

South Northamptonshire Council

Council

27 February 2019

<p>Robustness of Estimates and the Adequacy of Reserves and Balances Local Government Act 2003 (Section 25)</p>
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Report of Assistant Director Finance, Procurement and Property (Section 151 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 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 Assistant Director Finance, Procurement and Property. In expressing her 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 which 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 deliver services during a period of prolonged financial uncertainty and significant change. This coincides with a turbulent and complex landscape and outlook for the UK economy. The impact of national events is not yet known. It is important that we continue to manage our resources in a prudent and sustainable way, ensuring that we understand and manage our risks effectively over the medium term.

Local

3.2. The situation in Northamptonshire is one which will remain in the public eye and under closer scrutiny. We will need to ensure that we are up to date, involved and working closely with our partners as things develop over the next financial year.

3.3. Understanding this local context and environment will ensure the Council can continue to manage its budget, shape the business plan and financial strategy whilst working through a period of significant structural change.

3.4. In the short term the implications of separation from Cherwell District Council will be closely monitored.

Budget Process

- 3.5. 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 assistant directors and the finance team. This has been reviewed and critically challenged by the senior management team and reviewed by Members and relevant Committees.
- 3.6. The budget layout and various presentations ensure that all aspects of the budget (Revenue, Capital and Treasury) are understood and the interdependencies are taken account of.
- 3.7. During 2018/19 the monitoring and reporting frequency and information was improved. This provided clearer and more transparent information for consumption. As we move into 2019/20 further improvements and developments will be incorporated into the process.
- 3.8. The 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.
- 3.9. 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. This is backed up by a specific requirement to monitor performance against forward-looking indicators and report and act on significant deviations.

Budget Assumptions and robustness of estimates

- 3.10. The budget is being set against a backdrop of unprecedented change for Northamptonshire. There is risk inherent in the budget due to the separation from Cherwell District Council and the potential Local Government Reorganisation. 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.
- 3.11. 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 the Council to operate within when managing its treasury activity. The Chief Finance Officer is satisfied that the levels assumed in the indicators are affordable and sustainable.
- 3.12. The Council has insurance cover through a combination of internal funding and external policies. The Chief Finance Officer is satisfied that the insurance cover is adequate to meet all reasonable insurable liabilities.

Adequacy of reserves

- 3.13. 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 and it is important that the level of reserves reflects this.

- 3.14. The Council reserves are estimated at £13m. This incorporates a minimum level of reserves of £1.8m. 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

- 3.15. The Council's External Auditor, Ernst & Young, gave an unqualified opinion on the 2017/18 financial statements and an unqualified opinion for Value for Money.
- 3.16. The Internal Auditors, CW Audit Services, have been able to progress further through the internal audit plan during 2018/19 than in previous year and the outcome of this work has demonstrated stability and improvements in the Councils control framework.
- 3.17. 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

- 3.18. 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.
- 3.19. The Government has recently published two consultations which will impact upon the future of local government funding.

Fairer Funding Review Consultation

- 3.20. 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>

- 3.21. During 2019/20 the impact of this for the Council and subsequent impact for the potential Northamptonshire unitaries will be explored. Work will continue with partners across the County to understand this in more detail.

Business Rates Retention Consultation

- 3.22. 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>

- 3.23. 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.
- 3.24. The potential impact of the Council will be assessed during 2019/20.

Risk Assessment

- 3.25. 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.
- 3.26. The uncertainty surrounding Local Government Reorganisation will be closely monitored during 2019/20.

Future Outlook

- 3.27. The Government's consultation on the proposals for West and North Northants concluded on 25 January 2019. It will take a couple of months for Government to consider the responses. The Council has responded to the consultation and the response can be read on the Council's website (www.southnorthants.gov.uk/LGR).
- 3.28. South Northamptonshire Council has an important role in shaping the future of local government in Northamptonshire. The arrangements the Council already has in place provide a solid foundation to build on and will allow it to work closely with other Councils and partners across the County to minimise the impact on residents as the County transforms to new arrangements.

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 Council's 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 Council's robust financial management framework.
- 4.2. It is important that the implications arising from separation from Cherwell District Council and the proposals for Local Government Reorganisation in Northamptonshire are closely monitored and kept under review. The financial management arrangements, close working with partners and strategic oversight will ensure that these developments 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:

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Legal Implications

- 7.2. 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 the estimates included within the budget and the adequacy of the reserves and balances. This report satisfies that duty.

Comments checked by:

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Risk Management

- 7.3. 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:

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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	
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