

## SECTION 1

### 2015/16 – 2016/17 SERVICE AND FINANCIAL PLANNING

#### LOCAL GOVERNMENT ACT 2003, SECTION 25 REPORT ON THE 2015/2016 BUDGET PROPOSALS

#### 1. Purpose of the Report

- 1.1 To provide, in accordance with the requirements of Section 25 of the Local Government Act 2003, advice from the Authority's Chief Finance Officer (CFO) on aspects of the 2015/16 Budget Proposals.

#### 2. Background

- 2.1 Part 2 of the Local Government Act 2003 contains a series of duties and powers that give statutory support to aspects of good Financial Management within Local Government.
- 2.2 Section 25 requires the CFO to report to an Authority, when it is making its decision on determining the council tax, providing advice on the following issues:
- The robustness of the estimates included in the budget
  - The adequacy of the reserves the budget will provide
- 2.3 The CIPFA Prudential Code also requires consideration to be given to the affordability and prudence of capital investment, given its impact on the revenue budget.

#### 3. Advice of the Chief Finance Officer

- 3.1 This report is based on the Budget Recommendations as set out in **Section 3** of the 2015/16 Budget documentation.

##### ***Robustness of the Estimates***

- 3.2 As Members are aware, the setting of the 2015/16 Revenue and Capital budgets is the final stage of the transition to Future Council, during which consideration has also been given to various pressures and key priorities for inclusion within those budgets.
- 3.3 As part of that process, emphasis has been given to ensuring that any risks associated with the proposals have been clearly identified to ensure that properly informed and prioritised decisions are made.
- 3.4 Members have also been made aware throughout this year's process that there are significantly greater risks in relation to overall funding levels, given the Business Rates Retention system and the local Council Tax discount scheme.

3.5 This assessment therefore reflects the changing financial environment in addition to the specific proposals contained within the budget.

3.6 In terms of expenditure estimates of a general nature, which are included in the proposed budget, I would offer the following comments:

(i) ***Pay Inflation Assumptions***

A provision for the pay award recently agreed by the Employers has been included within the budget, and a 1% increase in future years taking account of the Government's general position on public sector pay. Further consideration may need to be given to this provision if that position changes.

(ii) ***Interest Rate Assumptions***

A prudent view of interest rates has been taken in constructing estimates for interest charges in 2015/16 and future years. Whilst these estimates are considered to be adequate at this point in time, interest rate trends and Capital Financing operations will continue to be monitored closely throughout the year by the established Treasury Management Panel, to facilitate timely action designed to optimise the Authority's position.

3.7 In relation to the income estimates that form the proposed budget, I would offer the following comments:

(i) ***Council Tax Income Assumptions***

The estimates for Council Tax Income are based on a collection rate of 95%. This remains at the same level as last year and reflects the anticipated impact of the revised local Council Tax Discount scheme and anticipated collection rates this financial year. Although at this stage I have no reason to believe that this is not a robust assumption, given the changes, the position will need to be closely monitored during the course of the year.

(ii) ***Business Rates income Assumptions***

Under the Business Rate Retention scheme introduced last year Barnsley retains 50% of the total income collected. Clearly there is the potential for volatility around this income source, in relation to the overall level of businesses in the Borough and also in relation to any appeals that are already within the 'system' that will fall to the Council to fund. At this stage the expected income of £26.8m included within the budget is, I believe, based on prudent assumptions, however the position will need to be closely monitored during the course of the year.

### ***Adequacy of Reserves***

- 3.8 **Section 10** of the Budget papers sets out the position in relation to the current level of Provisions, Reserves and Balances available to the Authority.
- 3.9 As indicated in that paper, the current Minimum Working Balance held by the Authority stands at £10.0M. This Balance is in line with the target previously agreed by Members of some 5% of Net Revenue Budget.
- 3.10 There are also further earmarked Reserves and Provisions that were also reviewed following the closure of the 2013/14 Accounts to ensure their continued validity and so against this backcloth I consider the current levels to be adequate. However, it is appropriate and necessary that ongoing monitoring should be applied to these levels in the light of any changing circumstances and a further review will be carried out as an integral part of the 2014/15 Accounts closure.
- 3.11 Members have also recently agreed a strategic reserves strategy that considered all current pressures / risks over the planning period 2015/16 – 2017/18. This identified a total of £22.6M that needed to be earmarked for such events and that a review of these earmarking would be undertaken following the closure of the 2014/15 accounts.
- 3.12 Members also agreed to earmark some £2.2M in support of the jobs and business growth plan over the planning period.
- 3.13 A balance of some £1.6M of 'Strategic Reserves' is therefore currently available. However given the significant changes that the Council faces as it moves toward Future Council I consider it prudent at this stage to earmark the remaining reserves against any further unforeseen pressures over the planning period.

### ***Prudence and Affordability***

- 3.14 The current Prudential Borrowing regime places a duty on the CFO to ensure that the financial impact of decisions to incur additional borrowing over and above that supported by Government are affordable both in the immediate and over the longer term.
- 3.15 Consideration of all new Capital Schemes and their revenue impact is therefore undertaken alongside other Revenue service issues to ensure that resources are allocated in accordance with the Authority's overall priorities and within the overall resources available.
- 3.16 The budget includes provision for £5.0M of Prudential Borrowing to support a Capital New Starts Programme, which I consider to be prudent at this time. These resources have already been earmarked to support the priorities of the Jobs and Business Growth Plan and Town Centre Redevelopment. The position on any additional capital resources arising over the planning period will continue to be monitored throughout the year and further consideration be given to their use.

## ***Medium Term Financial Strategy and Budget Reduction Measures 2015/2018***

- 3.17 A balanced 2015/16 budget and plans for the 2016/17 budget can be delivered through the agreement of the proposals within the budget papers. However, this view is contingent upon the additional matters identified at 3.18 and 3.19 below.
- 3.18 The draft budget for 2015/16 and plans for 2016/17 are again based upon a significant volume of budget reduction measures and there needs to be a strong and sustained focus on ensuring the timely and comprehensive implementation of these measures.
- 3.19 There still remain considerable uncertainties around the overall level of resources which will be available to Local Authorities from 16/17 onwards and clearly Members need to be mindful that the gaps already identified within the current MTFF paper at **Section 2i** have the potential to increase.

### **4. Budget Recommendations**

- 4.1 As indicated in the 3 year forecast at **Section 2i**, based on the Budget Recommendations a balanced budget would be set for 2015/16 and plans in place to address the current forecast position for 2016/17.
- 4.2 This would leave a Minimum Working Balance of £10.0M and "one off" resources earmarked in support of pressures already identified, along with investment in the Jobs and Business Growth plan and Town Centre Regeneration.
- 4.3 The proposals identified within the budget papers provide a reasonably robust platform and framework around which the Future Council can be implemented from 1 April 2015 for the two year planning period.
- 4.4 However it should be stressed that the current proposals identified for 2016/17 may be insufficient to deliver a balanced budget for that year if additional cuts in funding are made.
- 4.5 It is therefore clear that to bridge the gaps in future years, actions will need to be taken to extend the current plan over those years. However, as previously stated a strong focus must be given to ensuring the achievement of the service reductions and associated savings planned for 2015/16.
- 4.6 **In summarising my advice, I would stress that the robustness of the estimates and adequacy of the reserves which the budget will provide are satisfactory. However, this is contingent upon the requirements outlined at paragraphs 3.17 and reiterated at paragraph 4.5 being delivered.**

F Foster CPFA  
Director of Finance, Property and Information Services