

## 9. APPENDIX C

### REPORT UNDER SECTION 25 OF LOCAL GOVERNMENT ACT 2003

(To be read in conjunction with the Council Budget Report – 28 February 2018)

<p><b>1. Purpose:</b></p> <p>1.1 The purpose of this report is to provide Members with information on the robustness of the Council's estimates and the adequacy of reserves so that Members have appropriate advice available when they take their budget and Council Tax decisions.</p>
<p><b>2. Background:</b></p> <p>2.1 Section 25 of the Local Government Act 2003 requires that an authority's statutory finance officer reports to the authority when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals.</p>
<p><b>3. Robustness of Estimates</b></p> <p>3.1 The Council has a well established and robust budget processes that comply with statutory and best guidance requirements. These have been followed when compiling the 2018/19 budget and medium term projections.</p> <p>3.2 The Council in September 2017 rationalised the guiding principles from four sets into two distinct groupings – one that is referred to as the council's financial 'golden rules' and one that is known as the council's financial 'guiding principles'.</p> <p>3.3 The financial 'golden rules' and financial 'guiding principles' are supplemented by the Council's 'Budget Delivery Framework' – a set of workstreams that have successfully delivered ongoing efficiency savings to help ensure that the Council continues to achieve a balanced budget. These continue to be focused upon 'adding value' and generating additional income more than concentrating on reducing inputs.</p> <p>3.4 The Council has as in previous years identified where the required 'savings' will come from – however there are a number of significant consultations that could see further changes in National Policy such as the Fair Funding Formula Review and the move to 75% Business Rates Retention both of which may adversely impact the Council's budget in the medium term. The assumptions used in the estimates and the risks outlined in Section 4.12 of the main report will also need to be closely monitored as will the key risks summarised in the Swing-o-meter.</p> <p>3.5 Based on the assumptions applied to the Council's Medium Term Financial Strategy, in the years after 2018/19 the Council will on average need to deliver additional annual on-going savings in the region of £900,000 – this adds up to around £3.6m over the medium term which is on top of the £12.7m ongoing savings achieved since 2010. This is a very significant challenge. The Council will need to ensure that progress is made on all elements of its budget framework if a balanced budget is to be achievable into the medium term. This will have to include generating additional income from commercial investments, council tax and fees and charges, as well as ensuring it keeps delivering services in an efficient manner. It is fair to say that even if this strategy is successfully delivered, the Council is likely to have to make some difficult choices about service priorities and service levels as we progress through the latter years of the medium term financial strategy – this is why the Council needs to continually review the balance and appropriateness of its budget delivery framework.</p>

- 3.6 The reality of the Council being able to deliver a balanced budget in the medium term continues to look challenging – To have a realistic chance of continuing to balance its budget into the medium term, all of the frameworks outlined in Section 4.21 of the main report must continue to make a positive contribution. One of these sources alone will not provide the mechanism to set a balanced budget in the medium term, all of them must contribute.
- 3.7 The Council continues to focus on the medium term and influence what the medium term ‘world’ may look like – this is in accordance with the Council’s guiding principles and is considered a good use of resources, as any small changes that take place at a national level can have significant financial implications for the Council’s budget. The time taken to try and influence the shape of any new system(s) is an investment by the Council and is time well spent – this is especially true in relation to the Fair Funding Review and Business Rates.

#### **4. Adequacy of Reserves**

- 4.1 There is no statutory requirement in relation to revenue reserves. Best practice guidance from CIPFA suggests that each local authority should consider their own local circumstances (and levels of associated risks) and take proper advice from its Officers.
- 4.2 Reserves can be held for two main purposes:
- ◆ A working balance to help cushion the impact of uneven cash flows and unexpected events or emergencies;
  - ◆ Earmarked reserves to build up funds to meet known or predicted requirements.
- 4.3 One of the Council’s guiding principles is that *“Revenue balances should not fall below £1m and overall revenue reserves should not fall below 10% of net revenue expenditure”* – the Councils medium term financial projections comply with this provided that the required levels of ongoing efficiency savings are delivered in each year.
- 4.4 The Executive Committee have an established policy whereby any budget savings (over and above those required to set a balanced budget) will be used to supplement earmarked ‘smoothing’ reserves. These reserves have been created specifically to deal with the uncertainty that currently exist in the local government environment and to provide some additional flexibility to deal with the challenges that the Council is likely to face into the future. This is a sensible policy to follow and recognises the potential scale of the financial risks – particularly the impending national changes such as the Fair Funding Formula which will look at what factors should initially drive the allocation of government core funding to each local authority – principally looking at factors which drive ‘need’. The 75% Business Rates Retention Scheme is due to be implemented from April 2020 – at this point new responsibilities are likely to be transferred to local government – it is important that any transfer of services are fully funded to ensure these are not an additional pressure. When implementing the changes over the coming years, it would not be surprising if the recent trend of transferring risk from central to local government continues – this will need to be carefully mapped.
- 4.5 The potential ramifications of changes to the Business Rates scheme and the Fair Funding Review should not be understated – there have been very few (if any) major changes in funding mechanisms over recent years that have actually resulted in local authorities particularly Districts and Boroughs being better off financially in the medium term. It would be prudent to assume the same in relation to Business Rates and the Fair Funding Review.
- 4.6 Depending on how this is implemented, the Council could potentially lose a significant amount of growth it has achieved in recent years – hence a significant smoothing reserve is a prudent and sensible course of action.

4.7 As identified in the budget reports that have been under consideration during this budget process, the Council does not hold any significant 'cash backed' reserves and the Council will need to take on some external long-term (as identified in the Treasury Management strategy report approved by the Executive Committee on 14<sup>th</sup> February 2018).

Mark Dickenson  
Responsible Finance Officer  
20<sup>th</sup> February 2018