

Report of	Meeting	Date
Statutory Finance Officer	Council	3 March 2015

REPORT OF THE STATUTORY FINANCE OFFICER

PURPOSE OF REPORT

1. To provide advice to the Council as required under s25 of the Local Government act 2003.

RECOMMENDATION(S)

2. The Council are recommended to note the Statutory Finance Officer's comments and advice under Section 25 of the Local Government Act 2003 as set out in this report and have regard to it when considering the budget proposals for 2015/16.

EXECUTIVE SUMMARY OF REPORT

3. This report is required by statute and the statutory finance officer should set out for members how the budget has been constructed and the assumptions that underpin that budget. The statutory finance officer is required to comment on the proposals so the council can be reassured that the risks contained within the budget are manageable and do not compromise the delivery of that budget.
4. This report outlines the key assumptions and risks contained in the budget and identifies that over time working balances should be increased to mitigate some of those risks.
5. In terms of the 2015/16 budget once again all key budgets have been re worked to align with expected outturn for 2014/15 and therefore reflect the ongoing cost of delivering the current levels of service. The budget in effect contains no expenditure savings targets, whilst there continues to be income targets contained within the budget; these are based upon contractual agreements or have been realigned to reflect the latest performance information. Market Walk will be the council's biggest income generator in terms of fees and charges and to mitigate some of the risks to income money is being set aside into an equalization account to be used should rental targets not be achieved.
6. The forecast therefore is that the budget will be balanced in 2015/16 and that in year a significant sum will be contributed into working balances to mitigate against future risks, as it is clear reductions in central funding are likely to continue for some time to come.

7. The exact details are unknown at this point as we have only received one year's funding settlement. Post general election the proposition will become clearer.
8. Key risks remain around in particular the forecasting of business rate receipts. Growth has been achieved but this to date has been offset by appeals and as such the strategy will be consistent with previous years and only growth will be built into the base once achieved. Therefore none of the forward forecasts contain any assumptions that the business rate base will grow there of course remains the risk that the business rate income could also reduce, but given what we know about development in the area there is less risk of this occurring in the short to medium term.
9. Having reviewed the underlying assumptions and commented on the position in relation to key risks and working balances I am satisfied that the budget assumptions are reasonable, the key financial risks have been considered and the budget is deliverable.

Confidential report Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

10. This report relates to the following Strategic Objectives and to the Council's ability to deliver its corporate plan whilst ensuring a balanced budget is achieved. The medium term financial plan sets out how council resources will be used to deliver those priorities.

Involving residents in improving their local area and equality of access for all	✓	A strong local economy	✓
Clean, safe and healthy communities	✓	An ambitious council that does more to meet the needs of residents and the local area	✓

BACKGROUND

11. Under the requirements of Section 25 of the Local Government Act 2003 the Statutory Finance Officer is required to advise members when setting the budget as to the robustness of the estimates and the adequacy of working balances.

THE ROBUSTNESS OF ESTIMATES

12. In terms of the budget proposals, once again in 2015/16 a thorough reassessment of the budgets has been undertaken by Directors and their accountants based upon the latest information available. In terms of the key assumptions contained particularly in the 2015/16 budget these are shown in the medium term financial plan but are summarized for convenience below

KEY ASSUMPTIONS

13. The table below shows the key assumptions made in forecasting forward the Council's financial position.

Assumption	2015/16	2016/17	2017/18
Council Tax Increases	0.0%	0.0%	0.0%
Grant for Freezing Council Tax in 2014/15 (year 2 of grant)	£0.066m	-	-
Grant for Freezing Council Tax in 2015/16 (grant available for only 1 year)	£0.065m	-	-
Reduction in Grant Settlement (RSG)	£0.883m	£0.350m	£0.350m
Profiled reduction in Grant Settlement	(15.5%)	(7.3%)	(7.9%)
New Homes Bonus Receipts 2011/12 and 2012/13 in Base Budget	£1.044m	£1.044m	£1.044m
New Homes Bonus – estimated receipts in future years from 2013/14	£1.586m	£2.336m	£2.986m
Market Walk – assumption £5.0m external borrowing as at 01/04/05	£0.760m	£0.690m	£0.660m
Pension Fund - Future Service Contribution	11.1%	11.1%	11.1%
Pension Fund – Deficit Recovery	£0.832m	£0.956m	£1.076m
Supporting People Income from LCC	£0.147m	£0.138m	£0.130m
Pay Award	2.2%	1.0%	1.0%

