

**LOCAL GOVERNMENT ACT 2003 – REPORT BY THE CHIEF FINANCIAL OFFICER****1. SUMMARY**

- 1.1 This report assesses the risks arising from the budget proposed for 2018/19, and the adequacy of the available mitigations, in the context of the proposed reserves and the outlook for 2019/20 and beyond.
- 1.2 It concludes that the estimates as proposed are sufficiently robust to allow the Council to set the budget, but raises some concerns about the longer term sustainability in view of the uncertainties regarding the local government finances beyond 2021/22.

**2. INTRODUCTION**

- 2.1 The Chief Financial Officer has a statutory duty under Section 25 of the 2003 Local Government Act to make a statement on the adequacy of reserves and the robustness of the budget.
- 2.2 In the context of its service and financial planning the Council's overall approach to risk management is to take appropriate action to mitigate risks, or ensure that sufficient contingency exists, so that service provision is not threatened by unforeseen financial problems during the financial year.
- 2.3 Making changes to service provision at short notice in order to resolve a budget problem can have a number of undesirable consequences. These can include:
- (a) damage to the Council's reputation and customer relationships if advertised services are unavailable or delayed;
  - (b) failure to meet agreed performance targets;
  - (c) inefficiencies in overall service provision;
  - (d) associated costs of reducing service provision, such as staff redundancies, when planning changes over a longer timescale would allow greater flexibility; and
  - (e) potential problems for partner organisations that are dependent upon Council financial support to achieve agreed goals.
- 2.4 To avoid such problems the Council manages its financial risks by ensuring that its annual budget represents a reasonable estimate of the costs of providing agreed service levels. It also holds appropriate balances and reserves so that resources are available to allow a managed and considered response should any significant variations or emergencies arise.
- 2.5 This report considers:
- The robustness of the budget and key budget areas;
  - Adequacy of General Fund Balances
  - Review of Earmarked Reserves and Risks to Incentivised Income
  - Future Years beyond 2018/19

### 3. ROBUSTNESS OF THE 2018/19 ESTIMATES AND TAX CALCULATIONS

- 3.1 The council tax calculations for 2018/19 are based upon forecasts of expenditure, income and council tax revenues up to 31 March 2018. Clearly some significant assumptions need to be made in order to prepare these forecasts. When setting its council tax for 2018/19 the Council needs to be satisfied that these assumptions are reasonable. In order to ensure the robustness of the budgeting, the Council's budget process started in the Summer of 2017 and progressed with Cabinet's consideration of the MTFs in February 2018.
- 3.2 All areas of budgets have been reviewed by Heads of Service and their Cabinet members supported by finance officers. In addition a number of budgets are subject to overall cross-service review, including the Council's employee budgets.
- 3.3 Some comments on the areas of the budget having key financial impacts are set out below:

#### (a) Pay and Pensions

The budget includes provision for increases of 2% for 2018/19 and 2019/20 and continues to provide for annual progression through pay scales where this is part of the terms and conditions of employment. 1% change in pay amounts to around £100k per annum. In line with Public Sector Pay Restraint, the MTFs assumes a 1% increase from 2020/21 onwards.

From April 2014 the Local Government Pension Scheme has moved to a career average scheme that combines an increased accrual rate of 49ths with commensurate changes to employee contributions. Employers' superannuation payments due to the Suffolk County Council Pension Fund have increased from 16% to 22.9% from 2017/18 onwards. However, superannuation back funding for the past service element of pension costs has reduced to negate this increase.

The Council's establishment budget is based on a full establishment. To allow for in-year vacancy savings the budget includes an annual vacancy saving of £200k. This is based on previous years' out-turn.

#### (b) Price Increases

Provision has been made for known price increases including the effects of utilities and business rates. Unless specifically requested by services, the budget assumes any price inflation is absorbed by the service.

#### (c) Income from Fees and Charges

A significant part of the Council's costs continues to be met from fees and charges. Progress against income targets will need to be monitored throughout the year, particularly in the light of continuing economic volatility.

The budgeted increases in fees and charges are based on three key principles of cost recovery, market value and inflationary increases. The budget also includes those increases that are set and proposed by Government.

#### (d) Investment Income and Interest Payable

Since March 2009 interest rates have continued to produce low returns from investments. On 2 November the Bank of England lifted the bank rate from 0.25% to 0.50%, the first

increase since July 2007. Further rises are expected over the next three years at a gradual pace and to a limited extent.

