

Cherwell District Council

Council

25 February 2019

<p>Robustness of Estimates and the Adequacy of Reserves and Balances Local Government Act 2003 (Section 25)</p>
--

Report of Executive Director Finance and Governance (Interim) and Section S151 Officer

This report is public

Purpose of report

Section 25 of The Local Government Act 2003, places a duty on the Chief Finance Officer to make a report to the authority on the robustness of estimates and adequacy of reserves. This report fulfils this requirement and provides Members with assurance that the budgets have been compiled appropriately and that the level of reserves is adequate. It is a statutory requirement that councillors must consider this report when considering and approving a budget.

Under Section 25 of the Local Government Act 2003, the Council's Chief Finance Officer is required to report to the Council on:

- The robustness of the estimates included within the budget
- The adequacy of the reserves and balances

Members must have regard to the contents of this report when considering the budget.

1. Recommendations

The meeting is recommended:

- 1.1. To note the contents of this report

2. Introduction

- 2.1. The Local Government Act 2003 (Section 25) requires that when a local authority is agreeing its budget and precept, the Chief Finance Officer must report to it on the following matters:

- a) the robustness of the estimates made for the purposes of the calculations,

and

b) the adequacy of the proposed financial reserves.

- 2.2. The authority must have due regard to the report when making decisions on the budget and precept.
- 2.3. The Chief Finance Officer for the Council is the Executive Director Finance. In expressing their opinion, the Chief Finance Officer has considered the financial management arrangements that are in place, the level of reserves, the budget assumptions and the financial risks facing the Council.
- 2.4. In presenting this report the Chief Finance Officer is mindful of other associated statutory safeguards designed to support the authority:
 - Section 151 of the Local Government Act 1972 which requires the authority to make arrangements for the proper administration of its financial affairs and that the chief financial officer has personal responsibility for such administration
 - Sections 32, 43 & 93 of the Local Government Finance Act 1992 which requires the authority to set a balanced budget
 - The Prudential Code introduced as part of the Local Government Act 2003 sets out the framework within which the authority must manage its investments, including adequate planning and budget estimates
 - The external auditor's duty to assess the adequacy of the authority's proper arrangements to secure economy, efficiency and effectiveness ('value for money')
- 2.5. To reinforce these obligations, section 114 of the Local Government Finance Act 1988 requires the chief finance officer to report to all the authority's councillors, in consultation with the Monitoring Officer, if there is or is likely to be unlawful expenditure or an unbalanced budget

3. Report Details

Overview

National

- 3.1. Local Government is continuing to commission and deliver services to its residents and businesses during a period of prolonged financial uncertainty and significant change. This uncertainty relates to both the overall UK economy as well as the impact of national policy changes to the way in which local government is funded in the medium term.
- 3.2. It is important that we continue to manage our resources in a prudent and sustainable way, ensuring that we understand and can plan and manage our risks effectively over the medium term which is why a strong link between our service outcomes and financial measures is imperative.

Local

- 3.3. Cherwell District and the surrounding region is experiencing significant economic growth. Increasing numbers of housing developments have brought new skills to the area and the boost in business is providing new opportunities to shape the area. The Council has been working in partnership with others as part of the Growth Deal in Oxfordshire to bring forward significant investment in infrastructure to support and accelerate this growth.
- 3.4. The Council is committed to investing and developing its local economy and this investment can be seen clearly through key decisions taken at a local level including direct property investment for regenerative purposes.
- 3.5. As an ambitious Council, Cherwell District Council has developed a number of strategies to support growth in the area including the setting up of council owned companies for developments in Bicester and Banbury, direct investment in town centre sites and housing, establishing a Teckel company to run its revenues and benefits service as well as supporting community activities and the arts. By making best use of a number of different types of delivery vehicles that are available to operate and commission services, the council continues to offer a broad range of services to support our residents and businesses. Ensuring that these are financially sustainable in the medium to long term is a key plank of our medium term financial strategy.
- 3.6. The Council delivers a wide range of services to support our residents, communities and businesses. Some of these services are provided by all Councils as a requirement of national legislation whilst Cherwell District Council chooses to provide others as a result of the specific needs of our communities and the priorities of the Council. Through the Healthy New Towns initiative, the Council has placed a specific emphasis on ensuring the growth in Bicester supports the health and well-being of our communities in that town. Following the success of this work, the Council is now looking to roll out this approach to other communities across Cherwell. This ensures that the growth agenda that we are delivering is sustainable both in positive outcomes for our residents and businesses but also financially in the longer term for us and our partners.

