Vale of White Horse District Council

Report of the chief financial officer on the robustness of the budget estimates and the adequacy of the reserves.

1. Section 25 of the Local Government Act 2003 places a duty on the chief finance officer (at this council the interim head of finance) to make a report to the council on the robustness of the estimates and the adequacy of the reserves. This report fulfils this requirement and provides councillors 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.

2. In presenting this report the interim head of finance is mindful of other associated statutory safeguards designed to prevent the authority from over-committing itself financially, namely:

    - 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 interim head of finance as 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 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').

3. To reinforce these obligations, section 114 of the Local Government Finance Act 1988 requires the interim head of finance as the chief finance officer to report to all the authority's councillors, in consultation with the monitoring officer and the chief executive, if there is or is likely to be unlawful expenditure or an unbalanced budget.

Robustness of the budget estimates

PREPARATION, REVIEW & SCRUTINY

4. In accordance with best practice and using accruals accounting, the council provides for realistic estimates of costs and known liabilities.

5. The initial budget estimates were prepared jointly by the heads of service and appropriately qualified staff from the council's finance team. These have been reviewed and challenged by the council's strategic management team and cabinet members.

6. The 2021/22 budget briefing session presented to the members on 8 February 2021 provided a detailed explanation of the factors taken into account in determining the base budgets.

REVENUE BUDGET

7. Similar to most district councils the most significant costs within the revenue budget are:

   - staff salaries and related costs
   - payments under contracts for services
   - housing benefit and council tax support payments.

8. The estimates of staff costs are prepared by calculating the cost of employing each member of staff for the full year. The budget also includes the costs of recruiting to posts that are currently vacant, unless it has been decided that the post will not be filled. The costs include incremental progression and an allowance for the cost of any locally agreed pay award.

9. Under normal circumstances, the risk of overspending on staff costs is considered negligible. The risk of under-spending on staff costs is high, so I have assumed a level of expected vacancy savings and this year, the council has budgeted at 96 per cent of the expected salary level in its services. However, due to the ongoing Coronavirus pandemic, the council's contingency budget for 2021/22 has been significantly increased, which could be used to support additional staffing costs to support the council's ongoing response.

10. The costs of the most significant council contracts are linked to increases in the various price indices, usually the Retail Prices Index (RPI) or the Consumer Price Index (CPI). Allowance has also been made within the budget for additional costs arising from demographic growth and increased demand for services (e.g. additional properties leading to increased waste collection costs).

11. The risk of overspending on contract costs exists and there remains a financial risk from a contractor failing to deliver services in accordance with the contract. Such risks are managed through the council's contract monitoring and risk management procedures but cannot be eliminated.

12. The cost of housing benefit is largely met through government subsidy. However, because of the large sums involved, there is a significant financial risk to the council of fluctuations in subsidy income and income from housing benefit overpayments. This risk is outside the council's control. The level of local authority errors in the latest grant subsidy claim is safely below the government's threshold. The risk of any cost falling on the council is therefore low and continues to be mitigated by close contract management. The anticipated income from housing benefit overpayments has also been reduced in this year's budget.

13. The areas of expenditure where there is a greater level of risk are within the demand led budgets such as the costs of homelessness (including temporary accommodation). Experience of demand in the current and recent years has been used to inform the 2021/22 budget. Again, additional contingency budget has

been provided for 2021/22 to support the council's response to the Coronavirus pandemic.

14. A number of revenue income streams are sensitive to changes in market conditions and therefore there will always be a risk that budget targets are not met. These include planning fees, building control fees, and land charges fees which all respond directly to the fluctuating characteristics of the housing market. Car parking income can also be volatile and responds to the general economy and retail market. Previous budget-setting exercises have made adjustments to reflect prevailing market conditions. As a result of the pandemic, and the even greater uncertainty that this creates, a significant provision for income losses has been built into the 2021/22 budget.

INVESTMENT INCOME

15. The returns on the council's investment portfolio are relied upon to support the cost of services. The continuing impact of the low interest rates has been factored into the MTFP reported as part of the budget setting report.

16. Investments have been diversified in accordance with the treasury management strategy, and the earnings assumptions in the budget are set prudently. Investment income is used in year to support the revenue budget, therefore there is some uncertainty about the amount available when the budgets are set, but the estimates are considered prudent enough to reduce the risk of this to manageable levels.

REVENUE CONTINGENCY SUM

17. The council has for some years now included a revenue contingency sum of £200,000. As noted above, due to the pandemic, additional contingency budget had been built into this budget of £900,000, together with a provision for income losses of £1.15 million.

