

## South Oxfordshire 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 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 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 head of finance as chief finance officer has personal responsibility for such administration;
  - Section 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').
3. To reinforce these obligations, section 114 of the Local Government Finance Act 1988 requires the head of finance as chief finance officer to report to all the authority's councillors, in consultation with the monitoring officer and 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 base budget estimates were prepared jointly by the heads of service and appropriately qualified staff from the council's finance team. A thorough base budget challenge exercise, led by the head of finance and the interim head of policy and programmes, reviewed and challenged these budgets. The resulting base budgets were also reviewed by the relevant portfolio holder together with the finance portfolio holder and the leader of the council.

6. Scrutiny committee considered the budget at its meeting on Thursday 26 January. This included a briefing from the head of finance on the factors taken into account in determining the budget.

## 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 appropriate proportional cost of employing each member of staff for the full year. The budget also makes provision for recruitment and training costs. Staff 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 the budget assumes a level of expected vacancy savings and this year, the council has budgeted at 95 per cent of the expected salary level in its services.
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 been made in the budget for cost inflation but it is possible that such allowance may be insufficient given the current high rates of inflation. If this is the case then the contingency budget may need to be called upon. Allowance has also been made within the budget for potential increased costs of service delivery, 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 still largely met through government subsidy. However, there is a significant financial risk to the council of fluctuations in subsidy income and, since 2020/21, the council has seen a widening difference between housing benefit paid and subsidy income received. This is mainly due to growing demand for temporary housing accommodation to help alleviate homelessness. Subsidy levels for certain types of temporary accommodation are capped, meaning a continual shortfall to the council in this area. Income from housing benefit overpayments also carries financial risk, although the level of local authority error in the last grant subsidy claim was safely below the government's threshold, meaning the risk of any cost falling on the council is low and continues to be mitigated by close contract management.
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). Given the current economic conditions these budgets may come

under greater pressure than that experienced in previous years. Experience of demand in the current and recent years has been used to inform the 2023/24 budget.

14. A number of revenue income streams are sensitive to changes in market conditions, including 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. In setting the budget, adjustments have been made to reflect anticipated prevailing market conditions but, particularly given the current economic situation, there will always be a risk that budget targets are not met.

#### INVESTMENT INCOME

15. The returns on the council's investment portfolio, which has been diversified in accordance with the treasury management strategy, are relied upon to support the cost of services. After many years of low interest rates 2022 has seen rates climb and prudent assumptions of future interest rates, using forecasts provided by our treasury management advisors Link Asset Services, have been used to estimate earnings for both the 2023/24 financial year and future years in the MTFP. Investment income is not committed until the year after it is earned. There is therefore certainty about the amount available when the budgets are set.

#### REVENUE CONTINGENCY SUM

16. For the 2022/23 budget, the contingency budget was increased by £200,000 to £400,000. This remains unchanged in the 2023/24 budget.

#### FUNDING FROM CENTRAL GOVERNMENT

17. In December 2022 the government announced the provisional 2023/24 local government settlement, with the final settlement to be confirmed in February 2023.
18. 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.
19. The 2023/24 settlement is in effect a one-year settlement only. Whilst the settlement gave "details of funding in 2024/25", in reality it did not provide certainty as to the numbers for 2024/25. 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.
20. Whilst the government has indicated that it will set out the future position on New Homes Bonus ahead of the local government finance settlement for 2024/25, it has confirmed that the fair funding review and review of the business rates retention will not take place until after the next general election.
21. The 2023/24 settlement included a one-off, £0.9 million funding guarantee. Government grant funding has been projected to decline over the medium-term financial plan period. In particular the funding guarantee is assumed to fall away

from 2025/26. The projections could be too optimistic or too pessimistic. If they are too pessimistic then the council's reserves are considered adequate to compensate until corrective action by the council can be undertaken.

#### **CAPITAL PROGRAMME**

22. The council's project management system is used to manage capital schemes. This is designed to reduce the risks of both underspends and slippage in the programme.
23. The capital programme is split into an approved programme and a provisional programme. This split is made to give greater certainty of costs and timescales before a final commitment is made. This requires a detailed appraisal to be agreed by the relevant cabinet member before expenditure is committed.
24. For major projects the council engages skilled advisors to assist it. Whilst these measures can manage and mitigate risks, by their nature some capital schemes will still contain significant financial risks.
25. In the capital programme recommended to the cabinet, allowance has been made for works considered necessary to the council's land and property assets.
26. The council has sufficient capital contingency and reserves to meet any potential capital overspends. While the use of these reserves would reduce the interest income earned, the impact would not be significant. The investment income is not committed until it has been earned.

#### **MEDIUM TERM FINANCIAL PLAN**

27. 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 2027/28. Based on prudent estimates of future government funding the council should be able to set a balanced budget throughout the duration of the MTFP period, but not beyond that period.
28. Included within the MTFP is an estimate of costs associated with the exit and service transformation required when the Five Councils Partnership contract ends in September 2025. It is proposed that the council will, as allowed under the rules for the flexible use of capital receipts, fund these costs, anticipated at this time to be around £1.5 million, from those receipts.
29. The transformation activity, which was first agreed in the 2020/21 budget and forms part of the corporate plan delivery activity, is central to the council's efforts to tackle the increasing budget gap. A dedicated team of officers, supported by external consultants as appropriate, is now in place to drive and programme manage the delivery of the transformation work.

#### **PRUDENTIAL INDICATORS**

30. 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**

31. Three times a year, generally 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**

32. The risk management arrangements are managed by the council's programmes and assurance team.

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

- government grant funding is less than estimated,
- ongoing economic uncertainty,
- Unforeseen growth in essential expenditure.

## **Adequacy of reserves**

34. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance on local authority reserves and balances in Local Authority Accounting Panel (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.

35. The council's Medium Term Financial Strategy (MTFS) states that the council will hold £50 million of investments of which £35 million can be invested in capital schemes that will produce a return of certainty. The remaining £15 million can be invested in treasury investments. Such principles will need to be reviewed during the coming year and potentially adjusted in accordance with the level of future government funding and given the likely value of borrowing needed to support the capital programme.

36. Whilst the treasury investments are capable of being realised, investment in capital schemes is not capable of being realised. By the end of the MTFP period it is projected that at least £30 million of the £35 million permitted to be invested in capital schemes will have been invested or earmarked for investment.

37. Excluding the £50 million investment, the council is projected to hold £7.0 million of general revenue balances, £7.0 million of earmarked revenue reserves, and £2.4 million of capital receipts as at 31 March 2028.

## **Conclusion**

38. 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.
39. Overall, the level of reserves at the end of 2023/24 is adequate in relation to the proposed revenue budget and capital programme.
40. 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.
41. Whilst the level of reserves is adequate for the 2023/24 financial year, the council faces challenges in the later years of the MTFP period, particularly if government funding proves to be less generous than the estimated. As with all future projections, the position will need to be regularly monitored by the head of finance and, should it become necessary, action will need to be taken to ensure that reserves remain adequate.

**Simon Hewings** (Head of finance and chief finance officer)

8 February 2023