APPENDIX 2

STATEMENT OF THE SECTION 151 OFFICER UNDER THE REQUIREMENTS OF SECTION 25 OF THE LOCAL GOVERNMENT ACT 2003

ROBUSTNESS OF BUDGET ESTIMATES AND ADEQUACY OF RESERVES 2016/2017

1. INTRODUCTION

The Local Government Act 2003 Section 25 includes a specific duty on the Chief Financial Officer (Section 151 Officer) to make a report to the authority when it is considering its annual budget and council tax levels. The report must deal with the robustness of the estimates and the adequacy of the reserves included within the budget. (For the purpose of the Act 'reserves' includes 'general fund balances'.) The Act requires the Council to have regard to the report in making its decisions at the Council's budget and council tax setting meeting in respect of 2016/17.

In making this report I have considered the risks arising from it, outlined below, and the Council's mitigating actions in arriving at my conclusions which, in summary are:

- Supplies and services and staffing budgets are sufficient to maintain services as planned.
- Budgeting assumptions for treasury management activity reflect the impact of sustained low interest rates.
- The approach to budgeting for income is prudent.
- The approach taken to using the New Homes Bonus to support the base revenue budget is prudent.
- The proposal to increase council tax is required to ensure the viability of this Council in future years without having to make significant cuts to front-line services.
- The medium term financial planning assumptions, including future cuts in government support, are prudent and the continued development and revision of the budget strategy for bridging the projected budget gap is providing a planned and measured approach to meeting future financial challenges.
- The approach to financing maintenance is acceptable. Looking ahead, the need to model and prioritise future investment aspirations will become critical if the Council is to meet some of the targets within the Medium Term Financial Strategy (MTFS).
- The level of reserves, including General Balances, is satisfactory.

2. ROBUSTNESS OF ESTIMATES

Budget estimates are assessments of spending and income made at a point in time, based on service needs and known expenditure patterns. The statement about the robustness of estimates cannot give a guaranteed assurance about the budget, but gives members reasonable assurances that the budget has been based on the best available information and assumptions.

In order to meet the requirement of assessing the robustness of estimates the Section 151 Officer will consider and rely upon the key processes that have been put in place:

- the issuing of clear guidance to Service Managers on preparing budgets through the annual budget strategy report;
- peer review by GO Shared Services finance staff involved in preparing the standstill base-budget, i.e. the existing budget plus contractual inflation;
- the use of in-year budget monitoring to re-align budgets in line with projected changes for 2016/2017;
- a medium term planning process that highlights priority services;
- a review of the corporate risk register;
- a service review by the Cabinet, Senior Leadership Team and Service Managers of detailed budget and proposed savings and their achievability; and
- GO Shared Services finance staff providing advice throughout the process on robustness, including vacancy factors, increments, current demand, and income levels.

Notwithstanding these arrangements that are designed to test the budget throughout its various stages of development, considerable reliance is placed on Service Managers having proper arrangements in place to identify issues, project demand data, to consider value for money and efficiency and record key risks within their operational risk register.

The table below identifies assumptions made during the budget process and comments upon the risks and decisions taken when preparing the budget.

Budget Assumption	Financial Standing and Management
1. The treatment of demand led pressures.	Service Managers will be expected to manage changes within their budgets by re-prioritising or by taking steps to reduce expenditure where income streams decrease significantly. Where this is not possible it will be necessary to use the working balance or earmarked reserves on the understanding that they may need to be restored in future years.

