

Wiltshire Council

Cabinet

5 February 2019

Subject: Local Government Act 2003: Section 25

Cabinet member: Councillor Philip Whitehead – Cabinet Member for Finance, Procurement, ICT and Operational Assets

Key Decision: Non-Key

Introduction

1. Section 25 of the Local Government Finance Act 2003 requires that when a local authority is agreeing its annual budget and the Council Tax precept, the Chief Finance Officer must report to it on the following matters:
 - The robustness of the estimates made for the purposes of the Council Tax requirement calculations
 - The adequacy of the proposed financial reserves
2. The Council is required to have due regard to this report when making decisions on the budget.
3. In determining the opinion, the CFO has considered the financial management arrangements and control frameworks that are in place, the underlying budget assumptions, the adequacy of the business planning process, the financial risks facing the Council and the level of reserves.
4. In the context of this opinion section 25 of the Local Government Act 2003 focusses primarily on the budget year 2019/20 and the risks and uncertainties within that timeframe. However, future uncertainties particularly relevant to longer term delivery of recurrent savings and ongoing pressures of increasing demands on services and the need to maintain adequate reserves and balances in the medium term

Robustness of Estimates

Financial management and control frameworks

5. The external auditors gave an unqualified opinion on the accounts for the Council and the pension fund for 2017/18. This reflects the fact that the authority has proper and robust financial management and controls in place for that year. There have not been any significant changes to the financial management and control environment since 2017/18. Further to this, the external auditors gave an unqualified value for money conclusion for 2017/18. The conclusions are based upon whether the

organisation has proper arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness.

6. The Director of Finance has responsibility for ensuring that an effective system of internal control is in place and identify any areas for improvement where appropriate. The Audit Committee receives regular updates on internal controls as well as the Annual Governance Statement which clearly identifies the strength of the governance arrangements in place on an annual basis and approves improvement plans where relevant.
7. All members and officers are required to work within the governance framework of the Council which is set out in Standing Orders and Financial Regulations and supported by policies and procedures. The Council requires officers to complete mandatory training on an annual basis to ensure that officers are fully up to date on latest governance and legislative frameworks
8. There is rigorous system for budget monitoring and reporting, with Cabinet and the Audit Committee receiving regular reports throughout the financial year. Mitigation plans are submitted where there are variances between budget and actual spend or income. Finance challenge budget managers regarding forecasts on a monthly basis and senior management receive full monthly budget reports to review and challenge as necessary.

Medium Term Financial Plan

9. The MTFP has been reviewed in full and updated for future years including an extension to cover a 5-year period. It includes all known changes to funding levels as well as estimates for those funding streams for which we have not received confirmation. All estimates have been triangulated as far as is possible.
10. All current savings have been tested for deliverability and where adjustments have been required these have been made and substitute savings have been identified where current savings have not been fully deliverable.
11. Financial risks have been assessed and quantified where appropriate, either provision has been made or mitigations have been identified. The key risks in the budget are mainly in relation to demand led budgets in particular Social Care, Waste and Dedicated Schools Grant, all of which are under significant pressure in the current year. There are mitigation plans in place to manage these pressures.
12. The construction of the budget for 2019/20 and examination and validation of the budget proposals has been subject to challenge by the Council's leadership team, Heads of Finance and service directors. Further scrutiny of the MTFP and budget proposals has been undertaken by the Financial Planning Task Group which is a cross party subcommittee of the Audit Committee.

Consultation

13. The Council will continue to strive to deliver efficient services that provide value for money. Budget proposals will be prepared following budget guidance and these will be made available for public consultation.
14. The Council's budget planning framework is supported by the development of Equality Impact Assessments (EIAs) for the budget proposals, identifying possible disproportionate impact in relation to the protected characteristics as described within the Equality Act 2010. The EIAs will also identify potential mitigation where applicable.
15. The Council maintains its strong commitment to equality, believing that all groups and individuals within the community and its workforce have equal opportunity to benefit from the services and employment it provides. EIAs help the Council to arrive at informed decisions and to make the best judgements about how to target resources.
16. Consultations are held in January and February. These include schools forum, housing board, Overview and Scrutiny Management Committee, and Financial Planning Task Group. Detailed feedback will be taken to full Council.

