. The Council is required by statute to have regard to this report when setting the annual budget.
3. In preparing this report, the Director of Finance and Corporate Services (Section 151 Officer) has considered the financial management and control frameworks that are in place, the budget assumptions used, the financial risks facing the Council, and the level of type of Council reserves.
4. Taking the above into account, it is the opinion of the Director of Finance and Corporate Services (Section 151 Officer) that the budget estimates are robust and the level of reserves adequate and satisfactory, as required by the Local Government Act 2003.

Financial Management and Control Frameworks

5. The Director of Finance and Corporate Services 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 for identifying areas for improvement where appropriate. Areas for improvement are reported to the Governance, Audit and Performance Committee on a regular basis.

Robustness of Estimates

6. In setting the budget for 2023/24, it has been necessary to make a number of key assumptions and estimates about future events, for example future inflation rates and the outcome of future local government finance settlements. The most significant assumptions made for 2023/24 and beyond are set out within the Medium Term Financial Strategy (Appendix C).
7. In order to arrive at realistic estimates, a comprehensive process of scrutiny, review and challenge of budgets by managers, finance officers and the Corporate Management Team has taken place. This included, for example, checking 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.
8. Where significant estimates are based upon external factors outside of the Council's control, external inputs and/or consultants have been used wherever possible in order to have the greatest possible confidence over the estimates applied. For example, the estimate for borrowing costs is based upon interest rate forecasts prepared by the Council's external treasury advisers.
9. However, despite the above safeguards no budget can ever be completely free from risk. The most significant risks as they relate to the 2023/24 budget are set out in the following table:

Risk	Probability of Variance Arising	Potential Impact	Overall Risk
<p>Staff costs Staff cost budgets are based upon assumptions made in respect of the 2023/24 pay settlement. Should the actual settlement (negotiated nationally) differ from these assumptions, this could have a significant impact on the Council's budget.</p>	High	High adverse / high favourable	High
<p>Agency costs Whilst significant provision has been made in the budget for the cost of employing agency staff to cover hard to recruit posts, this may not prove sufficient if further vacancies arise during the year. Conversely, should recruitment be successful the actual cost may be lower.</p>	High	High adverse / high favourable	High
<p>Business rates appeals All business ratepayers will be subject to a business rates revaluation effective from 1 April 2023. Whilst provision has been made in the budget for some degree of successful rate appeals, if the volume or value of appeals differs from the assumptions made this could have a significant impact on the Council's income from business rates in 2023/24 and beyond.</p>	High	High adverse / high favourable	High
<p>Council dwelling depreciation The budgeted depreciation charge for council dwellings is based upon estimated valuation movements since 1 April 2022. The dwelling stock will be subject to formal external valuation at 1 April 2023 - should the value be higher or lower than anticipated, this will result in a higher or lower depreciation charge to the Housing Revenue Account.</p>	High	High adverse / high favourable	High
<p>Waste and recycling services This is an area which is particularly susceptible to market volatility. Fuel costs and disposal costs are highly variable, as is the income derived from recycling credits.</p>	High	High adverse / medium favourable	High
<p>Housing benefit subsidy The Council has identified that it has overcharged a large number of council tenants when calculating HRA rents for 2021/22 and 2022/23, as reported to Cabinet in December 2022. It is not yet known how this may impact on housing benefit subsidy income - for example if any resulting overpayments are deemed 'LA error' the Council may lose subsidy for these. In addition, housing benefit subsidy claims have not yet been fully certified and closed from 2020/21 onwards due to delays in the local audit market. There is a risk that the certification process may uncover other issues which may result in an increase or decrease to the subsidy which can be claimed.</p>	High	High adverse / low favourable	High
<p>Sales, fees and charges Many of the Council's sales, fees and charges are highly sensitive to external factors such as economic conditions, changes in behaviour, and changes to government regulation or legislation. In particular, with the cost of living rising, there could be a reduction in demand for services such as planning and building control.</p> <p>The specific services with a higher risk of variable income levels include border inspection, food imports, licensing, planning, building control and waste services.</p>	Medium	High adverse / high favourable	Medium

Risk	Probability of Variance Arising	Potential Impact	Overall Risk
<p>General cost inflation Inflationary increases have been applied to the budget where contractual provisions exist, or else the service has been able to demonstrate a strong likelihood of unavoidable inflation.</p> <p>Whilst service managers have been heavily involved in the budget setting process, there remains a risk of unforeseen and unavoidable inflation in areas where no provision has been made in the budget, leading to service overspends.</p>	Medium	High adverse	Medium
<p>Housing regulatory issues After identifying potential breaches of the Home Standard, the Council has self-referred to the Regulator of Social Housing, and commissioned an external review of the issues raised. In addition, significant changes are expected to the Regulatory Framework for Social Housing following the passage of the Social Housing Regulation Bill. At present, it is assumed that any new burdens placed upon the Council by either of these factors can be met from existing resources (except where specific issues have already been identified and costed). However, there remains a risk that further resource will be needed, which could have significant cost implications for the HRA.</p>	Medium	High adverse	Medium
<p>Borrowing costs Approximately one third of the Council's borrowing is on the short-term local authority market, and will fall due for refinancing during 2023/24. If interest rates are higher or lower than assumed at the point of refinancing, the Council's cost of borrowing could go up or down.</p>	Low	High adverse / high favourable	Medium
<p>Planning appeals The fact that the Council does not currently have an adopted local plan increases the risk around planning appeals, which can be costly to defend and result in costs being awarded against the Council.</p>	Low	High adverse	Medium
<p>Housing rents income There is an inherent risk of non-collection of housing rents, which increases at times of economic pressure. Should collection rates fall below those assumed when setting the budget, this could have a significant impact on the financial performance of the Housing Revenue Account.</p>	Low	High adverse	Medium

10. Further details of other risks arising from budget assumptions are set out in the Medium Term Financial Strategy (Appendix C), whilst individual service level risks can be found at Annexe H4 to the 2023/24 General Fund budget (Appendix H) and Annexe G3 to the 2023/24 Housing Revenue Account (HRA) budget (Appendix G).

Adequacy of Reserves

11. The Council holds a minimum level of reserves in both the General Fund and HRA, called the Working Balance, to allow for unexpected impacts in line with the risk assessment above. This is set at 2% of gross variable income and costs. The working balances for the 2023/24 have been set as follows:-

Working Balance Calculation 2023/24	General Fund £'000	Housing Revenue Account (HRA) £'000
Gross budgeted variable expenditure	53,853	10,715
Gross budgeted variable income	35,225	18,328
Working balance (2% of total)	1,782	581

12. The 2023/24 budget shows that the above working balances will be maintained throughout the financial year. In addition, other reserves have been set aside for general and specific purposes as set out in the General Fund budget (Appendix H) and the HRA budget (Appendix G). It is therefore confirmed that the Council holds adequate reserves to support the proposed budget for 2023/24, with sufficient amounts to cover any risks which can reasonably be expected to crystallise during the year.

Conclusion

13. It is the opinion of the Director of Finance and Corporate Services (Section 151 Officer) that the budget estimates are robust and the level of reserves adequate, as required by the Local Government Act 2003.
14. Whilst the budget is balanced for 2023/24, there are funding deficits within the General Fund from 2024/25 which will need to be addressed in the medium term. A proposed savings plan has been put into place to deal with this, as set out in the Medium Term Financial Strategy (Appendix C). It is important that the Council maintains focus on the delivery of this savings plan in order to secure its long-term financial sustainability.