Budget Assumption	Financial Standing and Management
2. The treatment of inflation and interest rates.	The following assumptions have been made in the preparation of the Medium Term Finance Plan in respect of inflationary pressures: • Pay awards are modelled at 1% per annum from 2016/17. • Employer's Superannuation contributions – agreed until 2017 but assumed to increase by £406k per annum through to 2019/20. Future uncertainty in the economy / fund performance and lack of clarity over the full impact of pension changes and local commissioning of services may increase pension fund deficits although budgeting assumptions follow actuarial advice. Additional work is being undertaken to model the impact of commissioning decisions on the pension fund and savings assumptions are being reviewed. The move towards budgeting for fixed annual contributions (as opposed to a % of pay) will mitigate the cash-flow position in the longer term. • Contract inflation has been allowed for at the appropriate contractual rate • In line with previous practice, general inflation has not been provided for unless the relevant professional officer has indicated that there are inflationary pressures. Whilst this creates natural efficiency savings it could lead to insufficient budget to maintain service levels. In-year increases will need to be managed. • The Council provides a number of demand led services e.g. green waste collection, car parking, building control charges, etc. The estimates for 2016/17 have been prepared on the advice of officers who have taken a professional view on income levels, based on their opinion about the local economic conditions. Income from fees and charges have generally been increased by 2.0% where legislation permits unless Service Managers can demonstrate that targets can be achieved through increased demand e.g. green waste collection. • On 8th July 2015 the Chancellor announced that rents in social housing would be reduced by 1% a year for four years. This will result in an estimated loss of rental income of £6.691m in the period to 31st March 2020. • Despite historic significant investment returns, the treasury management budgets are based on sustained low interest rates and no increase is factored into the MTFS. The Council adheres to the CIPFA Code of Practice for Treasury Management 2011 and updates its policy and strategy statements annually. The Investment Strategy is reviewed annually to ensure security of public money. Following the banking crisis, our treasury advisors continue to advise the Council and Treasury Management Panel on policy. Risks around inflation and interest rate variations have been built into my assessment of the budget. In-year increases will need to be managed but may need to be funded from General Balances and subsequently be built into base budget in future years. The recommended minimum HRA revenue reserve to cover contingencies is £1.5m. The three year projections forecast a reserve balance of £3.243m at 31st March 2019 which is deemed sufficient to cover the impact of the changes in Housing and Welfare Policy over the medium term.
3. Estimates of the level and timing of capital receipts.	No major capital receipts are anticipated that would affect the planned capital expenditure in 2016/2017, or in later years of the MTFS.
4. The treatment of efficiency savings/ productivity gains.	The majority of savings proposals for 2016/2017 are already in progress and no identified slippage has been identified. This should not undermine our ability to keep expenditure within budget in 2016/17.

Budget Assumption	Financial Standing and Management
5. Government support.	The following assumptions have been made in the preparation of the Medium Term Financial projections in respect of Government support: • The estimates for 2016/17 are based on the provisional financial settlement notified by the Department for Communities and Local Government (DCLG) in December 2015. The final settlement is expected to be announced in February 2016 and any significant differences will be reported to Full Council on 12th February 2016. • The medium term financial projections reflect the proposed reductions in Revenue Support Grant (RSG) as it is top-sliced to fund the growth in the New Homes Bonus (NHB). • The budget assumes an increased use of New Homes Bonus (NHB) to £1.750m to support the revenue budget in 2016/17. The potential growth of income from the NHB, and the fact that it is being top-sliced from the RSG, means that the Council has little alternative but to regard this money as an important part of its income stream and is therefore assumed to be base funding across the period of the MTFS. The value of NHB across the MTFS is capped at £2.1m to help mitigate the risk of a dramatic fall in the level of housing development across the district although this may need to be reconsidered once we are aware of the outcome of the Government consultation on the future of NHB. • The budget for 2016/17 includes assumptions for business rates based on estimates of collection rates, bad debts, appeals, reliefs (mandatory and discretionary) and assumed government share and levy rates. The medium term financial projections make no provision for the impact of future changes in the mechanism for operating local business rates retention but this budget uses a reserve to help mitigate the risk of any future fluctuations from previous years' one-off deficits. Despite the uncertainty over future government funding, I am comfortable that the Council has been sufficiently prudent in budgeting for reductions in government support, including dealing with the uncertainty of business rates and NHB receipts.

