Section 25 of the 2003 Local Government Act - Budget Assessment – Report of the Director of Resources (Section 151 Officer) APPENDIX 10

Statement of the Section 151 Officer

The purpose of this report is to fulfil the legal requirement under Section 25 of the 2003 Local Government Act for the Section 151 Officer to make a report to the authority when it is considering its budget, council tax and housing rents (see separate report to Council) covering the robustness of estimates and adequacy of reserves. The Act requires Councillors to have regard to the report in making decisions at the Council's budget and council tax setting meeting.

In making this report I have considered the risks arising from it, outlined in the table below, and the councils 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 and outcome for the Icelandic banks.
- Approach to budgeting for income is prudent.
- Given the modelling projections, the approach taken in building into the base budget some of the New Homes bonus receipts in the MTFS is prudent.
- The MTFS assumptions, including future cuts in government support, are prudent and planning for meeting future funding gaps remains effective.
- The approach to financing maintenance is an acceptable response to the financial squeeze. Looking ahead, the need to model and prioritise future investment aspirations is becoming increasingly important.
- The level of reserves, including the General Reserve, is satisfactory.

Overall conclusion

My overall view is that the budget is a reasonable response to very challenging financial circumstances, which maintains services as far as possible, maximises efficiencies and plans for future financial challenges.

Members are asked to consider the advice provided in this report, in line with statutory duties placed on Members, based upon my assessment of the robustness of the overall budget and estimates in the Medium Term Financial Strategy.

Area of risk	Council's approach	Potential Risks	Mitigation	Section 151 Officer assessment
1. Robustness of the estimates **Inflation – do supplies and services budgets allow sufficient for inflation?**	1.1 Contract inflation has been allowed for at the appropriate contractual rate e.g. utilities budgets reflect negotiated rates. 1.2 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 services levels.	Policy reviewed annually as part of the budget setting process. The growth proposal for additional tree maintenance budget is an example of such a review being addressed.	**I am of the opinion that service managers have sufficient budgets to fund supplies and services expenditure in order to maintain existing service levels.**
Employee costs i.e. pay / turnover targets / pension costs – are budgets sufficient?	1.3 In line with government policy, employee budgets for 2012/13 do not allow for a pay award but allow for contractual incremental progression for some staff below the top of their grade. 1.4 The net cost of service assumes an employee turnover saving of around 3% of gross pay budget which equates to an estimated annual saving of c£480,000. 1.5 The MTFS allows for pay awards for 1% for 2013/14 and 2% thereafter.	There is uncertainty over the pay freeze Given the impact of the economic climate and commissioning of services, there may be less CBC turnover / saving. Given inflationary pressure and prolonged period of pay freeze there may be upward pressure on pay above 2%	Fund any additional budget in 2012/13 from the General Reserve and build into base budget for 2013/14. Based on previous year's experience this has been achieved but needs to be closely monitored in the significant change in service delivery models. Review MTFS projections regularly and feed into BtG group / SLT.	**I am satisfied that the Council has sufficient budgetary provision for employee related costs in 2012/13 and is being prudent in planning for potential future increases in pay and pension fund costs in the MTFS.**

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	1.6 The budget provides for existing pension contribution rates and the MTFS allows further increases in contribution rates at the next triennial revaluation in 2013.	Uncertainty in the economy / fund performance and lack of agreement over pension changes may increase pension fund deficits.	Review based on actuarial advice. National negotiations over reducing pension benefits may improve the sustainability of the pension fund.	
Treasury Management – are budgeting assumptions prudent and the approach to treasury management risk tolerable?	1.7 Despite previous significant investment returns, the treasury management budgets are now based on sustained low interest rates and no increase is factored into the MTFS. 1.8 The budget assumes the reversal of some of the 'writing off' of assumed loss of Icelandic bank deposits following the Icelandic supreme court decision confirming priority status for local authorities based on notified potential distribution levels. 1.9 The Council adheres to the CIPFA Code of Practice for Treasury Management 2002 and updates its Policy and Strategy statements annually. The Annual Investment Strategy, which sets the treasury management parameters within which Officers operate, is regularly reviewed on the advice of external advisors and annually approved by the Treasury Management Panel / Council.	Fluctuating interest rates / investment income could impact on the net cost of services. Actual distributed receipts may be subject to fluctuations in exchange rates. Given the uncertainty in the economy and financial institutions, there may be a risk to future deposits.	The Council has reduced it's reliance on investment interest to support the net budget and in turn reduced the risk and impact of the volatility of interest rates on the budget. Adjust future residual capitalisation write off to reflect actual receipts. The Investment Strategy is reviewed annually to ensure security of public money. Following the banking crisis, treasury advisors, ArlingClose, continue to advise the Council and TMP on policy.	**I am satisfied that, given the prevailing low interest rates, the budgeting assumptions for investment interest and the likely outcome for Icelandic banks are reasonable; the treasury policy is in accordance with external advice and that treasury related decisions (as measured by these indicators) are in accordance with the prudential code.**