Following advice from the Council's external treasury advisors Arlingclose the Council has invested £2.5m into a pooled Local Authorities Property Fund (LAPF) to increase return on investment and to also diversify the portfolio from just purely investing with banks and building societies.

The budget takes a cautious view on interest rates, making allowance in line with forecast inter-bank lending rates. It does not anticipate a rise to previous levels that would otherwise affect the Council's spending plans if they materialised.

**(e) Housing Benefit**

At a forecast £24 million this area remains one of the Council's largest financial transactions, which is subject to increasing risk and change. Welfare and benefit changes, and localised council tax support, which all began in April 2013, together with the planned introduction of Universal Credit, serve to make the existing arrangements more complex.

The Council has set aside a Benefit Verification Reserve to ensure that any difficulties that might arise from the implementation of the Universal Credit system in future years do not adversely impact on the Council's General Fund revenue budget.

Welfare changes will continue to be closely monitored in order to continue to protect the Council from any emerging risks and liabilities.

**(f) Business Rate Retention**

From April 2013, councils have been able to retain a proportion of the business rates generated within the district and benefit from business growth over the longer term.

As business rates is an increasingly important income source for the Council, measures for closer monitoring of the local economy and its performance, and the impact on business rates have been put in place.

Consequently at present under the Business Rates Retention system, the General Fund's maximum exposure to an adverse variance in business rates income would be the difference between the baseline and the safety net level that would be guaranteed by the Government. For 2018/19 this amounts to around £142k. The Council operates an earmarked Business Rate Equalisation Reserve to retain surpluses to cover for this possibility and subsequently transfer funding to the General Fund as appropriate. This is referred to in more detail in Section 6 of this report.

The Government issued an invitation to local authorities in England to pilot 100% Business Rates Retention in 2018/19 and to pioneer new pooling and tier-split models. Suffolk was one of the ten successful bids announced in the provisional Settlement issued on 19 December 2017, ten new successful pilots were announced, including Suffolk, which will be launched in April 2018. Being a Pilot will bring significant financial gain to Suffolk in 2018/19, enabling investment in economic growth projects, and providing some support to the sustainability of Suffolk authorities. The financial benefit to Waveney is estimated to be in the region of £1m and will be added to a newly created earmarked reserve in 2018/19. The Suffolk bid is likely to be fully allocated to inclusive growth initiatives.

**(g) Government Grant**

As part of continued public sector deficit reduction measures, and as part of moves to address social care expenditure pressures in local government, the Council has seen large reductions to Revenue Support Grant (RSG). The Council submitted an Efficiency Plan in acceptance of the Government's four year settlement offer up to 2019/20.

**(h) Council Tax Income**

The change from council tax benefit to council tax support in April 2013 saw a reduction in the tax base of some 6,000 Band D equivalents, with one implication being that the Council needed to try and recover council tax from low income claimants. Collection rates have been carefully monitored, and in calculating the 2018/19 tax base the Council was able to increase the estimated collection rate by 0.25% to 98.5% (98.25% for 2017/18).

**(i) Council Tax Levels**

In the 2018/19 Provisional Finance Settlement, Council Tax increase referendum limits in for shire districts have been increased from a maximum of £5 or 2%, whichever is the greater, to a maximum of £5 or 3%, whichever is the greater. For Waveney District Council, 3% equates to an increase of around £4.72, so this increase does not represent increased flexibility and £5 continues to be the relevant referendum limit. The 2018/19 Budget incorporates a council tax increase at a level of £4.86, in order to harmonise council tax levels with Suffolk Coastal.

**(j) Capital Investment**

The forecast costs of specific schemes included in the approved capital investment plans are based upon reasonable estimates of cost and capacity to deliver the programme set out. If additional works are proposed during the year, these will be subject to formal approval and the financial implications will need to be considered at that time.

Capital investment has been financed in accordance with the principles set out in the Council's Capital Strategy. The Minimum Revenue Provision is charged in the year following project completion, and the programme is affordable without the need to rely on future capital receipts.

The Council makes use of the Short Life Capital Assets Reserve to purchase a number of short life assets, such as vehicles and ICT acquisition and replacement. Funding of new assets from the Reserve is repaid over the life of the asset from the revenue budget recognising the use of the asset. This approach ensures that the Council's borrowing approvals are used for funding spend on assets with a longer life, such as land and buildings.