Budget Assumption	Financial Standing and Management
6. Proposed level of council tax.	In setting the level of council tax, Members need to be mindful of the impact of the decision on the MTFS and future funding gaps. Members also need to acknowledge that the Localism Act 2011 contains requirements for local authorities to hold a referendum where council tax is proposed above a specific increase (2% in 2016/17). For the past five years the Council has frozen its council tax precept at £187.12 a year for a Band D taxpayer. In proposing this course of action, the Council has borne in mind the difficult economic and financial climate that many of our residents face. However, during the period of the freeze our funding from Central Government has deteriorated sharply, and the Council needs to be aware of the difficulty of continuing the freeze beyond 2015/16. The MTFS projections assume a council tax increase of 1.99% per annum from 2016/17. Council tax is the main source of locally-raised income for this authority and has previously been referred to by DCLG as 'an important source of funding which is used to meet the difference between the amount a local authority wishes to spend and the amount it receives from other sources such as government grants.' Whilst I can endorse this statement from DCLG it is difficult to realise with a 2% referendum cap in place. In previous financial settlements the Government stated that the freeze grant will be rolled into the spending review baseline. This was interpreted as a commitment to the funding being available for future years to ensure councils continue to be fully compensated for not increasing council taxes in previous years. Although the previous years' council tax freeze grants are included within the settlement, these grants will then be effectively removed through the phasing out of RSG and significantly reduced NHB allocations in future years. Had the Council known these grants would be so reduced it is 'possible' it would have decided to forego them, instead increasing council tax and thereby guaranteeing that level of funding for future years. Had the Council increased council tax by 1% per annum for the last 5 years it would now benefit from circa £400k additional income within its base budget. There appears to be an important shift in the Government's principles, most noticeably, the shift away from freezing council tax to using council tax to generate additional funding. Given that this budget relies on the use of reserves to generate a balanced budget in 2016/17, I am of the opinion that council tax cannot be frozen for a sixth consecutive year for the reasons outlined above as it would carry significant risks in future years. I am therefore minded to support a council tax increase of 1.99% as this will avoid the requirement for a referendum (cost c£50k) for council tax increases over the government cap of 2%.

Budget Assumption	Financial Standing and Management
7. Medium Term Financial Strategy (MTFS) – the strategy for closing the projected funding gap.	Sound financial management requires that the Section 151 Officer and Councillors have full regard to affordability when making recommendations about the local authority's future revenue and capital programme. The 2016/17 budget includes medium term financial projections of the projected funding gap over the next 3 years. The budget strategy and process report (reported to Cabinet 13th October 2015) outlines the strategy for closing the funding gap which includes savings targets rather than necessarily specific worked up projections of cost savings and includes further shared services; asset management reviews; future waste initiatives and savings targets for commissioning reviews. The Council has traditionally provided 'one off' funding for investment in systems or staff costs i.e. additional short-term resource, redundancy / pension costs funded from savings or earmarked reserves. The Council's approach to modelling and monitoring the MTFS and planning for meeting future funding gaps outlined in the budget strategy demonstrates robust and effective planning for closing the funding gap and is effectively scrutinised.
8. The authority's capacity to manage in-year budget pressures.	The authority has proven its ability to manage in-year budget pressures with no recorded overspends in recent years. Improvements to our Devolved Budgetary Control scheme have improved our management of cash limited budgets. During the last two financial years the Senior Leadership Team has taken in-year action to prevent potential overspends.
9. The strength of the financial information and reporting arrangements.	The Council has strong internal and external reporting standards. Quarterly management reports are made to the Cabinet and Senior Leadership Team. These procedures have allowed firm management of any projected overspends (see 8 above). These reports have been enhanced with detailed financial commentary and clear direction with regards to in-year virements which aids transparency and full scrutiny.
10. The authority's virement and end of year procedures in relation to budget under/overspends at authority and departmental level.	The Council's virement and carry forward rules are clear. The Council is operating management disciplines to ensure management and policy actions are considered in relation to overspending budgets. Generally virement is considered at a corporate level against corporate priorities, including the contribution towards the optimal level of general fund reserves. The Council's Devolved Budgetary Control scheme gives managers flexibility to manage budget variations within their services. Service overspends may be clawed back from future budgets.
11. The adequacy of the authority's insurance arrangements to cover major unforeseen risks.	The Council's insurance arrangements are considered adequate. The Council does self-insure and has reserves to meet any excesses relating to claims. No uninsured risks have been identified.
12. The approach to financing the maintenance programme.	The Council has £600k built into the base revenue budget to fund the annual maintenance budget of the property portfolio. The maintenance schedule of planned commitments has been established to 2018/19 and will be reviewed by the Asset Management Working Group on an annual basis.