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	1.10 In line with the code, prudential indicators which measure the financial impact of treasury and borrowing decisions are included in the Annual Investment Strategy. The indicators for 2012/13 include the implications of the borrowing for the HRA to facilitate self financing and removal from the housing subsidy system.	Borrowing limits could be exceeded	Prudential indicators are monitored and reported to TMP./ council	
Income, Charging and Demand - are estimates at realistic and sustainable levels?	1.11 The Council provides a number of demand led services e.g. car parking, land charges, leisure@cheltenham etc. The estimates for 2012/13 have been prepared on the advice of officers who have taken a professional view on income levels, based on their opinion about the continued impact of the economic downturn. 1.12 No assumptions have been made in the MTFS in respect of improving income levels, although it assumes inflationary increases in all fees and charges. 1.13 The Council operates in some highly competitive markets and fees and charges can be determined by managers following benchmarking against the competition.	Existing income levels may not be sustainable. Inflationary increases may not be achievable in the current climate. Inflexibility may mean that services cannot respond to the market and loose income.	Car parking income targets have been reduced by a further £100k. Regular monitoring and reporting to Cabinet on significant variances in income streams. Keep MTFS assumptions under review and feed into BtG programme. Changes to fees and charges are not restricted to the annual budget setting. The scheme of delegation allows for changes in pricing to be implemented during the year.	**Overall, I am satisfied that the estimates for income are based upon reasonable assumptions which take into account the prevailing economic conditions and that monitoring arrangements are in place.**

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Government support – are the assumptions prudent?	1.14 The estimates for 2012/13 provide for the financial settlement notified by the Department for Communities and Local Government (DCLG) which is in line with the Government's Comprehensive Spending Review (CSR10). 1.15 Whilst there is no indication of future years funding proposals, the MTFS assumes a further 5% cut in 2013/14 and 2014/15. 1.16 The MTFS considers the considerable changes in funding stream resulting from local business rates retention from April 2013. 1.17 The budget assumes £250k is top sliced from the New Homes Bonus (NHB) and built into the base revenue budget, based on NHB income receipts over the period of the MTFS as a result of additional numbers already delivered.	Uncertainly over future funding could result in the council making insufficient allowance for future reductions in government funding. May reduce income if no growth in business rates. This may not be a sustainable income stream if houses are not built.	The section 151 Officer monitors relevant government policy and uses other councils to compare budgeting assumptions. County wide Section 151 officers are jointly working to assess implications. Assumptions are based on a prudent view of potential levels of NHB and compared with neighbouring councils.	**Despite the lack of clarity over future government funding, I am comfortable that the council has been sufficiently prudent in budgeting for further reductions in government support.**
2. Medium Term Financial Strategy (MTFS) and strategy for 'Bridging the Gap (BtG) – are the assumptions reasonable? ***NB: Sound financial management requires that the Section 151 Officer and Councillors have full regard to affordability when making***	2.1 The MTFS predicts the funding scenario and estimates the funding gap for the next 5 years modelled using various scenarios. 2.2 The MTFS assumes savings / additional income from the 'BtG' programme from shared services / partnerships, commissioning and creation	Actual projections may vary from predictions. Lack of forward planning for cuts could results in salami slicing of	Annual reviews of MTFS projections approved by council. The 'BtG' programme meets monthly and receives updates of MTFS / 'BtG' work	**The council's approach to modelling and monitoring the MTFS and planning for meeting future funding gaps remains effective.**

