

Local Government Act 2003 - Section 25

Under the terms of Section 25 of the Local Government Act 2003 the Section 151 Officer is required to report to the council, at the time when it is setting its budget, on two specific matters:-

- **The robustness of the estimates** included in the budget, and
- **The adequacy of the reserves** for which the budget provides

The council then has a statutory duty to have regard to this report from the Section 151 Officer when making its decision about the proposed budget and council tax (see paragraph 3 below for the Section 25 opinion of the Section 151 Officer).

1. Robustness of the estimates

The Section 151 Officer, has undertaken a full assessment of the council's anticipated potential financial risks in 2020/21 and the subsequent period up to 2023/24 as far as that is possible, including:

The realism of the revenue budget 2020/21 estimates for:

- Provision for demand-led services;
- Loss / tapering of the remaining specific grants and / or changes to their eligibility requirements;
- Price increases from the councils supply chain;
- Fee / charges income earned by the council;
- The financing costs arising from the Capital Investment Budget;
- The impact of current and forecast interest rates on the expected returns from investment of cash balances;
- The probability of delivering the necessary savings targets required to minimise any likely drawdown on reserves / balances.

The realism of the capital investment budget estimates in light of:

- The potential for slippage and underspending of the capital programme;
- The possible non-achievement of capital receipts, contributions and grants and the subsequent implications for the funding of the capital programme.

Financial management arrangements including:

- Historical performance over recent years of financial management;
- Delivery / non-delivery of revenue savings programme.

Potential losses, including:

- Bad debts or failure to collect income;
- Declines in collection rates for council tax;
- Claims against the council;
- Major emergencies or disasters;
- Contingent or other potential future liabilities.

An assessment has also been made of the ability of the council to offset the costs of such potential risks. The MTFS therefore reflects:

- Specific provisions in the accounts and in earmarked reserves;
- A commitment to maintain the level of general reserves in line with the policy target range of between 3 and 5% of the revenue budget;
- A collection fund reserve to smooth surpluses and deficits from billing of local taxation;
- Comprehensive insurance arrangements using a mixture of self-funding and external top-up cover.

Estimates used in the budget for 2020/21 are based on pragmatic assumptions, taking into account:

- Policies and priorities as expressed in the new Corporate Plan and associated service delivery plans;
- Continuation of the ring fenced public health grant;
- Future pay settlements and national pay policy decisions;
- The impact of inflation across the councils supply chain;
- Anticipated further reductions in both specific and general grants;
- The impact of the economic situation on future interest rates, the council tax base, collection fund surpluses and deficits (including the on-going full service roll out of Universal Credit in Herefordshire) and the future levels of business rates billed and collected in Herefordshire and associated rate relief schemes;
- Best estimates of continuing funding streams for services particularly for social care (for example the Better Care Fund);
- Commitments in terms of demand for services (including the road network, adult social care, safeguarding of children, adverse weather on highways).

Whilst these estimates are based on pragmatic assumptions, some elements are inevitably subject to change. The timing of the general election in December 2019 had a significant impact on Government's ability to provide fiscal clarity to local government in terms of future funding streams, changes in local government responsibility, and policy changes in areas such as charging for care, the fairer funding review, SEND funding and business rate reform. The next Comprehensive Spending Review is scheduled for summer 2020.

The local government settlement for 2020/21 released on 20 December 2019 provided clarity for the 2020/21 budget setting for Herefordshire. The settlement also confirmed that government are expecting to review and amend a range of policies that have a direct impact on the work of local government as well as considering a range of new policies. This will lead to a revised comprehensive spending review during 2020.

This unprecedented level of medium term fiscal uncertainty has led to a much greater emphasis in the medium term fiscal plans of the council on high level estimation which increases as the time horizon extends. Given the many uncertainties in the international and national political and economic environments it is inevitable that there will be a number of areas of the medium term financial strategy that rely on weighty

estimates and which will require constant re-calibration until clarity is provided around funding streams and responsibilities.

The council has traditionally operated on a basis of cash-limited budgets for each directorate. This has proven to not be possible in the financial year of 2019/20 for the economy and place and the children and families directorates. For economy and place this is a temporary situation and the directorate is currently implementing a recovery plan to ensure that for 2020/21 and beyond the directorate will operate within its cash limited budget.

