Vale of White Horse District Council

Report of the chief financial officer on the robustness of the budget estimates and the adequacy of the reserves.

1. Section 25 of the Local Government Act 2003 places a duty on the chief finance officer (at this council the head of finance) to make a report to the council on the robustness of the estimates and the adequacy of the reserves. This report fulfils this requirement and provides councillors with assurance that the budgets have been compiled appropriately and that the level of reserves is adequate. It is a statutory requirement that councillors must consider this report when considering and approving a budget.

2. In presenting this report the head of finance is mindful of other associated statutory safeguards designed to prevent the authority from over-committing itself financially, namely:

    - Section 151 of the Local Government Act 1972 which requires the authority to make arrangements for the proper administration of its financial affairs and that the head of finance as the chief financial officer has personal responsibility for such administration;

    - Sections 32, 43 & 93 of the Local Government Finance Act 1992 which requires the authority to set a balanced budget;

    - The Prudential Code introduced as part of the Local Government Act 2003 sets out the framework within which the authority must manage its investments, including adequate planning and budget estimates;

    - The external auditor's duty to assess the adequacy of the authority's proper arrangements to secure economy, efficiency and effectiveness ('value for money').

3. To reinforce these obligations, section 114 of the Local Government Finance Act 1988 requires the head of finance as the chief finance officer to report to all the authority's councillors, in consultation with the monitoring officer and the chief executive, if there is or is likely to be unlawful expenditure or an unbalanced budget.

Robustness of the budget estimates

PREPARATION, REVIEW & SCRUTINY

4. In accordance with best practice and using accruals accounting, the council provides for realistic estimates of costs and known liabilities.

5. The initial budget estimates were prepared jointly by the heads of service and appropriately qualified staff from Capita's accountancy team and have been finalised by the council's own accountancy team following the in-sourcing of the service on 10 December 2018. These have been reviewed and challenged by the council's strategic finance manager, the head of finance, the strategic management team and cabinet members.

6. The 2019/120 budget briefing session presented to the members on 7 February 2019 provided a detailed explanation of the factors taken into account in determining the base budgets.

REVENUE BUDGET

7. Similar to most district councils the most significant costs within the revenue budget are:

    - staff salaries and related costs
    - payments under contracts for services
    - housing benefit and council tax support payments.

8. The estimates of staff costs are prepared by calculating the cost of employing each member of staff for the full year. The budget also includes the costs of recruiting to posts that are currently vacant, unless it has been decided that the post will not be filled. The costs include incremental progression and an allowance for the cost of any locally agreed pay award.

9. The risk of overspending on staff costs is therefore considered negligible. The risk of under-spending on staff costs is high, so I have assumed a level of expected vacancy savings and this year, the council has budgeted at 96 per cent of the expected salary level.

10. The costs of the most significant council contracts are linked to increases in the various price indices, usually the Retail Prices Index (RPI) or the Consumer Price Index (CPI). Allowance has also been made within the budget for additional costs arising from demographic growth and increased demand for services (e.g. additional properties leading to increased waste collection costs).

11. The risk of overspending on contract costs exists and there remains a financial risk from a contractor failing to deliver services in accordance with the contract. Such risks are managed through the council's contract monitoring and risk management procedures, but cannot be eliminated.

12. The cost of housing benefit is largely met through government subsidy. The financial risk to the council should this cost increase significantly is small, because a very high percentage of the cost is met by the subsidy.

13. The level of local authority errors in the latest grant subsidy claim is safely below the government's threshold. The risk of any cost falling on the council is therefore low and continues to be mitigated by close contract management.

14. The government reformed council tax benefit from April 2013 when it became a local 'Council Tax Reduction Scheme' (CTRS). This change resulted in extra cost pressures for the council. The change also transfers the financial risk (and reward) from central government to the council of any significant change in the numbers of residents claiming CTRS. We closely monitor caseloads to assess any significant financial variation.

15. The areas of expenditure where there is a greater level of risk are within the demand led budgets such as the costs of homelessness (including temporary accommodation). Experience of demand in the current and recent years has been used to inform the 2019/20 budget.

