

Local Government Act 2003: Section 25

Report by the Director of Finance (Chief Finance Officer)

Background

1. Section 25 of the Local Government Finance Act 2003 requires that when a local authority is agreeing its annual budget and 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. The law expects councillors to consider this advice and not set it aside lightly.
3. In expressing my opinion, I have considered the financial management arrangements and control frameworks that are in place, the budget assumptions, the adequacy of the Budget & Business Planning process, the financial risks facing the council and the level of total reserves.
4. Section 25 of the Local Government Act 2003 concentrates primarily on the uncertainty within the budget year (i.e. 2021/22). However, future uncertainties, particularly around the delivery of savings and the increasing pressures in demand driven services also inform the need for reserves and balances in the medium term.

Financial management arrangements and control frameworks

5. The council received an unqualified opinion for the Authority in 2018/19 and expects the same for 2019/20. In respect of securing value for money, the conclusions are based on whether the organisation has proper arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness. The council received an unqualified value for money conclusion for 2018/19 and expects the same for 2019/20.
6. The council has good governance arrangements in place. The Director of Finance has responsibility for ensuring that an effective system of internal control is maintained to provide an assessment of the current position across the whole council and identifying areas for improvement where appropriate. Areas for improvement are reported to Accounts, Audit & Risk Committee and monitored in year through the Corporate Governance Assurance Group.
7. The Code of Practice for Financial Management (the FM Code) was introduced by CIPFA in November 2019. The Code clarifies how Chief Finance Officers should

satisfy their statutory responsibility for good financial administration as required in Section 151 of the Local Government Act 1972. Full compliance with the FM Code is expected for 2021/22. Annex 1 below sets out a compliance assessment against the Code's standards. All but one of the 19 Standards have been assessed as Green meaning that compliance can be evidenced. The actions arising from the one amber rating are expected to be achieved by 1 April 2021. Where relevant, proposed further actions that can be taken to enhance compliance have been included in the assessment. The assessment will also be used to help inform the council's Annual Governance Statement (AGS) which will be published alongside the Statement of Accounts.

8. Financial Management remains a key focus. A new financial system is due to be implemented in April 2021 and as part of the project, training to support effective financial management performance across the council is a key component. The new ways of working will become embedded in 2021/22 and will continue to be developed in line with other organisational change.

Financial Impact of COVID-19

9. Since March 2020, the pandemic has required local authorities to make rapid adjustments to meet new demands and to step up work in critical frontline services. These new and increased demands have resulted in significant additional expenditure. At the same time, council income streams have been severely damaged by lockdowns and other restrictions. During 2020/21, additional funding has been provided from central Government to help councils with the financial impact of COVID-19, however this has not matched projected additional costs and loss of income for the year.
10. Given the legal duty councils have to balance their budgets each year and act to avoid the possibility that expenditure might exceed available income in any year, in July 2020, the Executive asked Officers to address the potential overspend arising from COVID-19. A revised budget addressing the potential overspend taking into account expected additional funding received from government was agreed by Council on 7 September 2020. The revised budget ensured a balanced position for 2020/21 could be achieved and that budgets to meet the additional costs of COVID-19 were agreed to enable effective budget management.
11. The financial impact of COVID-19 will clearly extend beyond 2020/21 into 2021/22 and the medium term. To support the ongoing impact, there is £2.8m available in the COVID-19 contingency in 2021/22.

Budget Assumptions

12. The formation of the 2021/22 budget and indicative budgets for the following four years to 2025/26 have allowed for best estimates of the total financial envelope over the medium term taking into account anticipated unavoidable pressures plus investments and the savings then required to match the funding available. In forming

the estimates various assumptions have been made. The main assumptions together with an assessment of their risk are set out below:

- a) Funding assumptions – General Government funding by way of the Settlement Funding Assessment for 2021/22 has been notified by MHCLG as part of the Local Government Finance Settlement. Where specific government grants have been notified, these are reflected in the Medium Term Financial Strategy (MTFS). New one-off grants for 2021/22 for collection fund deficit compensation and sales fees and charges have not been included within the budgetary assumptions as they have not been confirmed. They will be available to support the budget in 2021/22 when announced.

Beyond 2021/22, there is no certainty in terms of local government finance. This makes it difficult to plan for the medium term. Details and assumptions have been set out in the Revenue Budget Strategy at Section 3.2.

A Band D Council Tax increase of £5 is proposed for 2021/22 (within the referendum limit confirmed in the Local government Finance Settlement) and across the medium term. This is a 3.7% increase in the Council's element of Council Tax.

Business rates forecast income for 2021/22 is based on the statutory NNDR1 return. It is assumed that all growth will be removed when the business rate baseline is reset, now forecast to be in 2022/23, at the same time as the introduction of the proposed 75% Business Rates retention scheme.

