



**Budget 2022/23 – Report under Section  
25 of Local Government Act 2003**

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**Report of Paul Darby, Corporate Director of Resources**

**Councillor Richard Bell, Deputy Leader and Cabinet 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 proposals for 2022/23. Provision of this information is a legal requirement and ensures that all Members have regard to the professional authoritative advice provided by the authority's Chief Financial Officer when final budget decisions are made at this meeting.

**Executive Summary**

- 2 Section 25 of the Local Government Act (LGA) 2003 requires that when a local authority is considering its budget and setting its council tax for the forthcoming financial year, its Chief Financial Officer reports to Full Council on:
  - (a) the robustness of the estimates made for the purposes of the council tax requirement calculations;
  - (b) the adequacy of the proposed financial reserves allowed for in the budget proposals.
- 3 Section 25 of the LGA 2003 requires members to have regard to this report in making their decisions in relation to the budget and the setting of council tax for 2022/23.

**Recommendation**

- 4 That members have regard to this statement when considering and approving the budget and the level of Council Tax for 2022/23.

## **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 or unexpected events occur that were not anticipated.
- 7 Section 25 of the Local Government Act (LGA) 2003 requires that when a local authority is considering its budget and setting its council tax for the forthcoming financial year, its Chief Financial Officer reports to Full Council on:
  - (a) the robustness of the estimates made for the purposes of the Council Tax requirement calculations;
  - (b) the adequacy of the proposed financial reserves allowed for in the budget proposals.
- 8 Section 25 of the LGA 2003 also requires members to have regard to this report in making their decisions in relation to the budget and the setting of council tax for 2022/23.

## **Robustness of Estimates**

- 9 Service groupings have been building detailed budgets throughout the year. This includes identification of unavoidable service pressures and inflationary / demographic changes that need reflecting in the base budget next year. Reports have been presented to Cabinet and Corporate Overview and Scrutiny Management Board throughout the year as part of the budget planning process.
- 10 The 2022/23 budget proposals are based on extensive analysis and assurances from Corporate Directors and their Service Management Teams plus their finance support staff. Cabinet Members have worked with Corporate Directors throughout the process. Overview and Scrutiny Members have been able to question Service Groupings on

budgets, performance and proposals throughout the year. Area Action Partnerships, Trade Unions, Business Ratepayers and their representatives have also had the opportunity to be consulted on the proposals. The feedback from these consultations is included in the budget report.

- 11 The council has faced the continuing extensive financial impacts from the coronavirus pandemic during 2021/22 with £15.6 million of government support provided to cover lost income and additional costs incurred. It was forecast at Quarter 2 that costs incurred, offset by covid related underspending, and income lost would be contained within the government funding provided.
- 12 It is hoped that the financial impact of the pandemic will not impact upon the council base budget in 2022/23 although the waste disposal budgets have been increased to take into account the ongoing increase in waste tonnages experienced since the initial lockdown in 2020. Any ongoing impact of the pandemic, especially upon income levels will be carefully monitored across 2022/23, with any continuing pressures built into the 2023/24 base budget build where necessary.
- 13 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(12) process.
- 14 More work is needed for years 2023/24 to 2025/26 to identify additional savings, with a forecast savings requirement of £29.987 million across that period, 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 2022/23 in order to achieve a balanced budget next year. Work will commence immediately on developing strategies to tackle the savings requirements for years 2023/24 to 2025/26.

### **Adequacy of Reserves**

- 15 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.
- 16 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.

- 17 Reserves should be held for three main purposes:
  - (a) as a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
  - (b) as a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
  - (c) as a means of building up funds known as 'earmarked reserves', to meet known or predicted funding requirements.
- 18 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.
- 19 The guidance also refers to reserves being deployed to fund recurring expenditure and indicates that this is not a long-term or sustainable option. The recommended budget for 2022/23 does not require the utilisation of reserves to balance the budget.
- 20 The accounting code of practice requires unapplied grants or partnership funds to be carried over at year end in an earmarked reserve. This can often skew the balances held from year to year, particularly where funding for the upcoming years commitments is paid early.
- 21 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 local government funding especially in relation to how funding will be distributed and what the impact will be of the requirements associated with the Health and Social Care Levy.

- 22 The outcome of the Fair Funding Review will not be known until at least later this calendar year and the outcomes from that 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 and the budget proposals identify a loss of Public Health Grant being of particular concern given the previous proposals in this regard. The budget proposals include a prudent assumption that the Council loses £8.8 million of funding in 2023/24 as a result of the Fair Funding review, equal to the value of the new Services Grant Funding we are due to receive in 2022/23.
- 23 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. In addition, the current high levels of inflation, the large increase in the National Minimum Wage and the requirement to carry out a Fair Cost of Care process for adult care all continue to place significant pressures upon the budget. Whilst the MTFP modelling includes estimates of future cost pressures for these areas, Council needs to be aware that further sustained pressures in these areas remain a significant risk.
- 24 There continues to be other risks associated with the ongoing review of Business Rates and the requirements of the Local Council Tax Reduction Scheme. All these risks are set out in the budget report and have been properly assessed and taken into account.
- 25 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 £35 million.
- 26 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.
- 27 In my professional view, if the Council were to accept the Cabinet's recommended Council Tax increase of a 0% base council tax increase and a 3% increase for the 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.

## **Conclusions**

- 28 In forming my opinion on the budget proposals put forward by Cabinet I have carefully considered the financial management arrangements and control frameworks that are in place, the underlying budget assumptions, the adequacy of the service planning process, the financial risks facing the Council and the adequacy of the councils reserves.
- 29 Members are advised to have regard to this statement when approving the budget and the level of Council Tax for 2022/23.

## **Author(s)**

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## **Appendix 1: Implications**

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### **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 2022/23 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.