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recommendations about the local authority's future revenue and capital programme.	of the LAC. 2.3 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 the General Reserve.	budgets. Benefits realisation of projects may not deliver as planned. If opportunities to avoid redundancy costs are not managed, the General Reserve is placed under pressure.	streams. Project boards have robust performance management controls and monitoring which feed into 'BtG' / SLT monthly monitoring reports. Careful workforce planning and vacancy management continues and is monitored by SLT. The level of the General Reserve is held at an appropriate level to provide a reasonable level of assurance.	
3. Proposed level of council tax increase – is it a reasonable? ***NB: 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.***	3.1 The final budget proposals assume a council tax freeze for 2012/13 which is in line with the Government's aspiration. This will cost the Council c£199k in lost income based on the originally planned council tax increase of 2.5% funded by government grant for 1 year only. The budget does not consider raising council tax at 2.5% or above. 3.2 The MTFS models 4 years of grant for the freezing the council tax in 2011/12 and the impact of its withdrawal.	The limited government support increases pressure on the funding gap in 2013/14.	The 'BtG' programme plans for future funding gaps. Avoided proposed government requirement for a referendum for increases over 3.5% thereby avoiding expense / impact on community.	**Given the support offered by the government in freezing council tax, the decision to freeze council tax is reasonable and the impact on the MTFS has been considered.**

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4. Is the approach to financing the maintenance programme and the Asset Management Plan (AMP) sound?	4.1 The Council is not yet in a position where it has enough money built into the base revenue budget to fund the annual maintenance budget (circa £1.4m) for the property portfolio. As a result, an incremental increase in revenue contribution to fund planned maintenance is factored into the MTFS. The budget assumes a deferral of the proposed £200k increase in revenue contribution to the reserve which funds the repairs and maintenance programme. 4.2 The Council's AMP set the general direction for its assets. The fully costed "shopping list" of aspirations for the Council's property portfolio including capital and revenue implications / funding options is outstanding.	There may be insufficient annual budget to fund maintenance programmes. The receipt from the Midwinter site and North Place / Portland Street, could be used in an ad hoc manner.	The maintenance programme is reviewed by the Asset Management Working Party (AMWP). The funding strategy for the planned maintenance programme is annually reviewed to ensure that the programme can be financed. Costing of the AMP is underway which will indicate what can be afforded from existing resources / future capital / potential prudential borrowing.	**The assumptions for financing the capital programme and the planned maintenance programme in the 2012/13 budget are reasonable. In moving forward, the Council must continue to ensure that it maximises the use of, and minimises the cost of, its asset portfolio.**
5. Are the councils Reserves at reasonable levels? **NB: The requirement for financial reserves is acknowledged in statute. Section 32 and 43 of the Local Government Finance Act 1992 requires billing authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.**	5.1 The final budget proposals include a schedule of the reserves held by the Council, stating their purpose together with actual and proposed changes between years. 5.2 The MTFS provides a longer term projection of reserves indicating a gradual reduction in the level of reserves over the next 5 years. This reflects the use of some of the earmarked reserves set aside to fund specific spending plans e.g. pensions, Art Gallery and Museum development. At the end of the 5 year period of the MTFS, the total level of reserves, including the	Reserve levels may not be sufficient.	These are reviewed on a regular basis and have been again in the process of finalising the budget proposals.	**Overall, I am satisfied that the projected levels of reserves, including the level of the General Reserve, are adequate for the forthcoming year.**

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Within the statutory and regulatory framework it is the responsibility of the Section 151 Officer to advise the authority on its level of reserves. 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.	General Reserve, is estimated to be circa £3.8m 2017/18. 5.3 The planned maintenance reserve is reduced over the period of the MTFS. 5.4 On the advice of the Section 151 Officer, the Council has previously agreed to maintain its General Reserve at approximately 10% of net operating expenditure, or a level between £1.5m and £2m. This remains my advice. 5.5 The Council has managed to deliver services without calling on the General Reserve. 5.6 The council places reliance protection provided by earmarked reserves.	Insufficient funding for annual maintenance Pressure on GR from the need to drive out savings / funding of one off investment e.g. commissioning etc. Opportunity cost of holding reserves. Potential to increase the risk of use of GR.	The MTFS assumes increases in the contribution to the annual budget for maintenance. 2012/13 budget proposals maintain the General Reserve at c£2m. Regular reviews of reserve levels and increase General Reserve when opportunities arise. Reserves reviewed regularly. Reduced number of specifically earmarked reserves over recent years.	
6. Is the budget balanced? **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 use of one off reserves to either fund one off expenditure, creates reserves to fund future expenditure or phase in the impact of increased expenditure as per the MTFS without drawing on the General Reserve.	Unsustainable budget supported by the General Reserve.	Annual S151 Officer budget assessment	**I am satisfied that the proposed budget is balanced and therefore meets the legal requirement to set a balanced budget.**