**(k) Transformation and Efficiency**

The Council has an enviable record of delivering its efficiency targets and once again the budget includes a number of efficiencies and savings that will need to be achieved in the coming year. However, finance settlements continue to make increasing demands on the Council to balance its resource and spending plans. Over the coming months the Council must continue to develop more innovative and some radical solutions to service delivery in order to address the estimated cumulative shortfall in resources. The Council remains committed to fund initiatives and projects that will produce savings or deliver additional

income in future years' revenue budgets and has sufficient earmarked reserves for this purpose.

- 3.4 The Council's integrated performance management process includes a requirement for Heads of Service to review progress against the budget on a monthly basis and for Cabinet to review the overall financial position every quarter. This review monitors revenue and capital budgets, major balance sheet items, cash flow and compliance with the Council's prudential indicators. In addition, key high profile General Fund revenue budgets are subject to additional review by the Council's Corporate Management Team on a monthly basis. This helps to ensure that the Council takes appropriate action to resolve any financial issues as they arise and reduces the possibility of significant unforeseen problems during the year.

#### **4. CHIEF FINANCE OFFICER BUDGET ASSESSMENT**

- 4.1 I hold the view that the assumptions made in preparing the Budget for 2018/19 are reasonable and that the resulting estimates and Council Tax calculations are robust.

#### **5. ADEQUACY OF GENERAL FUND BALANCES**

- 5.1 The Council holds a number of reserves and balances to enable it to plan and manage its finances soundly. The Council's General Fund is estimated to have a balance of £4 million as at 1 April 2018 with no further use anticipated for the future years (subject to on-going review). At that level the General Fund Balance is within the thresholds established as part of the MTFS and represents a strong component in the Council's overall financial wellbeing.

- 5.2 I consider that the General Fund Balance is adequate to:

- a) provide cover for a reasonable level of variation in spending or income in the case of reserves held to mitigate against possible future events;
- b) meet unforeseen variations in the assumptions underlying the budget;
- c) address the risks arising from the Government's transfer of business rates, council tax and welfare changes;
- d) meet expenditure in advance of income being received; and
- e) allow emergencies to be dealt with quickly.

- 5.3 With the significant financial challenges and opportunities facing the Council over the medium term, the Council should continue to maintain a robust level of General Fund Balance of about 3% to 5% of budgeted gross expenditure. This equates to about £4 million.

- 5.4 The main budget risks and sensitivity to the Council's key in-year income and expenditure variables are shown below. The Council has sufficient contingencies and balances to manage these key risks.

## Waveney District Council

## Review &amp; Risk Assessment of General Fund Revenue Balances 2018/19

Risk Area or Budget Head	Identified Risk	Budget 2017/18 £'000	Risk Likelihood/ Sensitivity %	Risk Value £'000
Pay Costs	Additional 1% on Pay Award	100	25%	25
Investment Income	Reduction in investment rates by 0.5%	140	10%	14
Interest Payable	Possible increase if variable debt is converted to fixed debt	445	10%	45
Car Parking Income	Economic, environmental, and market risks to income budgets	1,930	10%	193
Planning Fee Income	Economic, environmental, and market risks to income budgets	500	15%	75
Building Control Income	Economic, environmental, and market risks to income budgets	370	15%	56
Green Waste Income	Economic, environmental, and market risks to income budgets	1,050	20%	210
Land Charges Income	Economic, environmental, and market risks to income budgets	160	50%	80
Waste Recycling Income	Possible decline in dry recyclables market	1,000	20%	200
Housing Benefit Subsidy	Possible adverse variance on subsidy	23,633	0.5%	118
Housing Benefit Overpayments	Possible adverse variance on overpayments recovered	900	10%	90
Council Tax Support	Possible increase in caseload - Effect on Tax Base	850	10%	85
Homelessness Administration	Possible increased caseload resulting from economic factors and welfare changes	434	10%	43
Partnerships	Potential operational failures and need to implement transitional arrangements	500	10%	50
Savings and Efficiencies	Non-achievement of corporate savings and efficiencies targets	1,229	50%	615
Business Rates	Reduction in income to Safety Net level	142	75%	107
<b>Risk Value Sub Total</b>				<b>2,006</b>
Add: Contingency for unforeseen factors				200
<b>Total Risk Value</b>				<b>2,206</b>

## 6. REVIEW OF EARMARKED RESERVES AND RISKS TO INCENTIVISED INCOME

6.1 In addition to General Fund Balances, the Council holds a range of Earmarked Reserves as part of its overall financial management. Two of the most significant earmarked reserves that the Council currently holds have been built up from incentivised income areas under the current arrangements for financing local government. These reserves form an extremely important part of delivering a range of Council objectives and are subject to specific risks over the next few years. These are referred to in more detail below.

