

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 2023/24. 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 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and to appoint a S151 Officer, also known as a Chief Financial Officer (CFO), to have responsibility for those arrangements.
- 3 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 must report 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.
- 4 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 2023/24.

Recommendation

- 5 That members have regard to this report and the opinions set out in it when considering and approving the budget and the level of Council Tax for 2023/24.

Background

- 6 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and to appoint a S151 Officer, also known as a Chief Financial Officer (CFO), to have responsibility for those arrangements.
- 7 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 in order to deliver its strategic objectives as set out in the Council Plan.
- 8 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.
- 9 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 must report 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.
- 10 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 2023/24.

Robustness of Estimates

- 11 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.

- 12 The 2023/24 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, the County Durham Partnership, Trade Unions, Business Ratepayers and their representatives have also had the opportunity to be consulted on the proposals. The feedback from these consultations, alongside the outcomes from the consultation undertaken with the wider public via an online survey that was made available on our website, is included in the budget report.
- 13 The council has faced significant financial challenges from high inflation levels during 2022/23. This has impacted upon the price of goods and services purchased alongside the 2022/23 pay award averaging 6.6% against a 3.25% allowance in the base budget. These significant budget pressures in 2022/23 resulted in a £14.640 million forecast in year overspend being reported to Cabinet on 16 November 2022 based upon the Quarter 2 forecast. This overspend is being funded via the £10 million Budget Support Reserve set up during the 2021/22 final outturn process for this purpose and agreed by Cabinet on 13 July 2022, with the remaining £4.640 million being funded from the General Reserve.
- 14 The significant inflationary and demand led pressures, particularly in our Adult Social Care and Children's Social Care budgets, have resulted in additional base budget pressures of £78.906 million being included in the 2023/24 budget build process. As part of the local government finance settlement Government have provided £40 million of additional grant funding next year, however, £2.5 million of this is recycled specific grant funding the council was already receiving and £4.3 million of the additional funding comes with new spending requirements. The net additional funding provided next year is therefore £33.2 million.
- 15 Government have provided additional council tax raising powers to local government and expects local authorities to take up these additional tax raising powers to help meet the inflationary and other pressures the sector is facing.
- 16 The base council tax referendum limit has been raised from 1.99% to 2.99% and an additional 2% adult social care precept can be utilised in both 2023/24 and 2024/25. In total therefore the council can increase council tax in 2023/24 by 4.99%, which is 2% higher than the previous forecast maximum increase of 2.99%.
- 17 With a 4.99% council tax increase, having taken into account tax base growth and £12.383 million of budget savings the council will still be

required to utilise £10.028 million of the MTFP Support Reserve to balance the 2023/24 budget. Utilising earmarked reserves to balance budgets at this level for more than the short term is not a unsustainable budget strategy to adopt.

- 18 Every 1% of council tax increase generates circa £2.55 million of additional resources, therefore the additional 2% council tax increase would generate an additional £5.1 million of income to the council during a period of significant base budget pressures. A failure to increase the council tax in line with the proposals set out the budget report would increase the use of the MTFP Support Reserve and make the job of balancing the budget in future years more difficult, resulting in the need for additional cuts and efficiencies to public services.
- 19 During the development of MTFP(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(13) process.
- 20 The 2023/24 budget and MTFP(13) forecasts are underpinned by a robust Risk Assessment, with full details set out in the report. Of particular concern is the significant uncertainty beyond 2024/25, with more difficult financial settlements widely expected from 2025/26 onwards when the Chancellor of the Exchequer will face some very tough choices over taxation levels and public expenditure restraint given the level of borrowing nationally at this time. If public spending reductions are implemented from 2025/26 and Local Government remains unprotected from these then the forecasts included in the MTFP, which currently include a cash flat position, will need to be revised.
- 21 Further work is needed for years 2024/25 to 2026/27 to identify additional savings, with a forecast savings requirement of £23.177 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 2023/24 in order to achieve a balanced budget next year and that the use of £10.028 million of the MTFP Support Reserve to balance the budget is justified. Work will commence immediately on developing strategies to tackle the savings requirements for years 2024/25 to 2026/27 to ensure there is no long term reliance on the use of reserves to balance the budget.

Adequacy of Reserves

- 22 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.

- 23 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.
- 24 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.
- 25 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.
- 26 The guidance also refers to reserves being deployed to fund recurring expenditure and indicates that this is not a long-term or sustainable option.
- 27 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. It is for this reason that the earmarked reserves held by the Council are categorised as sums held for corporate purposes, sums held on behalf of partner organisations / external grants and other sums

earmarked for specific purposes when reported to Cabinet on a quarterly basis as part of the forecast of outturn reports.

- 28 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.
- 29 The outcome of the Fair Funding Review will not be known until at least 2025/26 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 will receive a cash flat financial settlement from government in 2025/26 and 2026/27.
- 30 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.
- 31 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.
- 32 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 between £26 million and £39 million.

- 33 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.
- 34 To ensure budgets can be balanced and to provide time to work up proposals to reduce expenditure to address the underlying budget position, a thorough review of all earmarked reserves has been undertaken during the year, with a number of reserves reprioritised and transferred to the corporate MTFP Support Reserve in order to assist with the balancing of budgets in 2023/24 and beyond.
- 35 The reserves review was undertaken in the context of a significant forecast reduction in reserves, as reported in the Quarter 2 forecast of outturn to Cabinet on 17 November 2022, which forecast that total earmarked and cash limit reserves (excluding school reserves) would reduce by £44.915 million in 2022/23, from £235.529 million to £190.614 million.
- 36 The recommended budget for 2023/24 requires the utilisation of £10.028 million of the MTFP Support Reserve to balance the budget.
- 37 In my professional view, if the Council were to accept the Cabinet's recommended Council Tax increase of a 2.99% base council tax increase and a 2% 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 and in light of the review of reserves that was agreed during the year, suggests that the level of reserves is adequate.

Conclusions

- 38 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.
- 39 Members are advised to have regard to this statement when approving the budget and the level of Council Tax for 2023/24.

Author(s)

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Appendix 1: Implications

Legal Implications

Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and to appoint a S151 Officer, also known as a Chief Financial Officer (CFO), to have responsibility for those arrangements

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 2023/24 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.