

Report of	Meeting	Date
Chief Finance Officer	Council	28 February 2017

REPORT OF THE CHIEF 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 Chief 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 2017/18.

EXECUTIVE SUMMARY OF REPORT

3. This report is required by statute and the chief finance officer should report to members the robustness of the budget estimated including how they have been constructed and the assumptions that underpin them. In addition the chief finance officer must report to members the adequacy of the proposed financial reserves.
4. This report outlines the key assumptions and risks contained in the budget and identifies that over time working balances will be increased to mitigate some of those risks.
5. The Council will continue to experience significant reductions in funding. The Final Local Government Finance Settlement 2017/18 to 2020/21 published on 21 February 2017 confirms large scale reductions in the Council's resources, this includes a large reduction in New Homes Bonus grant. In addition, funding from Lancashire County Council is expected to fall by approximately £1m from 2018/19 onwards.
6. In terms of the 2017/18 budget once again all key budgets have been re worked to align with expected outturn for 2016/17 and therefore reflect the ongoing cost of delivering the current levels of service. The budget contains expenditure savings targets and increased budgeted income. All expenditure savings included in the 2017/18 budget have either been achieved or have proposals in place to successfully be achieved by the end of 2017/18.

7. 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. In addition there is budgeted income for the charging of replacement bins and introduction of a subscription based garden waste collection service. These have been constructed using prudent assumptions in terms of demand for both schemes. 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 equalisation account to be used should rental targets not be achieved.
8. The forecast therefore is that the budget will be balanced in 2017/18 and as in 2016/17 further funds are being set aside to boost the Council's working balances in line with the Medium Term Financial Strategy (MTFS) recommendations. In addition, funds have been set aside to create earmarked reserves in 2017/18 that will help enable the Council to implement the Transformation Strategy and resultantly the budget strategy included in the MTFS.
9. Key risks remain around in particular the forecasting of business rate receipts. The effects of the national revaluation of business rates to be implemented in April 2017 are forecast to be budget neutral to the Council. However further transitional amendments may cause further changes to the Council's estimated level of retained income. In addition Central Government consultation on the implementation of 100% business rates relief has an estimated full implementation start date of April 2019. The proposals within the consultation create significant uncertainties to the forecasting of retained business rates. As such only growth that is achieved will be built into the base budget and there is zero percent growth assumed in the short to medium term period. The Council does however continue to benefit from being a member of the Lancashire Business Rate Retention Pool in 2017/18.
10. 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

11. 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

12. Under the requirements of Section 25 of the Local Government Act 2003 the Chief 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

13. In terms of the budget proposals, once again in 2017/18 a thorough reassessment of the budgets has been undertaken by budget holders, service managers and directors and their accountants based upon the latest information available. In terms of the key assumptions contained particularly in the 2017/18 budget these are shown in the main budget report and the medium term financial strategy but are summarised for convenience below

KEY ASSUMPTIONS

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

Key Assumptions	2017/18	2018/19	2019/20
Increase in Council tax	2%	0%	0%
Growth in Council Tax Base	2.1%	1.0%	1.0%
Growth in Retained Business Rates	0%	0%	0%
Reduction in Revenue Support Grant	£0.663m	£0.435m	£0.455m
Total Forecast New Homes Bonus	(£4.007m)	(£2.982m)	(£2.798m)
Total Forecast Uncommitted New Homes Bonus Built Into the Base Budget	(£3.106m)	(£2.323m)	(£2.398m)
Net Financing of Market Walk	£0.716m	£0.840m	£0.858m
Future Service Pension Rate	14.4%	14.4%	14.4%
Additional Business Rates - Lancashire Pooling Arrangement	(£0.726m)	(£0.726m)	(£0.726m)
Lancashire Waste Partnership Income	(£0.933m)	0	0
Supporting People Income from LCC	(£0.069m)	0	0
Pension Fund Deficit Recovery	£0.791m	£0.841m	£0.966m
Pay Award	1%	1%	1%
Investment Projects Built into Base Budget	£0.468m	£0.468m	£0.468m

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

COUNCIL TAX INCREASES

16. Taking into consideration the large reductions in funding the Council will experience in 2017/18 to 2019/20 the administration is proposing to increase council tax by 2% in 2017/18. As well as this the MTFs models the impact of a 2% council tax increase in 2018/19 and 2019/20. As the council tax charge is decided annually it will be for the Council to determine if any actual increases are implemented. A prudent approach for council tax income in 2018/19 and 2019/20 is therefore being taken in forward forecasting council tax yield. If housing growth continues at the current rate it is likely that council tax yield will be greater.

REDUCTION IN GRANT SETTLEMENT

17. The Local Government Finance Settlement 2016/17 offered all Councils a four year Revenue Support Grant (RSG) settlement from 2016/17 to 2019/20. In accordance with Government requirements an Efficiency Plan was agreed at Full Council in September 2016. This document is published on the Council's website and on 16 November 2016 the Council received confirmation from DCLG on its four year RSG settlement, including an additional business rates tariff in 2019/20. The risk to the Council now is that we have the certainty of the Revenue Support Grant reductions but the uncertainty of the new business rate system. To mitigate this risk the forward forecasts of business rate income are prudent and I have set out changes in the levels of working balances the Council should hold to manage some of this risk.