Given consideration of the above factors and the detailed scrutiny of the budgets that has been undertaken this year I can give positive assurance on the robustness of the budget estimates.

3. ADEQUACY OF RESERVES AND BALANCES

The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require 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.

Within the statutory and regulatory framework it is the responsibility of the Section 151 Officer to advise the authority on its level of reserves that should be held and to ensure that there are clear protocols for their establishment and use. Councillors, on the advice of the Section 151 Officer, should make their own judgements on such matters taking into account local circumstances. The adequacy of reserves can only be assessed at a local level and requires a considerable degree of professional judgement. The assessment needs to be made in the context of the authority's MTFS, its wider financial management, and associated risks over the lifetime of the plan. The Secretary of State has reserved powers to set a minimum level of reserves to be held by councils if required.

Reserves should not be held without a clear purpose. Should it be considered that the level (or proposed levels of reserves) is inadequate then a report must be made to Council outlining how this has arisen and what action should be taken to prevent a reoccurrence in subsequent years.

As part of the annual budget setting process and in reviewing the MTFS, the Council needs to consider the establishment and maintenance of reserves. These can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
- a means of building up funds (earmarked reserves) to meet known or predicted requirements.

GENERAL (WORKING) BALANCES – CALCULATION OF OPTIMUM LEVEL

There are two approaches for deciding the optimum level of working balance. One approach is to apply a percentage range to the Net Budget Requirement, currently assessed as between 5% and 10% or a level between £0.7m and £1.4m. The alternative is a level based upon a risk assessment of the budget. In 2015/16 the Section 151 Officer has used a risk based approach to assess the appropriate level of general balances.

The framework for assessing the risks surrounding the budget needs to consider the following:

- Inflationary pressures.
- Pension Fund changes.
- Planned economy measures/service reductions.
- Interest rate variations.
- Volume variations on demand-led services such as planning charges, land charges.
- New services/initiatives.
- The risk of litigation.
- Emergency planning.
- Financial guarantees.
- Grant income.
- Future budget projections.

	Area of Risk	Explanation
1.	Inflationary Pressures	Historically the cost of pay awards has caused major variations to budget estimates. As at December 2015 it appears likely that there will be pressure to pay more than a 1% pay award in 2016/2017. A provision of £82,000 (1%) is recommended within the working balance to offset this risk. Inflationary risks on other costs are a factor elsewhere. The Ubico contract is driven by fuel and pay increases and a provision of 1% on the 2015/16 contract value suggest a figure of £66,400 should be kept as a provision in the working balance.
2.	Pension Fund Changes	The 2013 triennial review has brought a degree of certainty to future pension costs for 2014-2017. These should not impact adversely on the Council in the next 12 months so no specific provision is required at this point.
3.	Planned savings measures	The Medium Term Financial Plan includes numerous work streams for 'bridging' the Council's funding gap. Slippage can occur and the 'Bridging the Gap' Strategy uses a Red Amber Green (RAG) system for identifying those work streams at risk of slippage. Currently the strategy notes £200k of work streams considered 'amber' in terms of delivery and so these are accommodated within the working balance. The Council's base budget includes an annual target of £350k to recognise staff vacancy management. A smaller workforce coupled with reducing opportunities in a depressed public sector could impact on this budget principle and therefore a 25% allowance, equivalent to £87.5k for this is included within the working balance.
4.	Interest rate variations	The current very low level of investment rates suggest that there is little down-side risk at present and no specific provision is recommended for 2016/2017.

