Section 25 of the 2003 Local Government Act - Budget Assessment – Report of the Director of Resources (Section 151 Officer) **APPENDIX 9**

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 more of the New Homes bonus receipts in the MTFS is prudent.
- The medium term financial planning assumptions, including future cuts in government support, are prudent and the development of the budget strategy for closing the projected budget gap is a significant step forward in responding to reducing financial resources.
- The approach to financing maintenance is an acceptable response to the financial squeeze. Looking ahead, the need to model and prioritise future investment aspirations will become a key piece of work should the council benefit from a significant capital receipt.
- The level of reserves, including the General Reserve, is satisfactory.

Overall conclusion

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

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 the additional cost of postage 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 Employee budgets for 2013/14 allow for a pay award of 1% plus 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 In line with the Chancellors autumn statement the medium term financial projections allow for pay awards for 1% for	There is uncertainty over the pay award Given the impact of the recession and commissioning of services, there may be less staff turnover resulting in savings that may be more reduced or more difficult to realise. Given inflationary pressure and prolonged period of	Fund any additional budget in 2013/14 from the General Reserve and build into base budget for 2014/15. Based on previous year's experience this has been achieved but needs to be closely monitored in the significant change in service delivery models. The expectation of partner organisations is being clarified. Review MTFS projections regularly and feed into BtG	**I am satisfied that the Council has sufficient budgetary provision for employee related costs in 2013/14 and is planning for potential future increases in pay and pension fund costs in the MTFS based on the most up to date information available.**

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	2014/15 and 2015/16 and 2% thereafter.	pay freeze there may be upward pressure on pay above 1%	group / SLT.	
	1.6 The budget provides for existing pension contribution rates and the medium term financial projections allow for further increases in contribution rates at the next triennial revaluation in 2013 which have been revised upwards from 1% to 2% per annum to reflect informal discussions with the actuary.	Uncertainty in the economy / fund performance and lack of clarity over the impact of pension changes may increase pension fund deficits.	Review based on actuarial advice. National decisions over reducing pension benefits and increasing employee contributions may improve the long term sustainability of the pension fund. The council's pension reserve may be used cushion / phase in any additional increases.	
Treasury Management – are budgeting assumptions prudent and the approach to treasury management risk tolerable?	1.7 Despite historic 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 a reduced level of 'write 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.	Fluctuating interest rates / investment income could impact on the net cost of services. Actual distributed receipts may be subject to fluctuations in exchange rates.	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.	**I am satisfied that, given the prevailing low interest rates, the budgeting assumptions for investment interest and projected returns 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**

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	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. 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.	Given the uncertainty in the economy and financial institutions, there may be a risk to future deposits. Borrowing limits could be exceeded	The Investment Strategy is reviewed annually to ensure security of public money. Following the banking crisis, treasury advisors, Sector, continue to advise the Council and TMP on policy. Prudential indicators are monitored and reported to TMP/ council	**prudential code.**
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, building control charges, Leisure@cheltenham etc. The estimates for 2013/14 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 medium term financial projections in respect of improving income levels, although it assumes inflationary increases in some fees and charges. 1.13 The Council operates in some highly competitive markets and fees and charges can be determined by managers following	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	Car parking income targets have been reduced by a further £50k, trade waste by £50k and building control by £20k. Regular monitoring / reporting to Cabinet on significant variances in income. Keep MTFS assumptions under review and feed into BtG programme. Changes to fees and charges are not restricted to annual	**Overall, I am satisfied that the estimates for income are based upon reasonable assumptions which take into account the prevailing economic conditions and that effective monitoring arrangements are in place.**

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	benchmarking against the competition.	the market and loose income.	budget setting. The scheme of delegation allows for in year changes to be made.	
Government support – are the assumptions prudent?	1.14 The estimates for 2013/14 and for 2014/15 are based on the financial settlement notified by the Department for Communities and Local Government (DCLG) on 19/12/12. 1.15 The medium term financial projections assume a standstill level of government support beyond 2014/15 plus the fallout of the council tax freeze grant support. 1.16 The medium term financial projections make no provision for the impact of considerable changes in funding streams resulting from local business rates retention from April 2013. 1.17 The budget assumes £450k is top sliced from the New Homes Bonus (NHB) and built into the base revenue budget and to support planned maintenance budgets, based on NHB income receipts over the period of the MTFS as a result of additional numbers already delivered.	There may be further government funding cuts beyond 2014/15 May reduce income if no growth in business rates. This may not be a sustainable income stream if houses are not built.	Section 151 Officer monitors relevant government policy and uses other councils to compare budgeting assumptions which may need to be reflected in future MTFS projections. A county wide pooling arrangement has been agreed to help mitigate risk. Assumptions are based on a prudent view of potential levels of NHB and compared with neighbouring councils.	**Despite the uncertainty over future government funding, I am comfortable that the council has been sufficiently prudent in budgeting for reductions in government support and potential New Homes Bonus receipts.**
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***	2.1 The 2013/14 budget includes medium terms financial projections and funding gap over the next 5 years. 2.2 The 2013/14 budget outlines the strategy for closing the funding gap which includes estimates savings / additional	Actual projections may vary from predictions. Lack of forward planning for cuts could results in	Annual reviews of MTFS projections approved by council. The 'BtG' programme monitors the financial projections / 'BtG'	**The council's approach to modelling and monitoring the MTFS and planning for meeting future funding gaps**