NEW HOMES BONUS

18. The allocation of NHB has been reduced from 6 to 4 years with a 5th transitional year in 2017/18. In addition the allocation in 2017/18 onwards will be reduced using a 'deadweight adjustment'. This assumes that the Council should at least expand the housing base by 0.4% per annum; any growth below this level would not receive funding. For Chorley this is approximately 150 band D equivalents per year. It is possible this deadweight adjustment will be adjusted further in future years. In order to be prudent I have modelled a reduction in NHB based upon a lower growth in housing stock than is assumed the finance settlement. It is clear that the NHB system will be part of the local government resource base and in this respect it allows the funding to be used as funding in the base budget as per last year's budget 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

19. The assumption built into the 2017/18 forecast is that the internal cash position will remain positive for the initial few months of the year and that we will be able to temporarily 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. However 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)

20. 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 retained business rates 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. The forecast of loss of income due to successful appeals is made more complicated in 2017/18 by the national revaluation to be implemented in April 2017. On average businesses in Chorley experienced a reduction in business rate liabilities. In addition, more businesses are eligible for Small Business Rates Relief following changes to thresholds in the 2016 Budget. It is difficult to predict what effect this will have on the level of successful appeals. Past experience has guided the calculation, but the loss of income will be monitored to identify the effect of the changed circumstances.
21. 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.
22. A large risk associated with business rates income relates to two applications for mandatory charitable relief received from Lancashire Teaching Hospitals NHS Foundation Trust. If successful the application would be backdated to 2010 and therefore have a significant negative impact on the Council's revenue budget. A headline figure is a potential £1.3m impact on the Council's general fund and an approximate £200k further reduction in ongoing retained business rates. At present, as per advice from Local Government Association legal advisors, I have assumed this request for relief will not be granted. However I am confident the Council has sufficient working balances to deal with the risk posed from these applications.

PENSION FUND CONTRIBUTIONS

23. Contributions to the pension fund are budgeted for and are calculated on actual contribution rates determined by the pension fund actuary. These have been reviewed in 2017/18 and the figures included in budget for 2017/18 to 2019/20 reflect the actual payments that will be made over that period for both contributions to the future pension fund and past deficit recovery.

PAY AWARD

24. The estimates for 2017/18 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 and that a forecast pay award of 1% will be agreed.

SUPPORTING PEOPLE INCOME

25. The County Council has announced that it will continue to provide Supporting Income until September 2017 at which point it will cease. This budget includes these reductions in income. No reductions in sheltered accommodation services at Chorley Council are proposed at present. I am satisfied this reduction in funding can be met from within the Council's existing resources.

CHANGES TO WASTE COLLECTION SERVICE

26. One of the significant risks facing the Council is the announcement by the County Council that from 2018/19 it intends to stop paying recycling credits to the Council. This amounts to £0.930m for this Council and represents a major significant risk to all collection authorities in Lancashire. In-line with other Lancashire Councils, Chorley Council's response to these reductions is to make changes to household waste collection service. Two of these changes relate to charging for replacement bins and introducing a subscription based garden waste collection service. It is forecast that the Council will receive a net income from these changes however the income levels included in the budget are based upon a prudent forecast demand for these services. In addition the Council will change the frequency of paper and cardboard waste collection, the contractual savings included in the budget are based on draft agreements between the Council and the waste collection contractor.

MEDIUM TERM FINANCIAL STRATEGY

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

Total Summary Budget Resource Options to 2019/20

	2018/19 £m	2019/20 £m
Forecast Budget Deficit	1.270	1.665
Renegotiate Contracts	(0.070)	(0.315)
Transformation – Productivity Gains	(0.300)	(0.400)
Transformation – Shared Service	(0.600)	(0.650)
Transformation - Income Generation	(0.300)	(0.300)
Adjusted Medium Term Budget Deficit	0.000	0.000

28. The strategy shows that broadly speaking the administration will attempt to bridge the gap by generating efficiency savings and additional income of £1.655m. Based upon the analysis of risk I have undertaken this is not unrealistic but it will require the Council to focus in particular upon ensuring a wide range of services are included in the scope of the shared services transformation strategy.
29. Investing in income generating schemes is forecast to generate the Council £300k of additional income. It is recognised that this will require significant early expenditure and this is why the Council is setting aside £600k in an earmarked reserve specifically for investment in income generating projects.

LEVELS OF WORKING BALANCES

30. 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 £4.0m by 2018/19. This level was based upon risk contained in the budget particularly around future levels of government funding, the volatility in the funding system in relation to business rate retention and risk of loss of deposits should a future banking crisis occur.
31. In relation to the Treasury Strategy, individual deposit levels were increased to £3m to enable better rates to be accessed, but investments of up to £4m can be placed with part-nationalised UK financial institutions. 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.
32. The forward forecasts from 2016/17 on the level of working balances are as follows:

General Balances	£m
Opening Balance 2016/17	2.685
Budgeted contribution to General Balances	0.500
Forecast revenue budget underspend	0.098
Forecast General Fund Closing Balance 2016/17	3.283
Budgeted contribution to General Fund 17/18	0.500
Budgeted contribution to General Fund 18/19	0.259
Forecast General Fund Closing Balance 2018/19	4.042

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	5151	22/02/17	