

Strategy & Resources - Meeting 13 February 2015

Item 4: Budget-Setting Report (BSR) 2015/16 - supplementary

4(a) EXECUTIVE AMENDMENT - supplementary

Background

This report details amendments to the Budget-Setting Report 2015/16 that was recommended to Council by the Executive at its meeting on 22 January 2015.

These amendments follow the announcement of the Final Government Finance Settlement and include the Section 25 Report and the consequent changes required.

Unless otherwise stated, any references in the recommendations to sections, pages and appendices relate to Version 1 of the Budget Setting Report (BSR) 2015/16.

New or updated information:

- **Final Local Government Finance Settlement:**
Kris Hopkins MP, the Minister for Local Government, on 3 February 2015 laid before the House of Commons a statutory report relating to Local Government Finance in England 2015/16. He confirmed the proposals in the provisional 2015-16 settlement so the figures are effectively unchanged for this Council (a minor increase of £150). He also confirmed that the council tax referendum principle for 2015/16 will be set at 2% and this Council is within that limit.
- **Section 25 Report (Robustness of Estimates and Adequacy of Reserves):**
This report is made under the Local Government Act 2003, which requires that the Chief Financial Officer reports to the authority, when it is making the statutory calculations required to determine its Council Tax or precept, on the robustness of the estimates made for the purposes of the calculations, and the adequacy of the proposed financial reserves [Section 10, page 50 refers].

Recommendations:

The Executive Councillor is recommended to approve the following, for submission to Council:

- (a) **Section 25 Report:** insert the report into the BSR as per the attached EXECUTIVE - Section 25 Report

and to authorise the Section 151 officer to make necessary changes to the Budget Setting Report 2015/16, to be considered by Council at the meeting on 26 February 2015, to reflect the impact of changes for the above.

Note that further changes are expected before Council, which will be notified and then incorporated into the BSR, in respect of:

- Council Tax Setting 2015/16 [Appendix A(b), page 52 refers] following notifications from precepting authorities
- Any adjustments arising from review and reconciliations
- Other minor typographical amendments.

EXECUTIVE - Section 25 Report [BSR 2015/16, Section 10]

Section 25 of the Local Government Act 2003 requires the Council's S151 officer to report to the Council when it is considering its budget requirement and consequent council tax. The report must deal with the robustness of the estimates made for the purposes of the calculations and the adequacy of the reserves allowed for in the budget proposals.

The rationale is to ensure that the estimates are sufficient to cover regular recurring costs plus any reasonable risks and uncertainties and, in the event of unexpected expenditure, there are adequate reserves to draw on. The calculations relate to the budget for the forthcoming year and the legal requirement may, therefore, be interpreted as reporting only on the 2015/16 estimates and reserves up to 31 March 2016.

Robustness of estimates

The Council has well established and robust budget processes. These have been followed when compiling the 2015/16 budget and medium term projections.

Estimates and assumptions were reviewed during the preparation of the MFR in September 2014, and confirmed during the development of this BSR. Appendix C reviews these estimates and assumptions and indicates the sensitivity of each in financial terms.

The key driving factor through the process has been the requirement to identify savings to address projected decreases in core funding. The savings requirement has been addressed through the development of an ambitious transformation programme and the release of significant levels of earmarked reserves.

These two actions require substantial change to be delivered within the organisation to demanding timescales. The transformation programme includes savings resulting from sharing services with other local authorities and the creation of alternative service delivery vehicles. There are, therefore, significant levels of risk around the estimation of potential savings and the timing of their delivery. These risks are mitigated, to a certain extent, by management review and challenge of the proposals, regular budget monitoring and management, and the implementation of governance processes for the transformation programme.

Adequacy of reserves

The requirement for financial reserves is acknowledged in statute. Section 32 of the Local Government Finance Act 1992 requires billing authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

It is the responsibility of the S151 officer to advise local authorities on the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.

The council holds two types of general fund reserves:

- The general fund is a working balance to cushion the impact of uneven cash flows. The reserve also acts as a contingency that can be used in year if there are unexpected emergencies, unforeseen spending or uncertain developments and pressures where the exact timing and value is not yet known and/or within the council's control. The reserve also provides cover for grant and income risk.
- Earmarked reserves are set aside for specific and designated purposes or to meet known or predicted liabilities, e.g. insurance claim.

Earmarked reserves remain legally part of the general fund, although they are accounted for separately.

A key mitigation for financial risk is the S151 officer's estimate of a prudent level of reserves. A risk assessment was undertaken in MFR 2014 to determine the level of non-earmarked general reserves required by the Council. The assessment has been updated in Section 8 of this report, with general reserves being increased to provide some mitigation for the decrease in the Repairs and Renewals Fund. In making the recommendation for the level of reserves, the S151 officer has followed guidance in the CIPFA LAAP Bulletin 77 – Guidance notes on Local Authorities Reserves and Balances. The risk analysis shows that a prudent minimum level of reserves for 2015/16 will be of the order of £5.4m.

The final table in Section 8 shows that the anticipated level of the general fund reserves will remain above the prudent minimum level for the duration of the medium term planning period.

I therefore consider that the estimates for the financial year 2015/16 to be sufficiently robust and the financial reserves up to 31 March 2016 to be adequate.

**Caroline Ryba
Head of Finance and S151 Officer**

4(b) LIBERAL DEMOCRAT GROUP AMENDMENT – supplementary

Add to the Lib Dem amendment the Section 25 report as follows:

5. Implications

(f) Section 25 Report

This budget amendment would not require any substantive changes to the existing Section 10 – Section 25 Report – see attached ***LIB DEM - Section 25 Report***.

LIB DEM - Section 25 Report [BSR 2015/16, Section 10]

This budget amendment would not require any substantive changes to the existing Section 10 – Section 25 Report.

The amendment shifts the timing of the net savings target over the five-year planning period, reducing the total savings required by £93k. However, the following impacts of the proposals should be noted:-

- The returns from the £4m moved from investment in commercial property to intermediate housing are reduced by £50k p.a.
- Returns of £300k p.a. from 2017/18 are obtained from investing the £8m from the Invest for Income Fund in intermediate housing. The BSR does not include any income from investing this fund, as potential investments have not yet been identified.
- Assuming a minimum return of 5% p.a. on investments, the potential return from the £8m funding is reduced by £100k each year.

The intermediate housing proposal would therefore restrict the level of income earned by the council from £12m of funding and would reduce the overall sustainability of the budget.

It should also be noted that the proposed intermediate housing programme would be a large and complex programme with a number of dependencies. There are, therefore, significant levels of risk around the estimation of potential returns and the timing of their delivery. These risks would be mitigated, to a certain extent, by management review and challenge of the proposals.

I therefore consider, in relation the budget resulting from the application of this amendment, that the estimates for the financial year 2015/16 to be sufficiently robust and the financial reserves up to 31 March 2016 to be adequate.

**Caroline Ryba
Head of Finance and S151 Officer**