

## **APPENDIX F Local Government Act 2003: Section 25**

### **Introduction**

1. Section 25 of the Local Government Finance Act 2003 requires that when a local authority is agreeing its annual budget and the Council Tax precept, the Chief Finance Officer must report to it on the following matters:
  - The robustness of the estimates made for the purposes of the Council Tax requirement calculations
  - The adequacy of the proposed financial reserves
2. The Council is required to have due regard to this report when making decisions on the budget.
3. In determining the opinion, the Chief Finance Officer (CFO) has considered the financial management arrangements and control frameworks that are in place, the underlying budget assumptions, the adequacy of the business planning process, the financial risks facing the Council and the level of reserves.
4. In the context of this opinion section 25 of the Local Government Act 2003 focusses primarily on the forthcoming budget year 2020/21 and the risks and uncertainties within that timeframe. However, future uncertainties particularly relevant to longer term delivery of recurrent savings and ongoing pressures of increasing demands on services must also be considered alongside the need to maintain adequate reserves and balances in the medium term.

### **Robustness of Estimates**

#### **Financial management and control frameworks**

5. The external auditors are expected to give an unqualified opinion on the accounts for the Council and the pension fund for 2018/19. This reflects the fact that the authority has proper and robust financial management and controls in place for that year. There have not been any significant changes to the financial management and control environment since 2018/19. The conclusions are based upon whether the organisation has proper arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness.
6. The Director of Finance has responsibility for ensuring that an effective system of internal control is in place and identify any areas for improvement where appropriate. The Audit Committee receives regular updates on internal controls as well as the Annual Governance Statement which clearly identifies the strength of the governance arrangements in place on an annual basis and approves improvement plans where relevant.

7. All members and officers are required to work within the governance framework of the Council which is set out in the Constitution, Contract Standing Orders and Financial Regulations and supported by policies and procedures. The Council requires officers to complete mandatory training on an annual basis to ensure that officers are fully up to date on latest governance and legislative frameworks
8. There is rigorous system for budget monitoring and reporting, with Cabinet and the Overview and Scrutiny Management Committee receiving regular reports throughout the financial year. Mitigation plans are submitted where there are variances between budget and actual spend or income. Finance officers review and challenge budget managers regarding forecasts on a monthly basis and senior management receive full monthly budget reports to review and challenge as necessary.

### **Medium Term Financial Strategy (MTFS)**

9. The MTFS has been reviewed in full and updated for future years including an extension to cover a 5 year period. It includes all known changes to funding levels as well as estimates for those funding streams for which we have not received confirmation. All estimates have been triangulated as far as is possible.
10. All current savings have been tested for deliverability and where adjustments have been required these have been made and substitute savings have been identified where current savings have not been fully deliverable.
11. Financial risks have been assessed and quantified where appropriate, either provision has been made or mitigations have been identified. The key risks in the budget are mainly in relation to demand led budgets in particular Social Care, Waste and Dedicated Schools Grant (DSG), all of which are under significant pressure in the current year. There are mitigation plans in place to manage these pressures, although the DSG deficit remains a concern.
12. The construction of the budget for 2020/21 and examination and validation of the budget proposals has been subject to challenge by the Council's Leadership Team, Heads of Finance and service directors. Further scrutiny of the MTFS and budget proposals has been undertaken by the Financial Planning Task Group which is a cross party subcommittee of the Overview and Scrutiny Management Committee.

## **Budget Assumptions**

### **Government Grant and Business Rates**

13. At this stage no change has been made to the Medium Term Financial Strategy given the uncertainty of the outcome of Government's Fairer Funding review however there is an assumption that the additional funding for social care will remain within on-going funding and the Rural Support Grant has been assumed to not continue as a prudent assumption regardless of any changes that might be seen from any Fair Funding review. The Council will continue to be updated of any changes, which are forecast to be announced in 2020.
14. Whilst the final settlement is likely to be confirmed in February 2020, it should be noted that at the time of writing this report further details on a number of grants are still to be confirmed. Any additional monies received from final settlements, unless ring-fenced, will be set aside in the General Fund reserves.
15. Business Rates assumptions are considered robust and a prudent approach has been taken in respect of the increase attributable to the number of local businesses. A more confident forecast will be known following the submission of the NNDR forms to MHCLG, for both the estimates for 2020/21 and the outturn position for 2019/20 (which are due at the end of January and Spring 2020 respectively).

### **Council Tax**

16. The assumptions on income from Council Tax over the MTFS period are considered prudent with a modest growth in tax base and an assumed increase in Council Tax up to the referendum levels. For 2020/21 this includes a specific levy for Social Care the funding of which is all allocated to Adults Services.

### **Interest Rates**

17. Investment income returns are budgeted at 0.75% for 2020/2021. The current cost of borrowing for Wiltshire Council is 3.74%, however the average cost of new borrowing would be 3.12% (assume 25 year PWLB rates).

### **Inflation.**

18. The Consumer Price Index (CPI) has been hovering around the Bank of England's target of 2% during 2019, but fell again in October 2019 to 1.5%. It is likely to remain close to or under 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

## **Capital Strategy**

19. The summary of the programme shown in the main MTFS report indicates the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.
20. The additional investment in capital schemes arising from the Capital Strategy for 2020/21 results in significant additional revenue costs to fund capital financing. These are included within the MTFS. In future years the additional cost of borrowing continues to add pressure to the revenue budget

## **HRA**

21. The Housing Revenue Account (HRA) is a separate account that all local authorities with housing stock are required to maintain by law. This account accumulates and reports all transactions relating to, or associated with, local authority-owned housing. It is ring fenced which means that money cannot be paid into or out of it from the General Fund. In addition, it is not legal to run a deficit on the account. There is significant capital expenditure planned in future years that results in pressure within the revenue account.
22. The 30-year business plan aims to deliver a substantial increase in the amount of money available to be invested in capital works on existing dwellings and to deliver new social housing to replace properties that have been sold under the Government's Right to Buy scheme.