Budget Process

- 3.7. The budget has been prepared using accruals accounting and provides for realistic estimates of income, expenditure and liabilities. The detailed budget has been prepared with service areas and the finance team. These have been reviewed and challenged by the senior management team.
- 3.8. The budget ensures that all aspects of the budget (Revenue, Capital and Treasury) are understood and the interdependencies are taken account of.
- 3.9. During 2018/19 the monitoring and reporting frequency of finance, performance and risk information was improved. This provided clearer and more transparent information for a wide audience. As we move into 2019/20 further improvements and developments will be incorporated into the process to ensure that we continue to provide the best level of transparency that we can.

- 3.10. Our financial monitoring process provides regular reporting for revenue, capital and treasury management. These reports are produced monthly and are considered by officers, portfolio holders, Budget and Financial Strategy Committee and Cabinet.
- 3.11. The prudential code has also introduced a rigorous system of prudential indicators, which explicitly require regard to affordability, prudence, value for money, stewardship, service objectives and practicality in the way in which we manage our finances. This is backed up by a specific requirement to monitor performance against forward-looking indicators and report and act on significant deviations. These are fully considered by our Accounts, Audit and Risk committee.

Budget Assumptions and robustness of estimates

- 3.12. The budget is being set against a backdrop of unprecedented change in our relationships with our partners. There is risk inherent in the budget due to the separation from South Northamptonshire Council following announcements about the potential Local Government Reorganisation within Northamptonshire which have led to the need to separate our services. The assumptions set out in the budget have been set on a prudent basis. The risk of variance will be closely monitored and could be underpinned through availability of general reserves.
- 3.13. The Council has complied fully with the requirements of the Prudential Code for Capital Finance in Local Authorities. The Treasury Management Strategy, Capital Strategy and investment Strategy provide the framework for which the Council to adhere to. I am (Chief Finance Officer) satisfied that the levels assumed in the indicators are affordable and sustainable.
- 3.14. The Council has insurance cover through a combination of internal funding and external policies. I am (Chief Finance Officer) satisfied that the insurance cover is adequate to meet all reasonable insurable liabilities.

Adequacy of reserves

- 3.15. The appropriate level of reserves can support an organisation in managing risk and volatility in its operating environment. The Council is facing significant risk and change over the medium term due to number of local and national issues and it is important that the level of reserves reflects this.
- 3.16. The Council reserves are estimated to be around £21m. This incorporates a minimum level of reserves of £2m. This level recognises risks facing the Council including; separation from Cherwell, Local Government Reorganisation, UK economic uncertainty as well as upcoming changes to Local Government Funding.

Financial Management

- 3.17. The Council's External Auditor, Ernst & Young, gave an unqualified opinion on the 2017/18 financial statements and a qualified opinion for Value for Money in relation to one specific issue. The Council has considered the issues raised in regards to that Value for Money judgement through its Budget and Finance Planning committee and steps have been put in place to mitigate the risks that were identified in the audit. We have continued to work closely with the External Auditors when addressing these issues.

- 3.18. The Internal Auditors, CW Audit Services, have been able to progress further through the internal audit plan and the outcome of this work has demonstrated stability and improvements in the Councils control framework.
- 3.19. The Chief Finance Officer considers that the financial control arrangements remain sufficiently robust to maintain adequate and effective control of the budget during 2019/20.

