**Appendix C**

**Report of the Strategic Director (Resources) on the Robustness of the Budget Estimates; Adequacy of the Council's Reserves and Risk**

## Introduction

Section 25 of the Local Government Act 2003 places a duty on the Chief Financial Officer (Strategic Director (Resources)) to make a report to the Council on the robustness of the budget estimates and the adequacy of the Council's reserves. The Council must have regard to this report when making its decisions about budgets and council tax for the forthcoming year.

## Robustness of Budget Estimates

The Council has made significant progress in trying to move its financial position forward to a medium term balanced budget with a balanced budget for the first time in many years in 13/14. The budget for 2014/15 includes further cuts in government grant but now sees the full effects of how the new Local Government Finance regime works together with the New Homes Bonus and Business Rates Retention Scheme.

The new Local Government resource regime has significant cuts in core grant but introduces new revenue streams in relation to New Homes Bonus and Business Rates Retention. Both these new revenue streams add increased uncertainty to future revenue flows and therefore introduce new risk into the Councils approach to budgeting.

The UK economy has put in a sustained period of recovery with GDP growth up 2.8% on a year ago. Inflation has fallen more swiftly than anticipated and is now in line with the government's 2% target.

The Council's budget estimates have been prepared by appropriately qualified and experienced staff in consultation with service heads and other budget managers. Budgets have been through a process of Scrutiny through the Council's Overview and Scrutiny Committees.

Inflation of 1% has been allowed for the staff pay award, in line with the Chancellor's pay cap proposals but this represents a risk moving forward as pay pressures are beginning to build after multi-year pay freezes.

Efficiency savings continue to be achieved and by the end of 2013/4 some £2.9m will have been realised since April 2008. A further level of over £200,000 is included in the 2014/15 budget and robust plans are in place to achieve these.

Fees and charges have been uplifted generally by 3%, in line with RPI inflation levels except where it is deemed that the market cannot bear such an increase.

Investment income remains an area of significant financial risk with the Bank of England keeping base rates at 0.5%. The income from investments is projected to be just around £0.550 million in 2014/15, based on an average balance of £33 million and an average return of 1.67%. Prudent assumptions about cash flow have been made and the advice of the Council's fund / cash managers and other advisors has been taken into account in determining the average rate of return. Base rates are expected to be maintained at this low level for a further significant period of time.

The Council continues to unwind its exposure to the Icelandic banking collapse as payments are received back from the winding up boards. No assumptions have been made in respect of increased income from these deposits.

Capital projects in the new year programme total around £2.7 million and the financial strategy seeks to finance the underlying elements of the capital programme from revenue to provide a truly sustainable financial strategy.

A number of capital budgets are in respect of grants or contributions to other bodies and as such the extent of the activity will be limited by the budget available, the timing of any such applications and the consequent take up of the monies. The programme will be monitored closely during the year, along with Council projects which will slip from the current financial year, initially by the Capital Working Group and Corporate Management Team and Cabinet through the quarterly budget monitoring reports.

The Council has adopted a robust Risk Management Strategy. Significant financial risks, such as treasury management, have already been identified and will be managed appropriately. A corporate risk assessment covering a range of financial and non-financial risks has been carried out and the results will form part of the Councils new Corporate Plan. The corporate risk register is reviewed regularly by Cabinet.

***I can confirm that the budget estimates as presented are both prudent and robust.***

## Adequacy of the Council's Reserves

The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued guidance on local authority reserves and balances. It sets out three main purposes for which reserves are held:

1. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing
2. A contingency to cushion the impact of unexpected events or emergencies
3. A means of building up funds to meet known or predicted liabilities, known as earmarked reserves

The Council held general fund revenue balances of £10.687 million on 1 April 2013. These will increase to £10.728 million by 31 March 2014. I have determined that the minimum reserves position is £3m under the current economic outlook with significant risks remaining to revenue streams and grant levels in future years.