16. As part of the budget setting process consideration has been given to income streams which could change as a result of recent and pending legislation. These include:

    - New Homes Bonus ((NHB). On 24 July 2018 the Ministry of Housing, Communities and Local Government (MHCLG) signalled its intention to replace the NHB scheme with a scheme that looks to 'incentivise house growth most effectively'. MHCLG said it 'will consult widely on any changes prior to implementation'. To date there has been no consultation and so as I do not know what will replace NHB I am unable to make any estimate of what funding the new scheme may generate for the council. In setting the budget I have assumed the remaining tranches of NHB will be honoured by MHCLG but I have assumed no income for any new scheme. I believe this is a balanced and prudent approach to setting the budget;

    - The business rate retention scheme. This scheme is due to change in a number of ways on 1 April 2020. The funding baseline is to be reset (informed by the fair funding review), the business rate baseline is to be reset to reflect the current business rates base and the proportion of income retained (prior to top ups and tariffs) is under review. All in all, it means it is impossible to say what income this scheme may generate from April 2020. Because of this I have budgeted at the level of the current safety net across the MTFP to minimise the risk of overbudgeting for income.

17. A number of revenue income streams are sensitive to changes in market conditions and therefore there will always be a risk that budget targets are not met. These include planning fees, building control fees, and land charges fees which all respond directly to the fluctuating characteristics of the housing market. Car parking income can also be volatile and responds to the general economy and retail market. Previous budget-setting exercises have made adjustments to reflect prevailing market conditions. A full review of car parking fees and charges will take place in 2019/20. Further adjustments have been made for 2019/20 refining budgets in light of actual activity levels.

18. In order to minimise the risk of budgeted income not being achieved, the council takes a prudent approach when calculating the revenue income budgets and debts due and makes appropriate provisions for bad debts.

INVESTMENT INCOME

19. The returns on the council's investment portfolio are relied upon to support the cost of services. The continuing impact of the low interest rates has been factored into the MTFP reported as part of the budget setting report.

20. Investments have been diversified in accordance with the treasury management strategy, and the earnings assumptions in the budget are set prudently. Investment income is used in year to support the revenue budget, therefore there

is some uncertainty about the amount available when the budgets are set, but the estimates are considered prudent enough to reduce the risk of this to manageable levels.

REVENUE CONTINGENCY SUM & OVERALL REVENUE BUDGET

21. In 2014/15 I introduced a change to the way the council budgets for contingency. Previously underspends were in part caused by pessimistic budgeting that assumed and budgeted for worse case scenarios. A review of service budgets identified that, in addition to the central contingency budget, there were also budgets within services that could also be considered contingency budgets. These budgets were centralised.

22. In itself this did not reduce the annual unspending by services and so this year we employed The Chartered Institute of Public Finance and Accountancy (CIPFA) to help challenge our budgets. The work has elicited significant budget reductions and I am confident that further budget challenge work will deliver more savings.

FUNDING FROM CENTRAL GOVERNMENT

23. On 13 December 2018 the government announced the provisional 2019/20 local government settlement. The final settlement was issued on 29 January 2019.

24. When calculating councils' spending power the Government assumes councils increase their council tax to the maximum level allowable before a referendum would need to take place.

25. The business rates retention scheme currently allows local government to keep fifty per cent of the income collectable. From 2020 the scheme will change as discussed above. It is not possible to estimate the financial impact of any new scheme.

26. There is a risk that the assumptions about government grant reductions are proven to be under-estimated, in which case the council's revenue reserves are considered adequate to compensate until the MTFP can be reviewed.

CAPITAL PROGRAMME

27. The council adopts a rigorous approach to the preparation of its capital programme. The council's project management system is used to manage capital schemes. These measures are designed to reduce the risks of both overspends and slippage in the programme.

28. For major projects the council engages skilled advisors to assist it. Whilst these measures can manage and mitigate risk some capital schemes, by their nature, will still contain financial risks.

29. Following the government's announcement on 24 July 2018 to replace the NHB scheme a number of capital schemes were paused. This announcement immediately put at risk significant future NHB income for the council. Until the council knows or can estimate its future income from the scheme that will replace NHB it needs to ensure it does not commit itself to expenditure it may not be able to afford at some point in the future.

