

**Mendip District Council****Cabinet 1 February 2021****Section 25 Report of the Section 151 Officer****Robustness of Estimates and  
the Adequacy of Reserves and Balances  
Local Government Act 2003 (Section 25)****Purpose of report**

1. 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 estimates and adequacy of reserves. This report fulfils this requirement and provides Members 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. Under Section 25 of the Local Government Act 2003, the Council's Chief Finance Officer is required to report to the Council on:
  - The robustness of the estimates included within the budget
  - The adequacy of the reserves and balances
3. It is a statutory requirement that councillors must consider this report when considering and approving a budget.

**Introduction**

4. 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.
5. The authority must have due regard to the report when making decisions on the budget and precept.
6. The Chief Finance Officer for the Council is the Interim Section 151 Officer. In expressing their 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.

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7. 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 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').
8. 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.

## Report Details

### National Picture

9. Local Government is continuing to commission and deliver services to its residents and businesses during a period of prolonged financial uncertainty and significant change. This uncertainty relates to both the overall UK economy as well as the impact of national policy changes to the way in which local government is funded in the medium term. Following the 2008 financial crisis, local government funding faced 10 years of significant cuts in funding. This has put significant pressure on the budgets of local authorities.
10. In addition, the COVID-19 Pandemic has also had a significant effect in 2020-21 and there will be on-going financial impacts for the next few years, until the economy has chance to recover. There has been significant financial support from the government for these impacts but they have not covered all costs and income losses so part of the impact has fallen on local authorities.
11. It is important that we continue to manage our resources in a prudent and sustainable way, ensuring that we understand and can plan and manage our risks effectively over the medium term which is why a strong link between our service outcomes and financial measures is imperative.

### Local Picture

12. Mendip District Council has seen significant economic growth since the introduction of the Business Rates Retention Scheme in 2013 and this has benefited the council through additional business rates income. Some of this is now at risk due to the impact of the pandemic on the economy and planned resets of the business rates baseline, which is now expected in 2022-23.

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13. The financial impact of the pandemic on Mendip DC in the current year has been in a number of areas. This has been through additional costs (reimbursed by the government), loss of sales, fees and charges (71% reimbursed by the government), losses of commercial income (100% borne by MDC) and losses of council tax / business rates income (75% reimbursed by the government).
14. The Council is committed to investing and developing its local economy and this investment can be seen clearly through key decisions taken at a local level including direct property investment for regenerative purposes such as the Saxonvale project.
15. As an ambitious Council, Mendip District Council has developed a number of strategies to support growth in the area including the Glastonbury Town Deal, affordable housing proposals and Saxonvale.
16. The Council delivers a wide range of services to support our residents, communities and businesses. Some of these services are provided by all Councils as a requirement of national legislation whilst Mendip District Council chooses to provide others as a result of the specific needs of our communities and the priorities of the Council.

Budget Process

17. 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 each of the service areas and the finance team. These have been reviewed and challenged by the senior management team.
18. The budget ensures that all aspects of the budget (Revenue, Capital and Treasury) are understood and the interdependencies are taken account of.
19. During 2020-21 the monitoring of finance, performance and risk information has been reviewed. As we move into 2021-22 improvements and developments will be incorporated into the process to ensure that we continue to provide the best level of transparency that we can.
20. Our financial monitoring process provides regular reporting for revenue, capital and treasury management. These reports are produced monthly / quarterly and are considered by officers, portfolio holders, Scrutiny Board, Audit Committee and Cabinet.
21. The prudential code introduced a rigorous system of prudential indicators, which explicitly require regard to affordability, prudence, value for money, stewardship, service objectives and practicality in the way in which we manage our finances. This is backed up by a specific requirement to monitor performance against forward-looking indicators and report and act on significant deviations. These are fully considered by our Audit committee.

Budget Assumptions and robustness of estimates

22. 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 which the Council to

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adhere to. I am (Chief Finance Officer) satisfied that the levels assumed in the indicators are affordable and sustainable.

23. Changes made to the MRP policy in relation to Investment Properties will ensure that the Council is fully compliant with the latest changes to the MRP regulations.
24. The Council has insurance cover through external policies. I (the Chief Finance Officer) am satisfied that the insurance cover is adequate to meet all reasonable insurable liabilities.

Adequacy of reserves

25. 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 due to number of local and national issues and it is important that the level of reserves reflects this.
26. The Council reserves are estimated to be around £12.5m. This incorporates a minimum level of general balances of £1.5m and £11m of earmarked reserves. The level of general balances recognises risks facing the Council including; UK economic uncertainty, the on-going impact of the pandemic as well as upcoming changes to Local Government Funding.
27. There is currently significant uncertainty over funding levels for 2022-23 and beyond. The medium term financial plan / Budget Risk Reserve of £5.978m is ring-fenced to mitigate this if no additional funding is forthcoming or savings identified.