Due to the impact of COVID-19, the increase in taxbase for 2021/22 was lower than the assumptions in the 2020/21 MTFS, with an actual increase of 0.1% Band D equivalent properties compared to 2.73% forecast in the 2020/21 MTFS. The cause is due to both an increase in the number of council tax support claimants plus a slowing in the rate of house building. On the expectation that these effects will end after 2021/22, an increase of 1.7% is assumed for 2022/23 and across the medium term.

The collection fund position reflects the high collection seen in 2019/20 prior to the pandemic and assumptions on collection for 2020/21 based on latest information and estimated collection for 2021/22. The Government has mandated that losses in 2020/21 will need to be spread over three years to 2023/24. The deficit of £0.1m will need to be accounted for in both 2022/23 and 2023/24. The council will be eligible for 75% compensation for collection fund losses which the Government announced as part of the Local Government Finance Settlement. A COVID-19 reserve of £1.6m has been established to provide a contingency for further losses in 2022/23.

- b) Inflation – The Spending Review 2020 set out that public sector pay rises would be paused for 2021/22. However, those earning less than £24,000 would receive a minimum £250 increase. Whilst the Government cannot impose this restriction on local government, as pay is determined between the employers and unions, it is not

expected that any increase will be agreed. The budget includes a corporate inflation contingency of £0.5m which will also be used for the impact of the increase for employees earning less than £24,000.

Contract inflation is provided for at 2%. Whilst there has been some volatility in the last year primarily due to the impact of COVID-19, inflation has now been below the target rate of 2.0% for 17 consecutive months. The latest figures from December 2020 show decreases from the previous year, with RPI and CPIH at 1.2% and 0.8% respectively (compared to 1.8% and 1.4% respectively in December 2019). No inflation is built in for other categories of spend, however, a 1% inflation uplift on other areas of spend only equates to £0.4m so alongside the increases built in for contracts, there should be no inflationary pressure in 2021/22.

- c) 2020/21 Forecast Outturn – The Council's forecast financial position up to the end of December shows a forecast overspend of £0.4m. This is made up of a £3.7m overspend related to net COVID-19 costs, offset by a (£3.3m) underspend on business as usual costs.

The forecast total cost of COVID-19 of £7.2m for 2020/21. This is a combination of additional costs and loss of income arising from the impact of the COVID-19 pandemic on Council services. This is partially met by COVID-19 support grant funding of £2.1m and an estimated grant of £1.4m to partially meet income losses. This reduces the net in-year COVID-19 pressure to £3.7m.

- d) Treasury Management – all existing debt is under fixed interest rates so is not subject to interest rate variation and the MTFs assumes an extension of the strategy to borrow internally up to a maximum of £61.6m. The Council has a Capital Financing Requirement of £282.0m which debt will remain below. Debt at 31 March 2022 is forecast to be £222.9m. The Council has assessed that its Authorised Limit for External Debt for 2021/22 will be £300m. A large proportion of the borrowing costs will be met by additional income streams. Additionally, all borrowing costs have been included in the Budget and MTFs so the Council is able to understand the overall commitments required on it over the medium term.

The proposed MTFs assumes the bank rate will remain at 0.10% during 2021/22 and across the medium term. Based on market rates, the target in-house rate of return is 0.09% for 2021/22.

The Council makes loans to organisations that help to deliver the priorities of the Council. Risk assessments of default against these loans are made to determine an upper limit that the Council is prepared to provide across different classes of borrower. For 2021/22 the proposed limit of loans the Council can provide is £84.6m, of which £83.3m would be to subsidiaries of the Council.

- e) Capital Programme – the proposed Capital Programme has a balanced funding position over the 5- year period to 2025/26 with required borrowing costs being

reflected in the MTFS. The total capital programme is £29.6m, of which £22.8m is expected to be spent in 2021/22.

Budget & Business Planning Process

13. The Budget & Business Planning process is well established. The construction of the budget and examination of the budget proposals has been subject to challenge by the Directorate Leadership Teams, the council's leadership team and the Director of Finance. There has been engagement with the Executive, the Political Group Leaders as well as a number of member engagement and briefing sessions.
14. Budget Planning Committee considered the revenue savings and pressures at their meeting in December 2020. In January 2021, the Committee considered the Capital & Investment Strategy plus capital bids and slippage from 2020/21. A further meeting in January considered the Review of Charges. Comments from these meetings were considered by the Executive. In addition, the Accounts, Audit and Risk Committee considered and recommended to full Council the Capital & Investment Strategy and Treasury Management Strategy in January 2021.
15. A public consultation on the budget was also held over a five-week period which closed on 8 January 2021. 383 online survey responses were received as well as five written responses. Scrutiny of the budget savings has also been considered from an equalities perspective.