30. As a consequence, and as reported to Cabinet on 7 December 2018, non-essential capital spending was paused. Schemes that were affected by this include the proposed new Wessex Leisure Centre for Wantage and Grove. These schemes have been moved to “The Preparation Pool”, which details schemes that, pending their affordability being established, will be considered for inclusion in the capital programme in the future.

31. In the capital programme recommended to the cabinet, allowance has been made for works considered necessary to the council’s land and property assets.

32. In estimating additional capital receipts a view has been taken of the income to be obtained from future asset disposals.

33. The council has a sufficient capital contingency and reserves to meet any potential capital programme overspends. While the use of these reserves would reduce the interest income earned, the current low rates available mean the impact would not be significant.

MEDIUM TERM FINANCIAL PLAN

34. An updated MTFP has been included in the budget report. The plan sets out provisional revenue spending plans and the estimated use of reserves through to 2023/24.

35. Using balanced but prudent estimates of future government funding shows that the council should be able to set a balanced budget up to and include financial year 2022/23. However, and this depends completely on what funding the scheme replacing NHB and revised business rates scheme generate, the council would not be able to set a balanced budget in 2023/24.

36. In view of this the council will carry out a fundamental review of its future budgets once we receive greater clarity on future funding. More information is likely to be released throughout 2019/20 as the government consults on new and revised funding streams and following the government’s 2020 spending review.

PRUDENTIAL INDICATORS

37. The prudential code requires the calculation of a number of prudential indicators, which measure the sustainability of the council’s MTFP, explicitly with regard to affordability, prudence, value for money, stewardship, service objectives and practicality. This is backed up by a specific requirement to monitor performance against forward-looking indicators and report and act on significant deviations.

BUDGET MONITORING

38. At the end of September and November heads of service complete budget monitoring returns forecasting their year-end positions. We will move to more frequent budget monitoring in 2019/20.

RISK MANAGEMENT & INSURANCE

39. The risk management arrangements are managed by the council’s risk and insurance officer.

40. The risk and insurance officer has recent led a thorough review of the council's insurance arrangements. This fed into the annual insurance renewal process resulting in greater assurance that the council has comprehensive cover in place.

41. The main risks inherent in the council's MTFP are:

    - government grant funding is less than estimated, specifically;

        i. NHB income is less than that shown in the MTFP

        ii. The scheme that replaces NHB is less rewarding that the current NHB scheme

        iii. The revised business rate retention scheme does not favour the council financially.

    - substantial increases in council tax reduction scheme caseload and costs

    - macro-economic changes, such as slower interest rate rises, higher inflationary pressures and slower housing growth

    - Unforeseen growth in essential expenditure.

Adequacy of reserves

42. The Chartered Institute of Public Finance and Accountancy has issued guidance on local authority reserves and balances in LAAP Bulletin 55. It sets out the three main purposes for which reserves can be held.

    - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – which forms part of general reserves;

    - A contingency to cushion the impact of unexpected events or emergencies – also part of general reserves;

    - A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

43. The council is expected to hold £2.6 million in its general fund as at 1 April 2019 and, over for the next four financial years intends to maintain this at a level that is no less than approximately 10 per cent of the annual budget requirement (when the Audit Commission previously recommended at least 5 per cent); this is likely to be sufficient to cover uneven cash flow and all but the most serious emergency. The council will need to fundamentally review its budgets in the light of the, yet to be announced, changes to government funding because on current budget forecasts it cannot set a balanced budget in financial year 2023/24.

44. Finally, the council is expected to hold unspent capital receipts of £10.8 million at 1 April 2019 which form the capital reserve.

Conclusion

45. The budget estimates have been prepared following a properly controlled and professionally supported process. They have been subject to external challenge, due consideration and the identifiable risks should be capable of management.

46. Overall, the level of reserves at the end of 2019/20 is adequate in relation to the proposed revenue budget and capital programme and the budgets are sustainable.

47. The reserves are not reduced other than by the sums already earmarked. The income earned on these reserves is therefore a sustainable source of funds for the council.

48. The council faces significant budget challenges in year five of its MTFP if changes to government funding schemes prove to be less generous than the current schemes.

William Jacobs (Head of finance and chief finance officer) 5 February 2019