

Budget and Council Tax 2015/16 - Report of the Chief Financial Officer on the Robustness of the Estimates Made for the Purpose of the Budget and Tax Setting Calculations and the Adequacy of the Proposed Financial Reserves.

Budget Proposals

I am satisfied that the process employed for identification, evaluation and inclusion of the items forming the budget proposal package has been properly conducted and has arrived at a set of robust estimates given the limitation placed upon it resulting from the late announcement of the Government Grant Settlement.

In arriving at this opinion I have taken due account of the following matters:

1. Budget Process

- a) Budget planning has been undertaken over an appropriate period of time and has allowed full understanding of the issues in an operational and financial context.
- b) Every effort has been made to include all Members in the financial planning process through the circulation of reports and associated information. Formal and informal meetings with Members have taken place to discuss budget matters and the annual Member Workshop was held in September last year to highlight the budget process.
- c) Representatives of those bodies impacted by the savings proposals have been consulted and their views have been taken into account. This in particular has occurred with a Tenants' Panel meeting and discussion regarding the Housing Budget and proposed rent increases.
- d) Consideration has been given to the updated corporate plan in formulating the budget proposals. Ongoing reductions in Council funding have meant that the emphasis on resource targeting is now more about where to avoid reductions as opposed to where to invest.
- e) The budget formulation process at Officer level has been subject to on-going review which has tested the validity and deliverability of pressures and options so as to ensure that Members have been made aware of all aspects and implications of actions when formulating the budget proposals.

Key Assumptions

In formulating budget proposals it is necessary to make certain key assumptions; these are as follows:

- a) Income from business rate retention - the new Government Grant System introduced from 1st April 2013 links Council finances in part to the success of the local businesses. Councils are likely to gain from the proportion of real business rate growth and lose a proportion of income associated with business rate losses. The budget proposal takes a balanced view on the prospects for growth versus the risk of losses pending the results of the first year's outturn position. The central position should be for a neutral outlook. Work will be undertaken to improve forecasting and to better understand the operation of the system over the following years.
- b) In 2013/14, the Council joined a business rate pool arrangement with other Leicestershire authorities for the retention of business rates. During 2013/14 the

Business Rate Pool performance was monitored and the inherent risk in pooling has increased in the last 12 months. Because of these uncertainties and the high level of risk it was agreed between Leicestershire Authorities that the Pool be terminated for 2014/15. However, during the course of 2014/15 the business rates levels of the Leicestershire Authorities have continued to be monitored and, as agreed at the time the Pool was disbanded, the Pool mechanism has been reviewed with a view to reforming it if it was thought beneficial. This review has been carried out and with both a settling down of the regulatory framework and predictions of the Pool looking favourable for 2015/16, the Chief Financial Officer under delegated powers has agreed that this Council will rejoin the pool for the forthcoming financial year.

- c) Localised Council Tax Support – the Council approved a revised scheme in January 2014 and a fair assessment of the likely impact of these changes built into the budget in 2014/15. The possibility that these estimates are over or understated is a risk to the budget. The Council at its' meeting on 22 January 2014 considered changes to the current Council Tax Support Scheme which resulted in support reducing by 15% for working age claimants. This ensures that this Council and all other precepting Authorities recover the shortfall in funding resulting from the withdrawal of the transitional grant funding. The level of support reduction has been reconsidered resulting in no change in the current 15% which will operate throughout 2015/16. As with business rates how Council Tax support is operated and funded imposes significant additional risk on this Council. Any additional growth and support and/or reduction in collection rates over and above which has been seen within our approved scheme and within fixed Government funding will have a direct cost on this Council and all other precepting authorities. The Council will aim to mitigate these risks. Current projections indicate that the current scheme is operating within the assumptions built into estimates.
- d) Pay and Prices – the proposals include provision for inflation only where there are specific known contractual obligations. An allowance for a 2.2% pay award has been applied for the period 1 January 2015 to 31 March 2016. Therefore the pay award is applied.
- e) A 2% per annum increase in employer's pension contributions has been provided (as determined by the latest triennial valuation of the Leicestershire Pension Fund in 2013).
- f) Demand Changes – the impact of the changes to the welfare and benefits system cannot be assessed before such time as these have been implemented and operational for a while. There is a risk that a consequence of these changes will be an increased demand for housing, advice and support services. The proposals reflect the best assessments of expected changes in demand but there is considerable uncertainty in this respect.
- g) Fees and Charges – due account has been taken of the Council's charging policy and provision made for increases in charges where appropriate. Expected volume changes are also included.
- h) Council Tax Base and Collection Rate – the assumption of growth in the tax base reflects the historic average of around 0.5%. This is masked by reductions in the tax base to reflect the impact of the Localised Council Tax Support Scheme. The collection rate and performance will continue to be