Financial Management

28. The Council's External Auditor, Ernst & Young, gave an unqualified opinion on the 2019-20 financial statements. The Value for Money opinion has been delayed due to an objection to the accounts by a member of the public. The external auditor is yet to complete his investigation into this matter. The Council has considered the issues raised and has taken steps to mitigate the issue which was identified. We will continue to work closely with the External Auditors and react positively to any issues identified.
29. The Internal Auditors, South West Audit Partnership (SWAP), have been able to progress through the internal audit plan and the outcome of this work has demonstrated stability and in the Councils control framework. Some work has been delayed this year due to the impact of the Pandemic and part of the freed up resources have been used by the Council to help with the necessary assurance work in processing the business grants which have been introduced nationally as a response to the pandemic.
30. The Chief Finance Officer considers that the financial control arrangements remain sufficiently robust to maintain adequate and effective control of the budget during 2021-22.

Local Government Funding

31. 2021-22 should have been the first year of a new comprehensive spending review. Unfortunately, the impact of the pandemic has meant that a multi-year settlement has not been possible and a single year has been provided instead.
32. The way in which local government is financed is planned to be changing. In the future we will be much more reliant on income from individuals and businesses and management of our cash flow will be much more akin to that of commercial businesses than it ever has been before.
33. Two previous consultations were undertaken which would have had a significant impact on the future of local government funding. These have however both been delayed until 2022-23 at the earliest.

Fairer Funding Review Consultation

34. The Government is intending to simplify the way local government funding works with a new assessment of needs, resources and transitional arrangements.

Business Rates Retention Consultation

35. The government also planned changes to the Business Rates Retention System and published a paper "Sharing risk and reward, managing volatility and setting up the reformed system".
36. The proposals are to update the balance of risk and reward to better reflect the wider context for local authorities, mitigate volatility in income and simplify the system.
37. These two changes are now planned for 2022-23, so further consultation will no doubt take place during 2021-22.

**Risk Assessment**

38. The Council has a robust risk management framework in place. The framework supports the Council in managing significant risk.
39. The Council does have a Contingency budget of £100k per annum which is used to cover unforeseen / unbudgeted expenditure during the year.
40. The key risks within the budget for 2021-22 are set out below, together with the mitigations in place to manage them.

<b>Risk Areas in 2021-22</b>	<b>Mitigations</b>
Business Rates – potential impact if COVID reliefs given in 2020-21 are not continued and the impact of this on businesses ability to keep trading	In-year impact would be a reduction in the amount of gain from pooling arrangements. Additional impact would be on the collection fund which would affect future years. It is currently unclear whether any government support will be offered for this, as has been done in 2020-21.

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Business Rates Pooling income	Agreement for the pool to continue in 2021-22 was secured on 14/01/21 and confirmed to MHCLG. The actual level of income will be dependent upon government support (see above) and the on-going impact of the pandemic on the economy. The potential gain for 2021-22 has been scaled back by £250k to mitigate the risk.
Pay Award	Only 1% has been allowed in the 2021-22 budget. Local government pay is agreed by a separate pay body so this does create a potential risk. This is however mitigated by the fact that government's stated policy for the public sector is for no pay increases to be given.
Commercial Income – potential for voids / non-payment	Potential income budget has been reduced by £250k as a buffer to reduce the potential impact of this. Earmarked reserve set aside of £500k to cover income losses due to the pandemic.
Sales, Fees and Charges – significantly affected in 2020-21 by the pandemic. Impact will be largely dependent upon the economic recovery after the 3 <sup>rd</sup> National lockdown. Key areas of risk – Car parking, leisure, markets, licencing, planning	Government re-imbusement scheme has been extended to end of June 2021, so any Q1 losses will be 75% re-imbursed. Earmarked reserve of £500k in place to fund Council's share of any income shortfalls. Additional COVID general grant funding of £563k received for 2021-22.
COVID related costs – uncertain whether additional costs will be incurred during 2021-22	Additional COVID general grant funding of £563k received for 2021-22.
Council Tax – Localised Council Tax Support claimants could increase due to impact of the pandemic	Known impact already partly recognised with £156k government grant added to 2021-22 budget. Further impact would affect the collection fund and impact 2022-23 onwards. It is not yet clear whether any deficits would be split over 3 years, as in the current year or whether any government support will be made available for losses, as in 2020-21.
Council Tax and Business Rates collection rates	The collection rates in the current year have been impacted by the pandemic. Government has supported this with a 75% reimbursement scheme for losses. Continuation of this would partly mitigate the risk for 2021-22 but this is not confirmed. The collection fund arrangements would mean this would be an issue for future years, not 2021-22.