With regard to earmarked reserves (mainly made up from Smoothing reserve and Change Management Reserve) these will reduce from £1.79 million to £1.63m.

Capital grants / contributions unapplied stood at £2.04m on 1 April 2013 and it is estimated this will decrease to £1.96m by 31 March 2014.

A revision of the Medium Term Financial Strategy has recently been concluded which sees the Council using modest amounts of reserves to balance the budget over the next few years as further government funding cuts are made. The underlying position however remains strong.

***I can therefore confirm that the level of reserves is currently adequate however longer term projections require targets in the Medium Term Financial Strategy to be delivered some of the plans for which, at this stage, remain uncertain.***

**Risk**

Risk is apparent in the budget process in a number of ways. The risk of the robustness of budget estimates and the adequacy of reserves has been considered in detail above. However there also exists a risk in terms of the level of Council Tax through capping and the return to the Collection Fund.

## Council Tax Capping

Council Tax capping has been replaced in the Localism Act by the requirement for Local Referenda if a tax rise is deemed excessive.

The Secretary of State has not yet indicated the level at which a rise will be deemed as ‘excessive’.

Given the Council has initially indicated that it would like to take up the government offer of a grant to enable a further freeze in Council Tax then I would expect the Council to not to require the need of a referendum in setting its tax at £81.63.

## Collection Fund Risk

The Council’s Taxbase, including adjustments for the new Council Tax Support scheme and new discount / exemptions introduced in 2013/14, has risen over the last year by 1.4%.

This has led the Council to be in a surplus position in respect of the Collection Fund when added to the excellent collection rates which continue to reach 99%.

Further modest growth in the Taxbase is anticipated in future years through the Financial Strategy.

## Business Rates Risk

The new local government finance regime brings in additional risk of variable cash flows for the Council as it becomes a direct recipient of some of the Business Rates income rather than working under an agency type arrangement as previously. Under the new regime the Council will see benefit if business rates income increases but

also potential risks if it falls. The key risk to the Council lies in relation to losses on appeal from the 2010 rating list.
In 2014/15 the Council is entering a business rates pool with Oxfordshire County Council and Cherwell District Council – this will potential increase both the risks and rewards available from the business rates scheme.

**New Homes Bonus Risk**

Under the new local government finance regime the New Homes Bonus plays a key role with all the funds being top sliced out of the former grant settlement. To access this new revenue stream the Council has to have new homes built within its boundaries. A premium is also payable for affordable completions. Our estimate in the 14/15 budget is based upon figures approved by DCLG and they are therefore sound. The Medium Term Financial Strategy considers future growth in the New Homes Bonus.
The government have committed to a review of the New Homes Bonus scheme and changes may impact upon this Councils revenue flows.

**Income Risk**

The Council raises around £3 million in income from fees and charges. However, in preparing the budgets for 2014/15 prudent income assumptions have been made in light of the variability of some of these key income streams.

Five of the most significant areas are:

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| Planning – Development Control | £825,300 |
| Building Control | £469,000 |
| Local Land Charges | £205,000 |
| Trade Waste Collection | £604,200 |
| Licensing | £218,500 |

The Council has amended its income budgets to reflect the impact of continuing low economic growth and it is not anticipated that they will fall any further and indeed modest growth is anticipated next year. As a consequence of re-basing these budgets much of the risk has been reduced in respect of the downside.

The Council, having embarked on a series of Commercial Property acquisitions, faces an increased risk from void periods of occupation between leases. A level of voids is built into the budget for 2014/15 based upon current anticipated levels of occupation. Total forecast income from commercial property (excluding small industrial units) is around £2.72m in 2014/15.

**Expenditure Risk**

Key budgets where risk persists relate to areas of expenditure that the Council has no direct control over either the take up or the cost of the service. The only areas of concern in respect of this relate to fuel costs and given that much of this is contained within the waste contract which is CPI related this risk is minimised.

Frank Wilson CPFA 3 February 2014