

County Council

26 February 2020

**Budget 2020/21 – Report under Section
25 of Local Government Act 2003**



Report of John Hewitt, Corporate Director of Resources

Councillor Alan Napier, Portfolio Holder for Finance

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To provide Members with information on the robustness of the estimates and the adequacy of reserves in the Cabinet's budget for 2020/21, so that all Members have professional authoritative advice available when final budget decisions are made at this meeting of the County Council on 26 February 2020.

Executive Summary

- 2 Section 25 of the Local Government Act 2003 requires that an Authority's Chief Financial Officer reports to Full Council when it is considering its Budget and setting its Council Tax for the forthcoming financial year. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that Members will have professional, authoritative advice available to them when they make their decisions.
- 3 Section 25 requires Members to have regard to this report in making their decisions in relation to the budget and the setting of council tax for 2020/21

Recommendation

- 4 That Members have regard to this statement when approving the budget and the level of Council Tax for 2020/21.

Background

- 5 Local Authorities decide every year how much they are going to raise from Council Tax. Decisions are based on a budget that sets out estimates of what the Council plans to spend on each of its services in the forthcoming year.
- 6 The decision on the level of the Council Tax is taken before the financial year begins and it cannot be changed during the year, so allowance for risks and uncertainties that might increase service expenditure above that planned, must be made by:
 - (a) making prudent allowance in the estimates for each of the services;
 - (b) ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.
- 7 Section 25 of the Local Government Act 2003 requires that an Authority's Chief Financial Officer reports to Full Council when it is considering its Budget and setting its Council Tax for the forthcoming financial year. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that Members will have professional, authoritative advice available to them when they make their decisions.
- 8 Section 25 also requires Members to have regard to this report in making their decisions.

Robustness of Estimates

- 9 Service groupings have been building detailed budgets throughout the year. In addition, service pressures have been identified. Reports have been presented to Cabinet and Corporate Overview and Scrutiny Management Board.
- 10 The 2020/21 budget proposals are based on extensive analysis and assurances from Corporate Directors and their finance support staff. Cabinet Members have worked with their respective Directors throughout the process. Overview and Scrutiny Members have been able to question Service Groupings on budgets, performance and proposals. Trade Unions, Business Ratepayers and their representatives have also been consulted on the proposals.
- 11 Extensive work has also been carried out to produce an indicative balanced Medium Term Financial Plan (MTFP). A range of broad assumptions have been utilised and robustly challenged as part of the MTFP(10) process. More work is needed for years 2021/22 to 2023/24 to identify total additional forecast savings of £32.5 million, but in my

professional view we have taken all reasonable and practical steps to identify and make provision for the County Council's commitments in 2020/21 in order to achieve a balanced budget.

Adequacy of Reserves

- 12 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Local Authority Accounting Panel (LAAP) has a guidance note on Local Authority Reserves and Balances (LAAP Bulletin 77) to assist local authorities in this process. This guidance is not statutory, but compliance is recommended in CIPFA's Statement on the Role of the Finance Director in Local Government. It is best practice to follow this guidance.
- 13 The guidance however states that no case has yet been made to set a statutory minimum level of reserves, either as an absolute amount or a percentage of the council's budget. Each Local Authority should take advice from its Chief Financial Officer and base its judgement on local circumstances.
- 14 Reserves should be held for three main purposes:
 - (a) a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
 - (b) a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
 - (c) a means of building up funds known as 'earmarked reserves', to meet known or predicted funding requirements.
- 15 The CIPFA Guidance highlights a range of factors in addition to cash flow requirements that Councils should consider including:
 - (a) the treatment of inflation;
 - (b) the treatment of demand led pressures;
 - (c) efficiency savings;
 - (d) partnerships;
 - (e) the general financial climate, including the impact on investment income.
- 16 The guidance also refers to reserves being deployed to fund recurring expenditure and indicates that this is not a long-term option. If Members choose to use reserves as recommended within the 2020/21

budget, appropriate action will need to be factored into the MTFP(11) to ensure that this is addressed over time.

- 17 The risk assessment process has identified a number of key risks which could impact on the Council's resources. The Council continues to face significant uncertainty in relation to the future levels of Government funding – in fact it is difficult to recall a period in recent times when there is so much uncertainty in relation to the overall quantum of local government funding as well as uncertainty over how funding will be distributed. The outcome of the Fair Funding Review will be known later this calendar year and the outcomes will dictate how funding will be allocated to individual local authorities. At this stage there remains a significant risk that the outcome of the review may not be favourable to County Durham.
- 18 The council is also continuing to face significant ongoing budget pressures. There are significant and continuing pressures in social care services and in particular Children's social care. Whilst the MTFP modelling includes estimates of future cost pressures for these areas, Council needs to be aware that further sustained pressures in social care services are a significant risk.
- 19 There continue to be other risks associated with the review of Business Rate Retention, the Local Council Tax Reduction Scheme and from Brexit.
- 20 With these risks in mind, it is recommended that the County Council adopts a policy for reserves as follows:
 - (a) set aside sufficient sums in earmarked reserves as it considers prudent. The Corporate Director of Resources be authorised to establish such reserves as are required in line with the Council's Strategy, to review them for both adequacy and purpose on a regular basis reporting appropriately to the Cabinet Portfolio Holder for Finance and to Cabinet;
 - (b) aim to maintain General Reserves in the medium term of between 5% and 7.5% of the Net Budget Requirement which in cash terms is up to around £32 million.
- 21 Earmarked reserves have been established to provide resources for specific purposes. Of these reserves, the use of schools' balances is outside of the control of the Council.
- 22 In my professional view, if the Council were to accept the Cabinet's recommended Council Tax increase of 1.99%, plus 2% for Adult Social Care Precept, funding for unavoidable service pressures and investments, proposals for savings and for capital investment then the

level of risks identified in the budget process, alongside the Authority's financial management arrangements suggest that the level of reserves is adequate.

Recommendations and Reason

23 That Members have regard to this statement when approving the budget and the level of Council Tax for 2020/21.

Author(s)

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Appendix 1: Implications

Legal Implications

Section 25 of the 2003 Local Government Act requires the Authority's Chief Financial Officer to provide assurance upon the robustness of estimates and the adequacy of reserves.

Finance

This report sets out the view of the Council's Section 151 Officer (as identified in the Local Government Act 1972) in relation to the robustness of estimates and the adequacy of reserves determined in the 2020/21 budget build.

Consultation

None.

Equality and Diversity / Public Sector Equality Duty

None.

Climate Change

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

All relevant risks have been considered by the Section 151 Officer in coming to this view.

Procurement

None.