Children and families has exceeded its revenue budget, largely as a consequence of the number and costs of looked after children. Growth has therefore been built into both children and families and corporate contingency budgets to try and contain such levels of demand. A range of additional budget allocations have been added to enable the directorate to provide early intervention and transform the support offered to families and young people. It is recognised that the benefits, including the budget relief, will take some time to be delivered and during this phase the council will need to fund the increased costs of looked after children as well as the transformation resources, this double funding is built into the MTFS.

Robust monitoring of demand is in place with the intention that directorates do manage within overall budget. The risk remains, however, that further overspends occur and there is a level of contingency held at the corporate level to help manage this risks. These cost pressures and variances are monitored on a regular basis and reported, alongside other key performance information, to the Cabinet on a quarterly basis.

The council agreed a three year savings plan last year and implementation of this plan is progressing well, with the savings for 2019/20 being delivered and the preparations for the delivery of the 2020/21 and 2021/22 savings well advanced. For 2020/21 no new savings are required to balance the revenue budget, likewise it is not anticipated that the council will need to identify further savings for 2021/22.

The council is having to set its 2020/21 budget and refresh its MTFS in advance of Governments Comprehensive Spending Review. It is not possible to predict the outcome of this review, however government has provided a degree of stability for 2020/21 via the settlement announced in December. If the Comprehensive Spending Review leads to the need to make further savings in 2021/22 and onwards the council will have time to consult on and agree a revised savings plan.

2. Adequacy of Reserves and Balances

Whilst the council has a good track record on delivering planned savings and has managed to deliver outturns within the overall budget envelope over recent years, delivery has proven challenging in the last few years and there has been an element of overheating in the children and families directorate. The undertaking to continue to deliver further savings remains a significant challenge for the council.

The added uncertainty around future council funding also means that there is greater merit in ensuring an adequate level of reserves and balances. The council has a robust reserve policy and maintains both general and earmarked reserves to manage risk

and investment. Both earmarked and general reserves have been increased in recent years.

The council currently has a reasonable level of reserves relative to its revenue expenditure. The recently released CIPFA Financial Resilience index provides a useful comparison to other councils. This index confirms that Herefordshire Council is at a lower level of risk of financial distress when compared to other unitary councils. This index is a backward looking assessment, but provides a helpful way of gaining assurance around the council's financial strength.

Reserves and balances are not meant to be a long term solution to structural budget disconnects. Historically the council has not used them in this way and has, over the last decade, made the necessary budget changes in a timely manner to ensure that its revenue budget has remained balanced by making the necessary savings. The budget and MTFS have been constructed on the assumption that this approach will continue. This will ensure that reserves and balances are available to address emerging pressures and to fund transformation.

The external auditor has given unqualified conclusions on the council's arrangements to secure value for money in previous years. This means the auditor is satisfied that Herefordshire Council had appropriate arrangements for securing the economy, efficiency and effectiveness in the use of its resources.

3. Section 25 opinion of the Chief Finance Officer, Section 151 Officer

Taking all of these factors and considerations into account the chief finance officer is satisfied that the:-

- i. Estimates used in the revenue budget 2020/21 are realistic and robust and that the associated level of balances / reserves is adequate. Given the lack of certainty around future funding levels for local government it is appropriate that the strategic level of reserves are at the top end of the council's reserves target level.
- ii. Associated level of balances / reserves for the MTFS period is adequate within the terms of the proposed revised policy as long as the council continues to deliver the agreed budget savings and any future shortfalls that may arise are matching with corresponding savings, particularly in light of limited future knowledge about funding levels.
- iii. High level estimates used in the projections for the MTFS beyond 2020/21 are as realistic as can be assessed at this stage given the government has not committed to levels of funding for local government beyond 2020/21.

This short-term planning horizon gives rise to greater uncertainty but an increased need for longer term local financial planning. As in recent years, the decisions taken for 2020/21 and beyond need to be seen in the context of an on-going decline in funding, along with increasing demands for services, probably to 2023/24 if not further, in order to ensure that decision making is optimised.