

Cherwell District Council

Council

24 February 2020

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

Financial Management Arrangements

- 3.1. The Council's External Auditor, Ernst & Young, gave an unqualified opinion on the 2018/19 financial statements.
- 3.2. 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.

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 and expect that to continue into 2020/21.

Adequacy of reserves

- 3.3. 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 a number of local and national issues. It is important that the level of reserves reflects these risks. This needs to be both in the form of earmarked reserves set aside for specific purposes or risks as well as general reserves that are available to assist the council to deal with any unexpected events or financial shocks.
- 3.4. The Council reserves are estimated to be around £22m but will be finalised when the council outturn is calculated at the end of the financial year 2019/20. This incorporates a minimum level of reserves of £2m. This level recognises risks facing the Council including; the medium term outlook for the Council, UK economic uncertainty as well as upcoming changes to Local Government Funding. The local government funding framework is expected to change from 2021/22. The changes are:
 - 3.4.1. Fairer funding review
 - 3.4.2. Business rates rebase
 - 3.4.3. Business rates retention
- 3.5. The impact of these changes leave the council with a potential significant funding gap and assumptions have been made in line with the consultations that have been undertaken by central government. What is not included within the budget assumptions is the impact of any transition funding, as it is unclear what, if any, funding may be available to smooth the impact of funding changes over a longer period of time. There is also the risk that the funding position for Cherwell could be worse than anticipated given the estimates are based on current thinking and there may be other changes to our funding that at this stage have not been articulated by central government.
- 3.6. The reserves that the council currently holds can help smooth any volatility in the councils finances but cannot be relied upon to manage ongoing financial pressures. It is therefore important that the Council ensures that the strategy to manage gaps in the councils Medium Term Financial Plan from 2021/22 is undertaken. There is a responsibility for senior officers and Councillors to work together to ensure that a legal and balanced budget can be set in future years that is financially sustainable.

4. Budget Assumptions and robustness of estimates

- 4.1. 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 as well as been scrutinised through relevant council committees.
- 4.2. The budget ensures that all aspects of the budget (Revenue, Capital and Treasury) are understood and the interdependencies are taken account of.

- 4.3. During 2019/20 regular monitoring and reporting of finance, performance and risk information was maintained, which provided clearer and more transparent information. The output from the revenue, capital and treasury management has been formally reported at regular intervals to various committees of the Council and the outcomes also incorporated into the budget setting processes for 2020/21, which has helped with the quality of budget setting.
- 4.4. The prudential code also ensures there is 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.
- 4.5. The budget is being set against a backdrop of unprecedented change in our relationships with our partners. The Council separated its services from South Northamptonshire District Council during 2018/19 and 2019/20. A number of new partnership arrangements with Oxfordshire County Council have been developed during this financial year. A joint senior management team now exists with the County, which will provide many opportunities to look at improved joint working as well as with other potential partners at an operational level. Associated savings can be considered during 2020/21 and beyond and is included in the strategy for managing the future funding gaps.
- 4.6. 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.
- 4.7. 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.

Financial Risks

- 4.8. The government announced a one year settlement for 2020/21, whilst they review the arrangements for the medium term, a return to the previous multi-year settlement arrangement is anticipated during the forthcoming year. The medium term financial plan is based on our best estimates that we can model on information currently available to us. There are risks that other changes may be forthcoming but we are not yet aware of them.
- 4.9. Given the way in which local government is financed, is changing, as in the future we will be much more reliant on income from individuals and businesses, the management of our cash flow will be much more akin to that of commercial businesses than it ever has been before. Our resource management processes have changed to reflect this.
- 4.10. The Council has a robust risk management framework in place. The framework supports the Council in managing significant risk. The budget 2020/21 sets out the

risks inherent in the budget and identifies the risk environment in which it will be operating during 2020/21.

- 4.11. 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.

5. Conclusion and Reasons for Recommendations

- 5.1. I am satisfied that the budget prepared for the financial year 2020/21 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 are sufficient to meet the known risks within the budget taking account of the Councils robust financial management framework.

6. Consultation

- 6.1. The Business Plan 2020/21 and Medium Term Financial Strategy 2020/21 to 2024/25 set out the consultation which has been undertaken.

7. Alternative Options and Reasons for Rejection

- 7.1. None. Members must have regard to the contents of this report when considering the budget.

8. Implications

Financial and Resource Implications

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

Comments checked by:

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Legal Implications

- 8.2. There are no legal implications arising directly from this report. Section 25 reports are presented by a local authority's "chief finance officer", being the officer having responsibility for the administration of the authority's financial affairs. This report to Council therefore satisfies that requirement.

Comments checked by:

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Risk Management

- 8.3. The Executive Director of Finance has considered the risks associated with the Budget 2020/21 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:

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9. 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	
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