

### 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 2021/22 and the subsequent period up to 2023/24 as far as that is possible, including:

The realism of the revenue budget 2021/22 estimates for:

- Provision for demand-led services;
- The short term and longer term impacts of the pandemic;
- 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 including the impact of the pandemic;
- 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 Medium Term Financial Strategy (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 2021/22 are based on pragmatic assumptions, taking into account:

- Policies and priorities as expressed in the new Corporate Plan and Delivery Plan;
- 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 following the pandemic including the government support for collection of non-domestic business rates and council tax;
- 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)

The pandemic has tested the financial resilience of the council and its contingency plans. The council entered the pandemic in a reasonable financial position, without structural overspends in adult social care, as reported in the budget set in February 2020 the council has a structural overspend in providing children's services, but the council has an agreed plan in place to address this issue. This enabled the council to focus on its response to the pandemic and implementing its contingency plans. Rather than diverting its efforts to deal with structural revenue budget issues.

The level of savings proposed in the 2021/22 budget are some of the largest revenue savings in the history of the council however the plans to deliver these are well established. I expect council to monitor progress very closely.

The local government settlement for 2021/22 released in December 2020 provided clarity for the 2021/22 budget setting for Herefordshire. However the settlement is yet again for one year only. One year settlements make longer term planning very difficult and future years budgets are very difficult to accurately forecast. The MTFS is clear that future years are based on the assumption that government does not make any significant changes in funding levels or policies, it is not practicable to try and second guess government in these areas, however the council continues to monitor these

areas closely. The council has a significant track record in making budget changes in a timely manner which is a key strategic response to this threat.

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.

## **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 this is being addressed by a number of transformation projects within the directorate. The undertaking to continue to deliver further savings remains a significant challenge for the council.

The added uncertainty around future council funding along with the impact of the pandemic 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.

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.

## **3. Section 25 opinion of the Chief Finance Officer, S151 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 2021/22 are realistic and robust as possible given the challenging circumstances and that the associated level of balances / reserves is adequate. Given the lack of certainty the long term impact of the pandemic it is appropriate that the strategic level of reserves are at the top end of the council's reserves target level.
- ii. The savings to be delivered in 2021/22 are significant however the council has been developing the saving plans since summer 2020, and the implementation plans are being enacted. The council has changed the way that it reports and monitors the delivery of these savings plans to increase transparency and accountability.

- iii. Noting that there is very little visibility of further funding for pandemic costs in 2021/22 or funding levels beyond 2022/23 there is the need to adopt an ongoing approach to monitoring developments in these areas. This may even necessitate an intermediate budget later in 2021 for the council to consider.
- iv. Associated level of balances / reserves for the MTFS period are 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.
- v. High level estimates used in the projections for the MTFS beyond 2021/22 are as realistic as can be assessed at this stage given the government has not committed to levels of funding for local government beyond 2021/22, for core services or responding to the pandemic in 2021/22.