FUNDING FROM CENTRAL GOVERNMENT

18. On 17 December 2020 the government announced the provisional 2021/22 local government settlement. The final settlement had not been issued when this document was written.

19. When calculating councils' spending power the Government assumes councils increase their council tax to the maximum level allowable before a referendum would need to take place.

20. Whilst government funding for 2021/22 has been outlined in the provisional local government finance settlement, this is a one-year settlement only. Future government funding remains uncertain due to delays in progressing:

    - The fair funding review

    - the review of the business rates retention scheme

    - the review of New Homes Bonus

21. Government grant funding has been projected to decline over the medium-term financial plan period. The projections could be too optimistic or too pessimistic. If they are too pessimistic then, as highlighted in the main budget report, an urgent review of the council's corporate plan priorities would be required. The council's reserves are considered adequate to compensate until this can be achieved.

CAPITAL PROGRAMME

22. The council's project management system is used to manage capital schemes. This is designed to reduce the risks of both overspends and slippage in the programme.

23. For major projects the council engages skilled advisors to assist it. Whilst these measures can manage and mitigate risk some capital schemes, by their nature, will still contain financial risks.

24. In the capital programme recommended to the cabinet, allowance has been made for works considered necessary to the council's land and property assets.

25. The council has a sufficient capital contingency and reserves to meet any potential capital programme overspends. While the use of these reserves would reduce the interest income earned, the current low rates available mean the impact would not be significant.

MEDIUM TERM FINANCIAL PLAN

26. An updated MTFP has been included in the budget report. The plan sets out provisional revenue spending plans and the estimated use of reserves through to 2025/26.

27. Using balanced but prudent estimates of future government funding shows that the council should be able to set a balanced budget up to and include financial year 2023/24. Whilst the council could set a balance budget in 2024/25, the general fund balance remaining at the end of that year would be below the amount recommended by officers.

28. The transformation activity, which was identified in last year's budget setting report and now forms part of the corporate plan delivery activity, is central to the council's efforts to tackle the increasing budget gap. It will take place against the backdrop of the new corporate plan priorities. Those priorities may themselves have to be reviewed to help ensure that the council's finances become more sustainable in the future.

PRUDENTIAL INDICATORS

29. The prudential code requires the calculation of a number of prudential indicators, which measure the sustainability of the council's MTFP, explicitly with regard to affordability, prudence, value for money, stewardship, service objectives and practicality. This is backed up by a specific requirement to monitor performance against forward-looking indicators and report and act on significant deviations.

BUDGET MONITORING

30. At the end of May, August and November heads of service complete budget monitoring returns forecasting their year-end positions which are reported to cabinet.

RISK MANAGEMENT & INSURANCE

31. The risk management arrangements are managed by the council's risk and insurance officer.

32. The main risks inherent in the council's MTFP are:

    - government grant funding is less than estimated;
    - long-term economic impact of the Coronavirus pandemic;
    - Unforeseen growth in essential expenditure.

Adequacy of reserves

33. The Chartered Institute of Public Finance and Accountancy has issued guidance on local authority reserves and balances in LAAP Bulletin 55. It sets out the three main purposes for which reserves can be held.

    - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – which forms part of general reserves;
    - A contingency to cushion the impact of unexpected events or emergencies – also part of general reserves;
    - A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

34. The council is expected to hold £6.2 million in its general fund as at 1 April 2021 and, over for the next three financial years intends to maintain this at a level that is no less than approximately 10 per cent of the annual budget requirement. For 2021/22, the minimum level is £1.9 million. This is likely to be sufficient to cover uneven cash flow and all but the most serious emergency. As highlighted above, on current budget forecasts it cannot maintain this level in financial year 2024/25.

35. Finally, the council is expected to hold unspent capital receipts of £10.6 million at 1 April 2021 which form the capital reserve. These monies can only fund capital expenditure except in specific prescribed circumstances.

Conclusion

36. The budget estimates have been prepared following a properly controlled and professionally supported process. They have been subject to challenge, due consideration and the identifiable risks should be capable of management.

37. Overall, the level of reserves at the end of 2021/22 is adequate in relation to the proposed revenue budget and capital programme.

38. The reserves are not reduced other than by the sums already earmarked. The income earned on these reserves is therefore a sustainable source of funds for the council.

39. Whilst the level of reserves is adequate for the 2021/22 financial year, the council faces significant budget challenges in the later years of the MTFP period, particularly if government funding schemes prove to be less generous than the estimated, and action will need to be taken to ensure that reserves remain adequate.

Simon Hewings (Interim head of finance and chief finance officer)

5 February 2021