closely monitored over the forthcoming year in order to assess the impact of changes to this Council including discounts and exemptions.

- i) Interests and Investments – The outlook for interest rates remains depressed. The best estimate is that they will remain low for the next one to two years and then increase gradually. An assumption of possible interest rates has been made for the purpose of the budget. The cash flow implications of the Capital Programme have been taken into account in calculating the interest earning available for budget planning.
- j) Income Volatility – for some income streams, such as local land charges, building control and planning fees it is very difficult to forecast levels accurately. To assist this the Council has an Income Profiling Reserve.
- k) Government Grants – outside of the unknown impact of business rate growth or contraction, the allocations of government grants have become confirmed for 2015/16 and 2016/17. This therefore extends beyond the next national election in May 2015. The government has indicated it is working on a comprehensive spending review which if re-elected will extend until at least 2019. Other than supposition there are no indicative estimates of the scale of reduction beyond 2017 and so the Council's updated Medium Term Financial Strategy (MTFS) will have to include some realistic assumptions.
- l) New Homes Bonus Scheme – again, as was the case last year, to maximise the amount this Council receives from New Homes Bonus a review of all the long term empty properties in the Borough was carried out during the year. Because of the urban nature of the Borough and the lack of opportunity to develop new housing the Council not only receives the lowest New Homes Bonus of all Leicestershire Authorities, but is also the second lowest at National level.
- m) Capital Expenditure and Income – although forecasts show sufficient resources to fund the current programme to the end of 2017/18, this is dependent on the realisation of useable receipts from asset disposals which will have associated risks. Consequently, no new schemes will be contractually committed unless funding is available. Should resources from external funding and/or capital receipts not generate the level of receipts forecast, or there is delay in disposal of assets, then the capital programme will need to be reviewed to ensure funding is sufficient to meet proposed expenditure. Monitoring and reviews of the programme resources available are carried out regularly during the year and the Policy, Finance and Development committee will be informed of developments. There are also revenue implications of using uncommitted capital resources.
- n) New Leisure Facilities – in 2013/14 the Council undertook a major procurement project into the letting of leisure management services. The successful contractor commenced the management of the Council's leisure centre and two swimming pools from 1 April 2014 for a period of 20 years. The contract will save over the life of the contract £3.6M compared to the previous one. The profile of the saving is not evenly spread over the lifetime of the contract, with the savings contracted to accrue after the first three years as the contractor will still be establishing its' business model.

Monitoring

The performance against budget for 2014/15 has been monitored throughout the year. The latest outturn estimates (a net saving of £356,000) has been allowed for when estimating the level of resources available for 2015/16 and subsequent years.

The budgetary pressure facing the Council is widely understood and budget holders and managers are working hard towards making savings through efficiency and slimmer structures. As opportunities present themselves, e.g. natural staff turnover, they have been taken and budgetary savings have been realised. These savings are then being reflected in the base budget for future years.

Whilst every years' budget is subject to regular monitoring its importance will remain high during 2015/16 in order to control cost pressures, prevent avoidable overspending and capture under-utilised budgetary provision early.

The Council undertakes regular monitoring and reporting.

Financial Risks in the Budget Proposals

The budget always contains areas of uncertainty and whilst every effort is made to understand, recognise and manage risks adequate financial provisions and reserves are held in the event that they cannot be contained. This provision is in the form of revenue balances.

The Council has been presented with a balanced budget proposal for 2015/16 but despite this the financial risks facing it have increased over the past twelve months as the magnitude in reductions in government support become clearer.

