

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 2023/24 and the subsequent period up to 2026/27 as far as that is possible, including:

The realism of the revenue budget 2023/24 estimates for:

- Provision for demand-led services;
- The short term and longer term impacts of inflation;
- 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 program;
- 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 and business rates;
- 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 2023/24 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;
- The impact of transformation of the council's services including children's services;
- Anticipated changes in both specific and general grants;
- 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 2023/24 budget, as well as transform the way it delivers services to ensure that the Council's 2023/24 budget remains balanced and sustainable into the future. I expect council to monitor progress in this area very closely.

The council's leadership team and Portfolio Holders will need to implement the agreed processes and changes in activity to achieve the planned budget savings as well as delivering increased income streams, all in line with the agreed timetable. If the planned budget reductions or income streams are not delivered, the council's leadership team and Portfolio Holders will be required to identify alternative ways of balancing the Service and/or Directorate budgets.

The budget setting process within the Council has been operating effectively for many years and is based on setting cash limits for directorates each year allowing for pay and price inflation and other marginal base changes in levels of service whether these be the increasing cost of social care or the requirement to make savings to balance the budget.

Individual directorates are then required to produce detailed estimates for services that come within the cash limits that have been set. More recently, the requirement to make

savings has dominated the budget setting process and major transformation and savings programmes have been put in place to effectively and corporately manage the delivery of savings within the required timescales.

The budget preparation process for 2023/24 has had a much greater focus on inflationary pressures due to the unprecedented economic conditions that are putting pressure on the council's cost base. The MTFS has made a number of assumptions about ongoing inflationary pressures.

The ongoing challenges in Childrens services have created a number of financial pressures, and the budget makes a number of reasonable assumptions about responding to the challenges and addressing the response expected from the minister.

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 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 and capital budgets for 2023/24 are realistic and robust as possible given the challenging circumstances. 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 2023/24, along with the transformation programs are critical to deliver a balanced budget; however, the council has been developing the delivery plans since summer 2022. The timetable for transformation and future savings over the years in the MTFS beyond 2023/24 are realistic and proportional.
- 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 2023/24 are as realistic as can be assessed at this stage given the uncertainty about inflation over the medium term.