### Business Rate Equalisation Reserve

6.2 As referred to previously, the Council operates an earmarked Business Rate Equalisation Reserve to retain surpluses to cover for the possibility of business rates income falling. At present the General Fund Budget for 2018/19 and future years does not include contributions to or from this reserve. Increased use of business rates income in support of the budget constitutes an increased risk to the council, as this income is subject to uncertainty and volatility, especially in respect of economic factors and the need to make provision for appeals. In particular, business rates have been subject to a national revaluation which took effect in April 2017, which will inevitably lead to a large increase in appeals and the amount of income to be held back in provisions.

6.3 In addition, the Government has announced major changes to the Business rates system from either 2019/20 or 2020/21, the key principles of which will be 75% retention of business rates and the phasing out of general Government grant. Details of this proposal; how the system will be reset; and what new responsibilities local government will be expected to fund from business rates income, are now starting to be worked up by the Government, the LGA, and

local authority representatives, and will be subject to further consultation in the coming year. Consequently, the funding picture for 2019/20 onwards is one of major uncertainty.

### **New Homes Bonus**

- 6.4 The New Homes Bonus (NHB) is funding allocated to councils based on the building of new homes and bringing empty homes back into use. All new allocations of NHB are now forecast as being utilised in support of the budget, with no additions to the NHB reserve, the balance of which is now estimated to remain static at around £1.1m. NHB is now effectively being used as a source of core funding for the Council.
- 6.5 In consultation on the 2018/19 Local Government Finance Settlement, the Government stated that the threshold for baseline growth will be reviewed and notified later in the year at the time of the Settlement. The Consultation also proposed that reductions in the NHB allocations will be made to reflect the “quality of planning decision making”, with this reduction to be based on the number of successful planning appeals (not housing units) as a proportion of total number of planning applications. However, following consultation and representations from local authorities, these proposals are not being implemented in 2018/19, and the 2018/19 allocations notified in the provisional settlement are based on the current methodology.
- 6.6 It is important in this Chief Financial Officer report that the Council’s attention is drawn to the risks associated with such significant areas of the Council’s overall financing. If the budget gaps forecast in the MTFS are not addressed, then the reserves associated with these areas of incentivised income would be exhausted, as they will be required to close the budget gap and ensure that a legal budget is set before further use of the General Fund balance is made that would take it below the recommended minimum level.

## **7. FUTURE YEARS BEYOND 2018/19**

- 7.1 The Council is faced with significant challenges over the coming years. The Council will have to monitor the impact on its financial position and service provision arising from:
- (a) managing and addressing the impact of welfare changes on residents and the delivery of services;
  - (b) the introduction of Universal Credit;
  - (c) its success or otherwise in being able to promote a sustainable local economy in order to maintain and or increase its income derived from Government’s business rate retention scheme. As with the council tax reduction scheme, this reform places greater uncertainty and income risk on the Council; and
  - (d) ensuring that its planning policies continue to support a proportionate and sustainable growth in employment, the local economy, housing and infrastructure.
- 7.2 With continued substantial change and further significant reductions in public sector funding, the Council will need to respond in increasingly innovative ways to support its communities and maintain the momentum of improvement over the medium and longer term. Overall, the Council’s budget is robust, and it has sufficient earmarked and general fund balances to manage key risks and deliver on a range of objectives, However, it is important that the Council recognises the risks to incentivised income areas outside of the budget itself, and does not become over reliant on these sources to both balance the budget and finance its longer-term ambitions.

**8. FINANCIAL GOVERNANCE**

- 8.1 Given the forecast financial position of the Council in the medium term, and in particular the reductions in Government funding and the risks and uncertainties concerning incentivised income, it is imperative that the Council's commitment to strong financial governance is maintained and strengthened.

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