14. In terms of the key assumptions I would make the following comments to confirm their validity.

COUNCIL TAX INCREASES

15. The Administration's aim in their future strategy remains to contain future increases. Accordingly the forecast budget position in future years does not take account of any potential council tax increases. However the medium term financial plan models the impact of limited council tax increases. As the council tax is decided annually it will be for the council to determine if any actual increases are implemented. A prudent approach is therefore been taken to forward forecasting council tax yield. If housing growth continues at the current rate it is likely that council tax yield will be greater.

COUNCIL TAX FREEZE GRANT

16. The Administration are proposing to freeze council tax in 2015/16, therefore the council will be eligible to receive freeze grant as set out in the report.

REDUCTION IN GRANT SETTLEMENT

17. The government announced the grant settlement for 2015/16 just prior to Christmas and it was in line with expectations but was only a one-year settlement. For future years it is unclear what may happen and we will know only after the general election the future grant settlements. However it is clear that at a macro level more reductions in public spending are expected. I have therefore assumed some further reductions in grant in 2016/17 and beyond on the basis that over time many councils are expecting the rate support grant to be eliminated completely it is just the pace of reduction that is unknown at this point.

NEW HOMES BONUS

18. The inclusion of the new homes bonus in the 2015/16 base forecast has been limited to that received prior to 2013/14. This is consistent with previous year's approaches so as not to become too reliant on this funding stream to support recurrent expenditure. The amount receivable is recalculated each year and is dependent upon the number of new properties built in the borough each year. This approach serves to mitigate the risk in respect of variable funding by restricting the reliance of the council on this income stream to balance the budget. This allows for maximum flexibility with regard to its future use. The funding source remains important in terms of the councils overall financial position and the medium term financial plan identifies that should housing growth continue over the next couple of years at broadly the same rate as now then the additional new homes bonus expected could cover the budget deficit. This is important in terms of financial strategy and gives the council head room to consider how best to manage its resources and make the necessary changes to make itself more self-sufficient which is a key objective in the medium term financial strategy in a planned way over a period of time.

NET FINANCE OF MARKET WALK

19. The assumption built into the 2015/16 forecast is that the internal cash position will remain positive and that we will continue to internally finance some of the debt required rather than borrow. The rationale for this approach is that the interest earned on deposits is significantly less than borrowing costs and in treasury management terms is financially advantageous to the council. That said, I need to be able to react to what happens in the financial markets and as borrowing rates fluctuate be able to react. If rates as forecast fall then it will be appropriate to take on some additional borrowing as those advantageous rates. For this reason I have left some headroom for in year borrowing.

BUSINESS RATE RETENTION

20. The budget report explains the volatility of this income stream due to its nature. However we are in a stronger position than in previous years in that the details of how the scheme operates are now much clearer. The income levels contained within the budget are based upon a set of assumptions in particular in relation to appeals. In respect of the provision I have reviewed each type of appeal claim and risk scored them to arrive at a provision figure. As more appeals are settled more experienced in gained as to the likely outcome. It remains the position however that only when those appeals are settled I will know if my analysis has been correct. The backlog of appeals is decreasing which improves confidence in the forecasting but new appeals continue to come on stream. At present any growth in business rate is being offset by losses on appeals and for this reason I am building no estimated growth into any

future years forecast which I believe is a prudent approach. The budget assumptions also include the worse-case scenario in terms of the Collection Fund position at this point.

PENSION FUND CONTRIBUTIONS

21. All of the figures contained in the budget are based upon tactual contribution rates determined by the pension fund actuary and will remain at the levels set out in the budget until the next tri-annual review.