Financial Risks

16. Given the reductions in government grant funding, the limits placed on the level of Council Tax increases, the continuing impacts of COVID-19, the growing unavoidable pressures and the need to deliver savings, the budget will inevitably contain a degree of risk. The key risks are set out in the following paragraphs. However, to help manage the impact of financial risk, a new corporate contingency is proposed. The level of corporate contingency for 2021/22 is £3.5m. The corporate contingency budget is held to cover;
 - financial impacts as a result of the ongoing impact of COVID-19
 - the risk that inflationary pressures are higher than forecast;
 - additional hardship related schemes due to the impact of COVID-19
 - the impact of pay increase for those earning less than £24,000 and any potential pay award; and
 - the risk that proposed savings are not achieved in full.
- a) COVID-19 –The impact of COVID-19 on public health, the economy and services will be a continuing and emerging situation throughout 2021/22 and over the medium term. This will present several risks to the council including:
 - Insufficient market capacity to meet demand;
 - Sustainability of existing contracts for supply of works, goods and services;
 - Increase in price for goods and services;
 - Reduced capacity and availability in the supply chain creating delays in delivery;

- Workforce availability, recruitment and retention;
 - Reduced income.
- b) Achievement of planned savings – the council has limited experience of delivering significant savings programmes. However, it has succeeded in identifying and delivering the in-year savings required from its Revised Budget for 2020/21. Progress against delivery of savings will be reported to the Executive monthly as part of the Performance, Risk and Finance Monitoring Report. Ongoing savings in the existing and proposed MTFs which are required to be delivered up to 2025/26 total £5.2m.
- c) Implications new trading arrangements with the EU – Whilst the UK has new trading arrangements in place with the EU, the full impact of these are not likely to be fully appreciated until the end of the COVID-19 pandemic. The possibility of continued lower imports and exports coupled with increased costs remain a risk to the UK economy. If the roll out of the COVID-19 vaccine to the majority of adults in the UK is completed by the second half of 2021, then it is forecast that the UK economy will recover to its pre-pandemic level by mid-2022.
- d) Local Government Funding – changes to the local government funding regime could create significant financial challenges to the Council. Uncertainty around the future of New Homes Bonus and the anticipated Fair Funding Review as well as the expected business rates reset in 2022/23 could have significant financial consequences on the level of resources available to the Council. The 2020 Spending Review was for one year only; the approach of the 2021 Spending Review to aid the national economic recovery and how it will impact on the overall cash envelope available for local government funding is also uncertain.

Level of total reserves

17. The Reserves Policy at Appendix 11 sets out the council's policies underpinning the maintenance of a level of general balances and earmarked reserves. As well as holding a contingency budget, general balances are also held to ensure that a major incident or emergency can be managed without impacting on other services. In reaching the decision on the level of balances I feel are appropriate to be held for 2021/22, I have considered the strategic, operational and financial risks facing the authority including the ability to deliver planned savings, as well as external risks such as further economic shocks. The recommended level of balances for 2021/22, based on the risk assessment is £5m.
18. Earmarked reserves are also held for specific planned purposes. In assessing the appropriate level of reserves, a comprehensive review has been undertaken to determine if they are both adequate and necessary. The Reserves Policy sets out the details of that review.

Assurance Statement of the Chief Finance Officer

19. The proposed budget for 2021/22 and Medium Term Financial Strategy to 2025/26 addresses the demand pressures and impacts of COVID-19 which are expected to continue into the medium term.
20. Whilst the 2021/22 budget is balanced, there remains a significant gap between estimated spend and funding streams for 2022/23. This is due to the uncertainty of funding pending the next Spending Review and future of New Homes Bonus funding alongside the implementation of the new needs led funding formula and business rates reset. Therefore, the council needs to maintain focus on financial sustainability and producing a balanced budget over the medium term.
21. The risks in the 2021/22 budget are predominantly in relation to the uncertainty and impact of COVID-19. To help mitigate this a contingency budget of £3.5m is available, of which £2.8m has specifically been included in relation to COVID-19.
22. The control environment and associated processes in place are robust. Financial management has been reviewed and actions are in place to strengthen this.
23. I believe the level of the council's total reserves are sufficient to provide both general balances to manage the impact of unexpected events in line with the risk assessment; and the setting aside of earmarked reserves to meet known or anticipated liabilities.
24. Therefore, I am satisfied that the budget proposals for 2021/22 recommended by the Executive are robust.

