

### 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 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 2022/23 and the subsequent period up to 2024/25 as far as that is possible, including:

The realism of the revenue budget 2022/23 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 earned by the council;
- The financing costs arising from the capital programme;
- 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 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 2022/23 are based on realistic assumptions, taking into account:

- Policies and priorities as expressed in the County 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 council's supply chain;
- Anticipated changes in both specific and general grants;
- The recovery from the ongoing pandemic;
- Reasonable estimates of continuing funding streams for services particularly for social care (for example the Better Care Fund), and the recent announcements regarding funding for care provision;
- Commitments in terms of demand for services (including the road network, adult social care, safeguarding of children, adverse weather on highways)

The Council needs to implement the savings and increased income streams proposed in the 2022/23 budget, to ensure that the Council's 2022/23 budget remains balanced and sustainable into the future. I expect council to monitor progress in this area very closely.

The Council's management team and Portfolio Holders will need to implement the agreed processes and changes to deliver the planned budget savings and increased income streams in line with the agreed timetable. If the planned budget reductions or income streams are not delivered, the Councils management team and Portfolio Holders will be required to identify alternative ways of balancing the Service and/or Directorate budgets.

The three-year comprehensive spending review announced in the autumn provides clarity around the funding envelope for Local Government over the next three years. The one-year settlement shared on the 16<sup>th</sup> of December 2021 brings clarity for the 2022/23 budget setting for Herefordshire. However the settlement is for one year only. One-year settlements make longer term planning very difficult and future years budgets are very difficult to accurately forecast. The Council will have to wait until the details of the 2023/24 and 2024/25 settlement are announced before it can finalise its detailed plans for these future years. The MTFS makes prudent assumptions about funding levels for these years.

The current ongoing challenges in the Childrens and Young People's directorate are creating a number of financial challenges for the council; a number of the budget pressures identified in the budget are designed to address some of the structural issues flowing from the challenges. In addition, the ongoing improvement work is funded from a combination of reserves and grants. The improvement board will shortly approve an improvement plan; this plan will consider not only the improvement journey but also the necessary structural changes needed to ensure the improvements are sustained. The ongoing improvement journey will be funded from ear-marked reserves and the structural changes will be considered as part of future budget cycles.

## **2. Adequacy of Reserves and Balances**

The uncertainty around future council funding along with the longer-term impact of the pandemic recovery 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 designed to be a long-term solution to structural budget disconnects.

The CIPFA financial resilience index is a useful comparative analytical tool, and this shows that Herefordshire is in reasonable financial health, and is not showing signs of financial distress.

## **3. Section 25 opinion of the Director of Resources and Assurance, S151 Officer.**

Taking all of these factors and considerations into account the Director of Resources and Assurance is satisfied that the:-

- i. Estimates used in the revenue budget 2022/23 are realistic and robust as possible given the challenging circumstances. Given the one year settlement and the lack of certainty of the longer-term impact of the pandemic it is appropriate that the strategic level of general reserves are at the top end of the council's reserves target level.
- ii. The savings and increased revenue streams proposed for 2022/23 are critical to deliver a balanced budget; however, the council has been developing the delivery plans since autumn 2021, and has adopted a realistic timetable and funding envelope to enable the savings and revenue streams to be phased over the three years of the MTFS.
- iii. Associated level of balances / reserves for the MTFS period are adequate within the terms of the policy.
- iv. High level estimates used in the projections for the MTFS beyond 2022/23 are as realistic as can be assessed at this stage given a one year settlement for local government.