SUPPORTING PEOPLE INCOME

22. Whilst the County Council has seen significant reductions in its financing and is making significant changes to many budget heads they have been able to give us some certainty about funding over the next year or so and the forecasts reflect the anticipated income levels based upon those discussions.

PAY AWARD

23. The estimates for 2015/16 are based upon the most recent announcement of actual pay award, so in that respect are robust. Future years are based upon the fact that pay restraint is likely to continue.

MEDIUM TERM FINANCIAL PLAN

24. The MTFP sets out the Council's plans to bridge the funding gap as summarised below:

Total Summary Budget Resource Options to 2017/18

STRATEGY	£m
INCREASING INCOME	
Use of NHB	2.586
Review of New and Existing Income Streams	0.540
Growing the Borough's Tax Bases – Residential and Business	0.260
Project to Extend Market Walk	0.250
Council Tax Increases	0.250
Sub total - income	3.886
REDUCING COSTS	
Fundamental Review and Re-engineering of Services to Reduce Total Costs	1.150
Debt Restructuring Cost Savings	0.150
Sub total – expenditure	1.300
Total Resources Available to Balance the Budget	5.186

25. The plan identifies that broadly speaking the administration will attempt to bridge the budget gap by generating additional revenue of circa £1.3m. Therefore unless this target can be exceeded it is possible that expenditure reductions again of circa £1.3m will be required by 2017/18. The certainty of in particular the new homes bonus will significantly influence the nature and shape of the Council's financial position and this may only be known post-election. In the meantime the councils plans are based upon attempting to become more financially sustainable, in the first instance through additional income generation and secondly through future efficiency gains. The council is fortunate in being able to transition any change using the new homes bonus on a temporary basis if required.

OTHER RISKS

26. The most significant future risk facing the council is the announcement by the county council that from 2018 it intends to stop paying recycling credits to the council. This amounts to almost £1m for this council and represents a major significant risk to all collection authorities in Lancashire. This council is working with other councils to work up a strategy to deal with this situation and once that work is complete members will need to consider options for mitigating this significant loss of income. As the reduction is a number of years away the council has time to consider its options.

LEVELS OF WORKING BALANCES

27. The budget for 2015/16 has been established on the basis of not utilising any working balances to fund expenditure. The previous MTFP indicated that working balances should be no less than £2m. This level was based upon risk contained in the budget particularly around future levels of government funding and the volatility in the funding system in relation to business rate retention.
28. Latest intelligence indicates that it is likely that further reductions in funding are likely in local government given that a number of commitments to protecting other services have been made. For this reason I feel that it is important to reconsider the level of working balances required.
29. In my view the council should look to have a level of working balances that at least cover:
- a. The expected budget deficit moving forward, and
 - b. The risk of loss of deposits should future baking crisis occur
30. The MTFP sets out that based upon current assumptions the councils budget deficit could reach £2.6m by 2017/18. Thereafter I have highlighted a significant risk to other income streams in particular the recycling credits. For these reasons I believe that over time the council should look to increase its levels of working balances from no less than £2m to no less than £3m, which would at least clear the expected deficit should the council not be in a position to make the adjustments required in its budget within that timeframe, although obviously it will be seeking to do this.
31. In relation to the treasurers strategy individual deposit levels were increased to £3m to enable better rates to be accessed. One of the lessons for councils who were affected by the Icelandic banking crisis was that they should at least have the minimum level of

working balances to cover any potential loss of deposits should a banking crisis occur. Or this reason I think it appropriate to increase the level of working balances.

32. To this end it is forecast that by the end of 2014/15 the level of working balances will be £2.336m and in its budget for 2015/16 a further £350k will be contributed towards working balances. The council therefore will be well on its way to achieving the levels I have recommended by the end of 2015/16.

IMPLICATIONS OF REPORT

33. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal	✓	Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

34. These are contained within the report.

COMMENTS OF THE MONITORING OFFICER

35. The report is designed to ensure that the relevant legislation is complied with in terms of Statutory Officer advice.

GARY HALL
CHIEF EXECUTIVE

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Gary Hall	5104	19/2/2014	CEREP