	Area of Risk	Explanation
5.	Volume variations demand led	During the economic downturn the Council was vulnerable to drops in key income streams, e.g. planning fees, car parking income etc. Our budget projections reflect current levels of income but a 1% provision amounting to £103,200 to reflect the volatility is recognised in the working balance.
6.	New services/ initiatives	No new initiatives have been identified that require specific provision within the working balance.
7.	Risk of litigation contingency	During 2015/2016 the budget has come under pressure as a result of the cost of planning appeals and other judicial challenges. The costs are uncertain but in recognition of current intelligence a provision of £350,000 is recommended.
8.	Emergency planning	Whilst the government will step in to assist in the event of a major disaster there are thresholds at which assistance is given. This threshold is 0.2% of the net budget. Financial support is then given at 85% of costs above this level. Provision of £1m would cost this Council £170,000; the cash flow impact would need to be handled from invested capital resources.
9.	Financial guarantees/ contingent liabilities	Run-off of the old Municipal Mutual Insurance claims has begun but no provision is required at this stage. The Joint Core Strategy continues to require ongoing resource and a provision of £50k is included should the risk of additional costs arising be realised.
10.	Grant income	No new grant streams are anticipated in the 2016/2017 budget. No risks have been identified around existing grant flows that require specific provision in the working balance.
11.	Business rates retention	As part of the pooling arrangement, the Council could be required to contribute to large scale revaluations such as occurred with Virgin Media via Tewkesbury Borough Council. Provision for such occurrences should therefore be included within the working balance and as such £150,000 is estimated.

The assumptions above total £1,259,100 suggesting that we strive to maintain a working balance around this figure during 2016/17. The Council should not allow the working balance to fall below this figure. The current working balance is £1,408,591.

EARMARKED RESERVES

In order to assess the adequacy of earmarked reserves when setting the budget, the Chief Finance Officer should take account of the strategic, operational and financial risks facing the authority. Accepting that there are still some areas of uncertainty, the level of reserves appears adequate at this point in time and no other changes are currently recommended.

Whilst the majority of these reserves are held for specific purposes, there are three reserves which are available to help meet the cost of any changes as the Council meets the challenges of future funding reductions; these are:

	Balance projected at 31st March 2016 £
Budget Strategy (Support) Reserve	737,129
Pension Reserve	177,246
New Initiatives Reserve (2020 Vision)	400,000
	1,254,375

In determining the budget strategy in October 2015, the Section 151 Officer recommended the creation of a specific earmarked reserve: a 'budget strategy (support) reserve', to provide greater resilience. The new reserve may also secure the Council against short-term challenges which we know we will encounter in the coming year such as the one-off drop in business rates income in 2016/17 due to redevelopment, and the delay in securing car park income of £350k a year from the North Place development. The budget proposals rely on the drawdown of part of this reserve in 2016/17. The balance of £337,192 will give the Council time to work up its strategy for delivering substantial savings over the next 4 year period.

A significant level of risk to this authority remains due to the volume of outstanding business rates appeals which are being processed by the Valuation Office.

The projected balance within the Business Rates Retention (BRR) equalisation reserve at 31st March 2016 is £1,123.916, and the budget proposals utilises this reserve in 2016/17. I recommend to Council that this is a prudent use of the balance held in the BRR earmarked reserve as it is being used to cover deficits that have arisen in the current year mainly as a result of successful appeals for Doctors surgeries and is also being used to cover the one-off drop in business rates income outlined above.

I have reviewed the revenue reserves and propose the transfers as identified in Appendix 6. I also consider that the financial reserves and working balance as proposed in these papers are adequate to fund spending plans for 2016/2017 and give a firm basis for the years 2017-2020. However, given the proposed front-loaded cuts in RSG and the uncertainty surrounding NHB in the future, I recommend that any future underspends or fortuitous windfalls are earmarked for transfer to either general balances or the budget strategy (support) reserve.

4. OVERALL CONCLUSION

There is a legal requirement under the Local Government Act 1992, section 32 and 43 to set a balanced budget. The budget proposals includes budgets for expenditure and income and uses reserves to fund one off expenditure, fund future expenditure or phase in the impact of increased expenditure per the MTFS without drawing on the General Reserve.

I am, therefore, satisfied that the proposed budget is balanced and meets the legal requirement to set a balanced budget.

My overall view is that the budget is a sound response to continuing challenging financial circumstances, which maintains services, maximises efficiencies and responds to anticipated future financial challenges.

In line with statutory duties, Members are asked to consider the advice provided in this report, based upon my assessment of the robustness of the overall budget and estimates in the medium term financial projections.

PAUL JONES
Section 151 Officer