

<b>Report of</b>	<b>Meeting</b>	<b>Date</b>
Statutory Finance Officer	Council	1 March 2016

## **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 2016/17.

### **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 2016/17 budget once again all key budgets have been re worked to align with expected outturn for 2015/16 and therefore reflect the ongoing cost of delivering the current levels of service. The budget contains no expenditure savings targets other than the senior management review savings which have been adjusted to show the part year saving and which will be agreed by the start of the new financial year. 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 2016/17 and as in 2015/16 further funds are being set aside to boost the Council's working balances in line with

the Medium Term Financial Strategy (MTFS) that recommends working balances are increased in line with the risks in the funding system.

7. 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. The key change in year is that the Council has joined the Lancashire Business Rate Retention Pool. This in effect allows the Council to keep significantly more of the growth it generates rather than pay it over to the Government. This is in exchange for the removal of the safety net. As a consequence of this additional ability to generate income, some business rate growth is now built into the MTFS as a potential income source to balance the Council's budget over the medium term.
8. 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.

<b>Confidential report</b> Please bold as appropriate	Yes	<b>No</b>
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### **CORPORATE PRIORITIES**

9. 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 MTFS 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**

10. 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**

11. In terms of the budget proposals, once again in 2016/17 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 2016/17 budget these are shown in the medium term financial strategy but are summarized for convenience below

## KEY ASSUMPTIONS

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

Assumption	2016/17	2017/18	2018/19
Council Tax Increases	0.0%	0.0%	0.0%
Increase in Council Tax Base	2.0%	1.0%	1.0%
Reduction in Grant Settlement (RSG)	£0.735m	£0.663m	£0.435m
Profiled reduction in Grant Settlement	(34.48%)	(31.08%)	(20.40%)
Total New Homes Bonus Receipts	£4.455m	£4.011m	£2.633m
Value of New Homes Bonus Incorporated in the Revenue Base Budget	£1.044m	£1.044m	£1.044m
Market Walk Net Financing	£0.629m	£0.881m	£0.863m
Pension Fund - Future Service Contribution	11.1%	11.1%	11.1%
Pension Fund Deficit Recovery profile	£0.956m	£1.081m	£1.206m
Supporting People Income from LCC	£0.138m	£0.130m	£0.122m
Additional Business Rates through membership of Lancashire Pooling Arrangement	£0.725m	£0.725m	£0.725m
Lancashire Waste Partnership Income	£0.933m	£0.933m	0
Pay Award	1.0%	1.0%	1.0%

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

## COUNCIL TAX INCREASES

14. 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 MTFs 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 being 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**

15. The Administration is proposing to freeze council tax in 2016/17, but there is no council tax freeze grant now available.

## **REDUCTION IN GRANT SETTLEMENT**

16. This year in the Grant Settlement the Government signalled its intention to completely remove Revenue Support Grant by the year 2019/20, at the same time replacing it with a remodelling business rate retention scheme. The risks with this for the Council is that we have the certainty of the Revenue Support Grant reductions but the uncertainty of the new business rate system, the details of which will not be available for some time. To mitigate this the forward forecasts of business rate income are challenging but realistic and I have set out changes in the levels of working balances the Council should hold to mitigate against some of this risk.

## **NEW HOMES BONUS**

17. The Government in its finance settlement for 2016/17 included its intention to change the way New Homes Bonus (NHB) is distributed with the intention of redistributing £800m to Council's providing adult social care services. The key change proposal is that NHB earned would be for a period of 4 and not 6 years as it is now. This would have a significant effect on the resources available to the Council and is a double blow given the reductions in Revenue Support Grant. I have modelled a significant reduction in NHB in order to be prudent. However, it is now clear that the NHB system will be part of the local government resource base until at least 2020/21 and in this respect it allows the funding to be used as transitional funding as set out in the previous strategy. It therefore allows for the use of the resource to fund core services to a greater extent than previously if this is required.

## **NET FINANCE OF MARKET WALK**

18. The assumption built into the 2016/17 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 respond to what happens in the financial markets and as borrowing rates fluctuate be able to react. If rates are forecast to change it will be appropriate to take on some additional borrowing. For this reason I have left some headroom for in year borrowing.