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Overspend in 2020-21, due mainly to the pandemic, will impact on level of reserves	All possible actions are underway to reduce the overspend as much as possible. This can be further mitigated through not making the planned 700k transfer to reserves in the current financial year (2020-21).
Brexit – impact on costs / inflation	This risk looks to have been reduced significantly with a deal now in place with the EU. £200k earmarked reserve still in place.
Local Government Re-organisation – uncertainty over timescales for Somerset. Shared transition costs will need to be funded if a decision is made to go ahead.	No allocation made for transition costs at present. Share of any programme costs will need to be funded from reserves. Option of introducing “Flexible use of Capital Receipts” policy to fund if revenue resources not available.
Saxonvale – investment made to purchase land will be repaid through the phased development of the site for housing and business. This may be affected by the economic impact of the pandemic.	Planning decisions and carry forward of Homes England grant would significantly reduce the current risk. Option retained to fund the development which should offset the risk and potentially provide a positive return to the Council.
Lack of opportunities for commercial, regeneration and energy investments to reduce future budget gap. May be further restricted by the government.	Energy consultants now in place. Property opportunities still arising but will need very careful consideration due to the current economic environment.
Poor investment decisions could impact future budgets	Commercial and regeneration projects will only be approved subject to business cases which demonstrate how borrowing costs will be repaid and the associated risks.
Economic development – need for investment post pandemic to bolster the local economy and protect income from business rates.	Can access part of the Additional Restrictions Grant (ARG) as long as compliant with the grant conditions.
Interest rate volatility	The bank of England base rate is already at an all time low (0.1%) but could go lower or negative. The interest receivable budget has been reduced to mitigate this.

Future Outlook

41. The future financial risks are partly due to potential national funding changes but also due to the on-going impact of the economy. These include:-

- Reset of the business rates growth baseline which was delayed from 2021-22. Mendip currently receive £4.4m of business rates, which is £1.5m higher than the baseline. It is unclear how this historic growth would be treated.

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- Business rates pooling. With the reset in business rates growth baseline, pooling gains would also be reset. This is currently the source of £0.6m of additional funding for Mendip.
- Savings delivery – the savings for Somerset Waste Partnership from the roll out of “Recycle More” have already been delayed by the pandemic. These could potentially be delayed further.
- Impact of the Fair funding review, which is likely to benefit local authorities with Social Care responsibilities.
- The lack of a multi-year settlement in the Comprehensive Spending Review (CSR) in 2020 means that there will also be a CSR 2021.
- A replacement New Homes Bonus scheme is due to be introduced in 2022-23 and no details of this have yet been released.
- The Lower-Tier Services Grant introduced in 2021-22 to protect spending power from reducing, is only one off. This was £397k for Mendip and at present will be a further loss of funding for 2022-23.
- The next Pension Fund triannual valuation will apply from 2023-24. This will take into account both the volatility of markets caused by pandemic and the impact of the age discrimination case.
- A decision will be made by the Secretary of State for Local Government at some point on Local Government Reorganisation (LGR) in Somerset. Additional cost pressures will exist leading up to vesting day and will become clearer once any decision and timescales are agreed
- Uncertainty over LGR could lead to issues with staff morale and impact recruitment and retention.
- Pay costs for 2022-23 and 2023-24 have only currently been included at 1%. Inflation is also extremely low at present. These could increase which would mean additional cost pressures on future budgets.
- Commercial income may continue to be impacted. Hopefully, this will reduce as the economic recovery progresses, following the pandemic.

<b>Conclusions</b>
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42. I am satisfied that the budget prepared for the financial year 2021-22 is prudent and makes allowance for the costs of providing services in accordance with the Councils 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 Councils robust financial management framework.
43. It is important that the implications arising from the potential reorganisation of Somerset Councils are closely monitored and reviewed. The financial management arrangements, close working with partners and strategic oversight will ensure that this can be well supported and managed.

<b>Statements of the Section s151 Officer</b>
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**Section 151 Officer - Statement on the Robustness of the Budget.**

**“The District Council is recommended to note that, in my opinion, the estimates used in the production of the budget proposal for 2021-22 are adequately robust”.**

**Section 151 Officer - Statement on the Adequacy of Reserves**

**“Based on the assessment of the reserves and contingencies, the key financial risks identified, and the thorough process used for developing the Medium-Term Financial Strategy, I have determined that the level of reserves and balances for 2021-22 is adequate.”**

Richard Bates  
Interim Section 151 Officer – Mendip District Council  
16 January 2021