Lorna Baxter, Director of Finance

10 February 2021

Annex 1 – Summary Financial Management Code Assessment

Ref	CIPFA Financial Management Standards	Current Status	Further Work	Status
1.	Responsibilities of the CFO and Leadership Team			
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money	All services reviewed to ensure being delivered efficiently and appropriate savings identified. All tenders consider VfM by considering the quality of service and not just price..	Develop a statement of how proposals in Executive Reports will deliver value for money where appropriate	
B	The authority complies with the CIPFA “Statement of the Role of the CFO in Local Government”	The CFO is qualified accountant with significant experience working as an active member of the leadership team. The CFO is a member of CEDR (Chief Executive Direct Reports) and has an influential role with members of the Cabinet, Audit & Governance Committee and lead opposition members.	Set out clear statement of roles and responsibilities of CFO, CEDR and the Exec.	
2.	Governance and Financial Management Style			
C	The Leadership Team demonstrates in its actions and behaviours responsibility for governance and internal control	The Corporate Governance and Assurance Group (CGAG) exists to ensure good governance and internal control, including driving the production of the Annual Governance Statement (AGS) and Action Plan through the completion of Professional Lead Statements and engagement with Corporate Directors.	CGAG to continue to establish itself and enhance its workload including driving consistency across the partnership between the County Council and CDC.	
D	The authority applies the CIPFA/SOLACE “Delivering Good Governance in Local Government: Framework (2016)”	Annual Governance Statement includes audit opinion on effectiveness of internal control environment and systems of internal control.	Continue to enhance and develop the AGS through CGAG.	
E	The Financial Management style of the authority supports financial sustainability	The Council has adopted a Business Partnering model that supports managers to deliver financially sustainable services by providing strategic advice and support. This is underpinned by a Corporate Function that manages the strategic financing issues and	Continue to develop the skills of managers to ensure that they have access to performance and financial information that enables them to deliver services that are financially sustainable.	

Ref	CIPFA Financial Management Standards	Current Status	Further Work	Status
		provides the budget setting and accounting framework for the organisation.		
3. Long to Medium-Term Financial Management				
F	The authority has carried out a credible and transparent financial resilience assessment	A Financial Resilience assessment is included within the Budget Documents. The assessment is consistent with the Medium-Term Financial Strategy (MTFS) assumptions.		
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members	MTFS far more transparent than in previous years clearly outlining the financial challenges facing CDC in the Budget and Business Planning Process 2021/22 – 2025/26 Report	Continue to update CEDR and the Executive throughout year and within Budget/MTFS documents	
H	The authority complies with the CIPFA “Prudential Code for Capital Finance in Local Authorities”	Capital Strategy is produced. Quarterly Treasury Management monitoring considered at the Accounts, Audit and Risk Committee.	Develop a profiled three-year capital programme. Provide quarterly TM and Prudential Indicator updates as part of monitoring reports.	
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans	CDC has an Integrated Business Planning and Budget Process with a five year MTFS.	Ensure services aware of future savings plans committed to and savings are implemented.	
4. The Annual Budget				
J	The authority complies with its statutory obligations in respect of the budget setting process	The Council produces its annual balanced budget and supporting documentation.		
K	The budget report includes a statement by the CFO on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves	S25 report accompanies the suite of Budget documents. Enhanced by including an assessment of readiness for implementing the FM Code		
5. Stakeholder Engagement and Business Plans				
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget	Significant consultation on the 2021/22 budget proposals as well as ensuring carry out the statutory business rate payers consultation.	Continue with corporate and directorate consultation – consider developing clear priorities that focus on providing services within resources available.	

Ref	CIPFA Financial Management Standards	Current Status	Further Work	Status
M	The authority uses an appropriate documented options appraisal methodology to demonstrate the value for money of its decisions	A business case is required for all capital schemes which sets out alternative options, the reasons for discounting them and benefits of progressing with the scheme. All tenders consider VfM by considering the quality of service and not just price – the appraisal process is documented.	Agree consistent business case templates from outline through to full across the partnership between the County Council and CDC for both revenue and capital schemes.	
6. Monitoring Financial Performance				
N	The Leadership Team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability	The monthly Performance, Risk and Financial Monitoring Report to Executive enables CEDR and Executive to respond to emerging risks – the effectiveness was evidenced during 2020/21 as the Council agreed an in-year budget to respond to the financial impact of COVID-19.	The Capital Programme monitoring element requires enhancement to better reflect performance and the delivery of outcomes linked to the completion of capital schemes.	
O	The Leadership Team monitors the elements of its balance sheet that pose a significant risk to financial sustainability	Developing processes to monitor key balance sheet items.	Embed budget monitoring to include key balance sheet items including reserves and balances and debtors.	
7. External Financial Reporting				
P	The CFO has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the “Code of Practice on Local Authority Accounting in the United Kingdom”	The annual accounts are produced in compliance with the CIPFA Code.		
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions	CEDR and Executive consider outturn report and year end variances enabling strategic financial decisions to be made as necessary.		