## **Dedicated Schools Grant**

23. The Dedicated Schools Grant is a ring-fenced grant to fund activity relating to the provision of education services. As a result of this ring-fencing the assumption within the MTFS is that any deficit position does not impact on the general resources available to the council in terms of the general fund revenue account and any deficit reserve.
24. The DSG deficit will have a standalone approved recovery plan. At the point of writing this report the proposed recovery plan is due to be considered by Schools Forum at their meeting on 16 January. The approved plan will be submitted to the Department for Education (DfE) in June 2020.

## **Financial Risks**

25. There are significant cost pressures arising from changing demographics and a growing population. These lead to increased demand for adult and children services, as well as other services across the Council. These pressures have been built into the budget and will continue to be reviewed to ensure the assumptions remain robust and financial impacts can be reported, and management action taken if necessary however risk remains on the ability to manage this pressure.

26. The Delivery of Savings continues to remain a major risk. Regular monitoring and reporting is in place to mitigate against this. The size of the budget savings has increased the risk, and any non-achievement would require in year compensating savings to be identified. There are no longer any available reserves to manage the budget and no in-year contingency budget available for managing the financial impact of non-delivery of savings.
27. Many of the saving proposals include service transformation. This will be closely review and monitored to identify both cost and performance implications of the changes as well as the delivery of the financial benefits. Transformation costs are being funded by flexible capital receipts on a one-off basis. The value of future year savings is significant, and the council needs to begin planning for identification and delivery of these savings as early as possible, ensuring that every penny it spends is matched to its priorities and specific outcomes.
28. The United Kingdom's withdrawal from the European Union, together with other global financial issues, will have financial implications. These will be closely monitored and considered. It is too early to estimate the full extent of any financial impact arising from these changes.
29. There is still uncertainty in the overall Local Government finance position. The government has promised to consult on a fairer funding model from local government. This included business rates retention, changes to new homes bonus, reductions in ring fenced grants and possible new burdens. There is also no clear plan for a sustainable approach for funding social care. This means the Council faces a challenging time in balancing the budget and developing the medium term financial strategy.
30. Service changes have meant that in some areas the capacity to deliver future changes will need to be closely monitored.

### **Adequacy of Reserves**

31. Sections 32 and 43 of the Local Government Finance Act 1992 requires a local authority to have due regard to the level of balances and reserves needs for meeting future estimates of future expenditure when calculating the Council Tax requirement. Further to this a local authority is not permitted to allow its spending to exceed its available resources which would result in a deficit.

32. Balances and reserves are held for three primary purposes:

- A working balance to help cushion the impact of cash flows
- A contingency to cushion the impact of unexpected events and emergencies
- Earmarked reserves to meet known and predicted liabilities

33. As part of the budget setting process, the levels of balances and reserves is reviewed and determined ensuring that the level is justifiable in the context of local circumstances. The Section 151 officer (Director of Finance) has reviewed the level in order to ensure a prudent level of balances that reflects a full risk assessment commensurate with the risks that the Council faces and the context within which the authority operates.

34. The level of general balances will be approved by Council alongside the level of Council Tax. The Council's external auditor reviews the level of balances and reserves as part of their annual conclusion of Value for Money (sustainable resource deployment - financial resilience).

35. The delivery of the 2019/20 budget is monitored closely, and Cabinet received regular updates on its revenue, capital, schools and housing budgets. The latest forecast at Period 9 (December 2019) as set out at cabinet on 4 February 2020 agenda reports forecast year-end balanced budget, after appropriate action. It remains vitally important that all approved savings plans are delivered as not delivering services would add to the level of savings required in 2020/21 budget setting process.

36. The Medium Term Financial Strategy for 5 year period has been reviewed and all assumptions validated to ensure that levels of future demand on services, inflation factors as well as deliverability of existing and future savings are prudent and de risked as far as possible. The MTFS has no drawdown of reserves other than those specified from earmarked reserves.

37. The Risk Assessed Levels of Balances for 2019/20 and future years are assessed as just adequate however a planned increase is recommended and it is the view of the Chief Finance Officer that an increase to the level of these balances to the sector wide best practice level of 5% by the end of the period is required to help provide more mitigation against the risk and uncertainties that the Council faces. The possible scenarios can be seen in section 10 of the main MTFS report.

38. The forecast levels of earmarked reserves are set out in the main MTFS report and forecast balances for future years over the period of the MTFS are shown. As can be seen the level of earmarked reserves is reducing. Although pressures such as demand, and demography are built into the revenue budget there is no capacity within earmarked reserves to fund transformational activity should the assumptions on pressures be too low.

## **Conclusion**

39. On the basis of the above, the Section 151 Officer's advice is that the level of reserves, following the strategic approach to increase over the MTFS period, is adequate, the financial standing of the Council is sound in the context of the key risks and that the proposed budget is robust and achievable. The Council is assessed as financially viable and resilient with sound and strong financial standing in terms of its current financial management and opportunities for further savings and income generation; albeit with low levels of reserves.