Government Grants

The anticipated financial pressures associated with this reduction represents the greatest and most profound financial challenge faced by the Council over the last twenty years and how we react will shape the organisation and its services and the way we supervise them for many years to come.

With the absence of any significant improvement in reductions in support extends as far as 2019 at a minimum.

In 2010 government grants accounted for 70% of the Council's net funding. By 2015/16 this will be reduced to 50%.

To date the Council has managed to maintain the majority of service provision through a combination of efficiencies, transformation, restructures and income generations. However the Council's Net Expenditure Budget has contracted significantly over the last five years, falling from £8.547M in 2010/11 to £6.469M in the proposed 2015/16 Budget, a fall of 24.3%. Continuing to find savings of this magnitude from a smaller base will become increasingly difficult.

The Council will also consider new income generation opportunities with the aim of providing an income stream which can subsidise essential but non-income generating services.

Having higher working balances and reserves at the Council's disposal provides the cushion to enable it to manage the process of reducing the size of the budget.

However they should only be used where there is sufficient confidence that the changed programme will be successful.

It is forecast that the Council will be holding balances in excess of the minimum requirement at the end of 2014/15. With the backdrop of potential risk in the budget, the ongoing and expected future challenges facing the Council and the potential need to provide some cushioning, maintaining higher balances against this considerable uncertainty represents a sensible and measured approach.

Reserves and Provisions

As Chief Financial Officer, I have carried out a review of the reserves. I have proposed that £300,000 be transferred from the General Fund to the Budget Equilibrium Reserve.

Council Tax

The Government has confirmed that it will be offering another Council Tax Freeze Grant in 2015/16 again equal to 1% with the previous year's grant being rolled up into the Revenue Support Grant.

In practice this will not cover the impact of inflation on the budget and will compound the savings target when the grant potentially ends.

All residents have been used to a significant element of funding for services being provided by Central Government. With this being cut dramatically, residents will increasingly become responsible for funding the services they want and need or face the choice of not receiving the services.

Given a free choice some residents would choose not to pay for services they did not use and thus ultimately there will remain a need for taxation to fund some services. The question for the Council to decide is what the correct balance of service provision is versus the correct level of taxation.

However without continued government support for services it is inevitable that either service provision will need to be considerably lower or taxation higher.

Having looked at the budget and the savings that are made I am satisfied as Chief Financial Officer that it is sustainable to accept the government grant and freeze council tax for 2015/16. However the situation will have to be monitored and the Medium Term Financial Strategy when it is reviewed in March 2015 will have to allow for the reduction of grant income in 2015/16 and onwards.

Medium Term Financial Strategy (MTFS)

Considerable effort at Member and Officer level has been directed at establishing a budget framework that covers future years and that links the need to identify savings with the corporate priorities. This has continued to deliver a balanced budget for 2015/16 but considerable financial uncertainty remains beyond that year.

The Council has historically faced up to its financial challenges and I believe will continue to do so in this period of unprecedented constraint.

Steps have been taken and resources have been directed towards the development of a plan to address the projected funding gap in future years.

As highlighted within this report this will continue to require significant business transformation and a radical rethink about what services the Council provides and the way in which they are provided. Considerable importance has been attached to this at both Member and Senior Officer levels.

Indicative council tax levels included within the Medium Term Financial Strategy should represent a marker for what is considered affordable in the current economic climate. At these levels of increase there is a key assumption that business transformation would be able to deliver the majority of the savings targets. The Medium Term Financial Strategy is being reviewed and a report will be presented to the Policy, Finance and Development Committee on 24 March 2015.

General Fund revenue reserves have been determined taking into account the risks identified within this report and also in the Risk and Sensitivity Analysis for 2015/16 and Forward Forecast to March 2018 (Appendix 5). Therefore the level of balances together with reserves is deemed to represent an adequate level of provision against potential financial risks inherent with the MTFS.

Conclusion

Given the actions taken and the levels of reserves and balances I am therefore of the opinion that the budget proposals for the General Fund have been properly prepared and are realistic in the assumptions made. The proposals have been arrived at after taking appropriate Officer advice and have been recommended for approval by the Planning, Finance and Development Committee and Service Delivery Committee.

John Dickson
Chief Financial Officer and Section 151 Officer
February 2015