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and Councillors have full regard to affordability when making recommendations about the local authority's future revenue and capital programme.	income from the 'BtG' programme e.g. shared services / partnerships, the creation of Ubico, the Leisure and Culture commissioning review and the accommodation strategy. The projections indicate that there may still be an unresolved gap of c£300k. 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.	salami slicing of budgets. Projects may not deliver savings as planned and unplanned cuts may have to be made. If opportunities to avoid redundancy costs are not managed, the General Reserve is placed under pressure.	work streams. There are still outstanding workstreams to be included for Ubico, future council's programme which may close the gap. 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.	**outlined in the budget strategy demonstrates more robust and effective planning for closing the funding gap.**
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 2013/14 in line with the Government's aspiration. This will cost the Council c£180k in lost income based on the original planned council tax increase of 2.5% partially offset by a government grant of £72k (1%) for 2 years only. The funding shortfall is being offset by savings / other income. 3.2 The medium term financial projections include the grant for freezing the council tax in 2013/14 (2 years) and model the impact of the withdrawal of previous council tax freeze funding.	The limited government support increases pressure on the funding gap in 2013/14 and over the period of the MTFS.	The 'BtG' programme plans for future funding gaps. Avoids requirement for a referendum (cost c£50k) for council tax increases over 2% thereby avoiding expense and the	**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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	3.3 The medium term financial projections models future council tax increases at 2% per annum from 2014/15 onwards.		financial impact on residents of a council tax increase.	
4. Is the approach to financing the maintenance programme and the Asset Management Plan (AMP) sound?	4.1 The Council has £693k built into the base revenue budget to fund the annual maintenance budget of the property portfolio. Previously, an incremental increase in revenue contribution to fund planned maintenance was factored into the MTFS to increase the budget annually. The 2013/14 budget assumes that the future increases in funding for the programme will be funded from New Homes Bonus rather than the revenue budget. Work is underway to update the estimates of the annual budget requirement to reflect the council's asset management strategy. 4.2 The Council's AMP outlines the strategy for its assets. The fully costed "shopping list" of aspirations for the Council's property portfolio including capital and revenue implications / funding options is being developed but has yet to be agreed by council.	There may be insufficient annual budget to fund maintenance programmes if new homes bonus does not materialise. The receipt from the Midwinter site and potential receipt from 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 new funding strategy for the planned maintenance programme was supported by the Budget Scrutiny working Group. The funding approach is annually reviewed to ensure that the programme can be financed. Council will need to agree an allocation of existing resources / future capital receipts/ potential prudential borrowing to support its priorities.	**The assumptions for financing the capital programme and the planned maintenance programme in the 2013/14 budget are reasonable. In moving forward, the Council must continue to ensure that it maximises the use of / minimises the cost of its asset portfolio.**
5. Are the councils Reserves at reasonable levels? **NB: The requirement for financial**	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.	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**

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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. **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.**	5.2 Due to the significant number of factors impacting of local government finances, the council's MTFS, which provides a longer term projection of reserves over the next 5 years, has yet to be updated. 5.3 The planned maintenance reserve is to be supported by New Homes Bonus funding 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 (GR) at approximately 10% of net operating expenditure, or a level between £1.5m and £2m. This remains my advice. 2013/14 budget proposals maintain the General Reserve at c£1.6m. 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.	Uncertainty over NHB may result in insufficient funding for annual maintenance Pressure on GR from the need to drive out savings / funding of one off investment e.g. commissioning etc may reduce it below the tolerance level. Opportunity cost of holding reserves. Potential to increase the risk of use of GR.	2012/13 projections indicate trajectory of reserve levels. The MTFS including longer term reserve projections will be updated in April 2013. Approach to be reviewed annually. Regular reviews of reserve levels and increase General Reserve when opportunities arise. Reserves reviewed regularly. Reduced number of specifically earmarked reserves over recent years.	**forthcoming year.**
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 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.	Unsustainable budget supported by the General Reserve.	Annual S151 Officer budget assessment	**I am satisfied that the proposed budget is balanced and meets the legal requirement to set a balanced budget.**