## **BUSINESS RATE RETENTION (BRR)**

19. The budget report explains the volatile nature of this particular core income stream and why accurate forecasting of future receipts is problematic. The income levels contained within the budget are based upon a set of assumptions that may impact on the total amount collected in future years, in particular the outcomes within the appeals process. In respect of making a provision for this issue, I have reviewed each past appeal claim on this ratings list to arrive at an estimated value of possible

future successful appeals awarded by the Valuation Office Agency (VOA). As more appeals are settled more experienced is gained as to the likely outcome. It remains the position however that each appeal claim is unique and it is only when those appeals are settled I will know if my analysis has been correct. At present any growth in business rates 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. With regard to the additional income resulting from being a member of the new Lancashire BRR Pooling Agreement, budgeted income from 2017/18 is estimated based on the current level of receipts.

## **PENSION FUND CONTRIBUTIONS**

20. Contributions to the pension fund are budgeted for and are calculated on actual contribution rates determined by the pension fund actuary. A review of these contributions will take place for 2017/18 and as such the assumptions regarding the contributions will change during the MTFS period.

## **SUPPORTING PEOPLE INCOME**

21. 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. However, the figures could change as we have some certainty for 2016/17 but the direction of travel is clear in that I anticipate there may be a significant reduction in supporting people grants from 2017/18. At this stage I am not able to say how much or what this impact will be. I will however be working on a risk strategy in order to come up with a plan of action in anticipation of its complete removal. This will be available during the next financial year for review to consider.

## **PAY AWARD**

22. The estimates for 2016/17 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 STRATEGY**

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

## Total Summary Budget Resource Options to 2018/19

<b>STRATEGY</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>
<b><i>INCREASING INCOME</i></b>		
Use of New Homes Bonus	1.567	0.931
Growing the Borough's Business Rates		1.250
Growing the Borough's Council Tax Base	0.124	0.254
<b>Sub total - Income</b>	<b>1.691</b>	<b>2.435</b>
<b><i>REDUCING COSTS</i></b>		
Fundamental Review and Re-engineering of Services to Reduce Total Costs		0.750
<b>Sub-total Expenditure</b>	<b>0</b>	<b>0.750</b>
<b>Total Resources Available to Balance the Budget</b>	<b>1.691</b>	<b>3.185</b>
<b>Forecast Deficit (Appendix F1)</b>	<b>1.304</b>	<b>3.080</b>
<b>Headroom After Implementation of Strategy</b>	<b>0.387</b>	<b>0.105</b>

24. The strategy shows that broadly speaking the administration will attempt to bridge the gap by generating additional revenue of £2.4m by a continuation of NHB, business rate and Council Tax growth. Based upon the analysis of risk I have undertaken that this is not unrealistic but it will require the Council to focus in particular upon business rate growth. Other income streams like the NHB are continuing to be generated and the Council Tax agreed is controllable through political decisions on increasing the charge. In respect of expenditure savings, a sum of £750k or 5% of the spend on employee costs and contracts is forecast. Again this is not unreasonable and may involve more partnership working as set out in the Governance review and the business models the Council agreed to pursue.

### OTHER RISKS

25. 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 £1.0m 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**

26. The budget for 2016/17 has been established on the basis of not utilising any working balances to fund expenditure. The previous MTFS indicated that working balances should be no less than £3.0m. 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.
27. 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.
28. 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 banking crisis occur
29. The MTFS sets out that based upon current assumptions the Council's budget deficit could reach £3.0m by 2018/19. 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 £3.0m to no less than £4.0m, 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.
30. In relation to the Treasury Strategy individual deposit levels were increased to £3m to enable better rates to be accessed but £4m on particular deposits is set out in the treasury strategy. 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. For this reason I think it appropriate to increase the level of working balances.
31. By the end of 2015/16 the level of working balances will be £2.74m and in its budget for 2016/17 a further £500k will be contributed towards working balances. The forward forecasts from 2017/18 signal an intention to continue contributing to working balances, but this of course will be dependent on the Council's resource position and its success in achieving its fiscal targets.

## **IMPACT OF COUNTY COUNCIL'S REDUCTION IN SERVICES**

32. The Administration has determined that it is appropriate to consider how this Council may respond to the service reductions being implemented. Some of the important service reductions are seen as a priority for our residents are demonstrated in the budget consultation responses. The immediate impact will be the reduction in bus subsidies, effective from April 2016 and thereafter it will be the results of the asset review (library and children centres) by September 2016 and then supporting people reductions, probably from 2017/18 onwards. As all the decisions and the details are not yet available, a sum of £1m is being set aside over the two years so that the Council can work through with partners and communities how we may collectively try to mitigate the impact and protect services where possible. It is important to stress that the funds are transitional funds and the Council must work hard to ensure any ongoing liabilities are minimal, given its overall financial position.

## 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.

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