Local Government Funding

- 3.20. 2019/20 is the final year of the current comprehensive spending review. This multi-year settlement provided some additional stability and ability to better plan over the medium term. It is anticipated that this type of settlement may continue in future years but this is currently unknown.
- 3.21. The way in which local government is financed is changing and there is also a shift in focus in how we monitor and manage our resources. In the future we will be much more reliant on income from individuals and businesses and management of our cash flow will be much more akin to that of commercial businesses than it ever has been before.
- 3.22. The Government has recently published two consultations which will impact upon the future of local government funding.

Fairer Funding Review Consultation

- 3.23. The Government is intending to simplify the way local government funding works. A paper has recently been published which consults on the assessment of needs, resources and transitional arrangements.

<https://www.gov.uk/government/consultations/review-of-local-authorities-relative-needs-and-resources>

- 3.24. The potential impact of the Council will be assessed during 2019/20.

Business Rates Retention Consultation

- 3.25. The government has also recently published a consultation paper "Sharing risk and reward, managing volatility and setting up the reformed system". This is a technical consultation which seeks views on proposals for setting up a reformed business rates retention system.

<https://www.gov.uk/government/consultations/business-rates-retention-reform>

- 3.26. The consultation outlines proposals to update the balance of risk and reward to better reflect the wider context for local authorities in 2020, mitigate volatility in income and simplify the system.
- 3.27. The potential impact of the Council will be assessed during 2019/20.

Risk Assessment

- 3.28. The Council has a robust risk management framework in place. The framework supports the Council in managing significant risk. The budget 2019/20 sets out the risks inherent in the budget and identifies the risk environment in which it will be operating during 2019/20.
- 3.29. The uncertainty surrounding Local Government Reorganisation will be closely monitored during 2019/20.

Future Outlook

- 3.30. Cherwell District has experienced significant growth in recent years, being part of and it is anticipated to continue this trend over the medium term. The Council is well placed by working with our partners locally, regionally and nationally to consider the impact of this growth on the District.
- 3.31. The Council has also enhanced its strategy for commercial activity and is currently involved with projects which will support the Council with its future aspirations for the district.

4. Conclusion and Reasons for Recommendations

- 4.1. I am satisfied that the budget prepared for the financial year 2019/20 is prudent and makes allowance for the costs of providing services in accordance with the Councils approved policies and service plans. I consider that the budget proposals set out in the report are robust. The level of reserves is sufficient to meet the known risks within the budget taking account of the Councils robust financial management framework.
- 4.2. It is important that the implications arising from separation from South Northamptonshire Council are closely monitored and reviewed. The financial management arrangements, close working with partners and strategic oversight will ensure that this can be well supported and managed.

5. Consultation

- 5.1. The Business Plan 2019/20 and Medium Term Financial Strategy 2019/20 to 2023/24 set out the consultation which has been undertaken.

6. Alternative Options and Reasons for Rejection

- 6.1. None. Member must have regard to the contents of this report when considering the budget.

7. Implications

Financial and Resource Implications

- 7.1. There are no financial implications arising directly from this report.

Comments checked by:

Kelly Watson, Deputy S151 Officer

0300 003 0206, kelly.watson@cherwellandsouthnorthants.gov.uk

Risk Management

- 7.2. The Chief Finance Officer has considered the risks associated with the Budget 2019/20 and Medium Term Financial Strategy (MTFS). In addition to this the Council has a robust risk management framework. Any risks will be managed as part of the operational risk register and escalated to the Leadership risk register as and when necessary.

Comments checked by:

Louise Tustian, Team Leader Insight Team

01295 221786, louise.tustian@cherwellandsouthnorthants.gov.uk

8. Decision Information

Wards Affected

All

Links to Corporate Plan and Policy Framework

All

Lead Councillors

Not applicable

Document Information

Appendix No	Title
None	
Background Papers	
None	
Report Author	Adele Taylor, Executive Director Finance and Governance (S151 Officer)
Contact Information	0300 003 0103 adele.taylor@cherwellandsouthnorthants.gov.uk