Budget Assumptions

Government Grant and Business Rates Retention

17. The Government gives funding to local authorities through the SFA, and separate core grants. The SFA is split into two parts: The Revenue Support Grant and the Baseline Funding, or as it is sometimes known, the Business Rates Retention Scheme, which is meant to reflect our needs based assessment. Wiltshire's latest allocation shows a 14% reduction in the SFA from 2017/18.

	2018/19	2019/20	18/19 to 19/20 Change	18/19 to 19/20 Change
	£m	£m	£m	%
Revenue Support Grant	8.050	0.000	(8.050)	-100%
Business Rates Retention	55.620	57.390	1.770	3%
Total	63.670	57.390	(8.598)	-14%

18. Whilst the final settlement is likely to be confirmed in February 2019, it should be noted that at the time of writing this report further details on a number of grants are still to be confirmed. Any additional monies received from final settlements, unless ring-fenced, will be set aside in the General Fund reserves.

19. At present the Council is allowed to retain a proportion of the Business rates income collected. Most of the rest is paid to central government. It is proposed that this could be changed as part of the future fairer funding review.

Council Tax

20. The band D Council Tax proposed for 2019/20 is £1,456.87 (£270.997 million [Council Tax and ASC Levy] divided by 186,013.00 tax base). The band D Council Tax for 2018/19 was £1,414.57.

21. Across the bandings that equates to the following:

Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
£	£	£	£	£	£	£	£
971.25	1133.12	1295.00	1,456.87	1,780.62	2,104.37	2,428.12	2,913.74

22. The precepts for the Office of the Police & Crime Commissioner for Wiltshire & Swindon and Dorset and Wiltshire Fire and Rescue Service are yet to be finalised and approved for 2019/20, and as such no change to the Council Tax element for these precepts has yet been made in this report. It is hoped these figures will be available for cabinet but will be included for Full Council.

23. In Wiltshire, there are 252 parishes and town Councils. Each of these bodies has precepting powers and we are currently waiting to hear back from some of these bodies; who are working to a deadline of 25 January 2019. Given the scale of the number of such Councils, the detailed affect for each will be set out in an appendix to Council to show the movement for each parish and town on top of that for Wiltshire Council, the fire and police organisations

Tax base & Collection Fund

24. The December 2018 Cabinet approved the band D tax base of 186,013.00 for 2019/20 (was 182,705.43 in 2018/19). The Council Tax Requirement has been identified as £270.997 million (£258.450 million in 2018/19), inclusive of the social care levy.

Interest Rates

25. Investment income returns are budgeted at 1% for 2019/2020. The cost of borrowing for Wiltshire Council is 3.75%, however the average cost of new borrowing would be 3.1% (assume 25-year PWLB rates).

Inflation

26. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.4% in October. In the November Bank of England quarterly inflation report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due

to the Bank's inflation report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget.

Capital Programme

27. Cabinet's proposed capital programme for 2019/20 to 2023/24 is attached at Appendix 1E, along with the indicative sources of funding available. The programme for 2019/20 proposes a total value of £172.935 million of works.

Capital Expenditure	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024
	Estimate	Estimate	Estimate	Estimate	Estimate
	£million	£million	£million	£million	£million
General Fund	136.991	59.636	41.665	30.698	39.428
Housing Revenue Account (HRA)	15.944	15.145	10.232	9.831	9.780
Commercial Activities/Non-financial investments*	20.000	21.000	21.000	21.000	22.000
Total	172.935	95.781	72.897	61.529	71.208

* Commercial activities/non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.

28. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of Capital Expenditure	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024
	Estimate	Estimate	Estimate	Estimate	Estimate
	£million	£million	£million	£million	£million
Capital Receipts	9.567	3.500	0.000	0.000	0.000
Capital Grants & Contributions	71.628	33.693	25.403	25.220	25.220
Capital Reserves	0.000	0.000	0.000	0.000	0.000
Revenue	0.000	0.000	0.000	0.000	0.000
HRA	12.807	13.839	10.232	9.831	9.780
Net Financing Need (Borrowing)	78.933	44.749	37.262	26.478	36.208

29. By maintaining a prudent and low borrowing forecast for 2019/20 it has a positive resulting impact on the general fund expenditure as regards the cost of repaying borrowing.

HRA

30. The Housing Revenue Account (HRA) is a separate account that all local authorities with housing stock are required to maintain by law. This account accumulates and reports all transactions relating to, or associated with, local authority-owned housing. It is ring fenced which means that money cannot be paid into or out of it from the General Fund. In addition, it is not legal to run a deficit on the account.

31. The 30-year business plan aims to deliver a substantial increase in the amount of money available to be invested in capital works on existing dwellings and to deliver new social housing to replace properties that have been sold under the Government's Right to Buy scheme

Business Planning process

32. The Business Planning process for 2019/20 and future years has been undertaken alongside the development of the MTFP to ensure that the Corporate Priorities are expressed in financial terms in the MTFP and all the priorities are fully resourced.

33. The approach has been informed by the Corporate Plan and underpinned by updated service plans with a key focus on the four priorities of the Council:

- Growing the Economy
- Strong communities
- Protecting the vulnerable
- Working with our partners

Financial Risks

34. There are significant cost pressures arising from changing demographics and a growing population. These leads to increase demand for adult and children services, as well as other services across the Council.

35. The Delivery of Savings continues to remain a major risk. Regular monitoring and reporting is in place to mitigate against this. The size of the budget savings has increased the risk, and any non-achievement would require in year compensating savings to be identified.

36. Many of the saving proposals include service transformation. This will be closely reviewed and monitored to identify both cost and performance implications of the changes

37. The outcome of the European Union Referendum, together with other global financial issues, will have financial implications. These will be closely monitored and

considered. It is too early to estimate the full extent of any financial impact arising from these changes. As part of Council planning a £0.150 million reserve has been set up.

38. There is still uncertainty in the overall Local Government finance position. The government has promised to consult further on the fairer funding model for local government. This included business rates retention, changes to new homes bonus, reductions in ring fenced grants and possible new burdens. This means the Council faces a challenging time in balancing the budget and developing the medium term financial strategy.

39. Service changes has meant that in some areas the capacity to deliver future changes will need to be closely monitored.

Adequacy of Reserves

40. Sections 32 and 43 of the Local Government Finance Act 1992 requires a local authority to have due regard to the level of balances and reserves needs for meeting future estimates of future expenditure when calculating the Council Tax requirement. Further to this a local authority is not permitted to allow its spending to exceed its available resources which would result in a deficit.

41. Balances and reserves are held for three primary purposes:

- A working balance to help cushion the impact of cash flows
- A contingency to cushion the impact of unexpected events and emergencies
- Earmarked reserves to meet known and predicted liabilities

42. As part of the budget setting process, the levels of balances and reserves will be reviewed and determined ensuring that the level is justifiable in the context of local circumstances. The Section 151 officer (Director of Finance) has reviewed the level in order to ensure a prudent level of balances that reflects a full risk assessment commensurate with the risks that the Council faces and the context within which the authority operates.

43. The level of general balances will be approved by Council alongside the level of Council Tax. The Council's external auditor reviews the level of balances and reserves as part of their annual audit opinion.

44. The delivery of the 2018/19 budget is monitored closely and Cabinet received regular updates on its revenue, capital, schools and housing budgets. The latest forecast at Period 9 (December 2018) as set out at cabinet on 5 February agenda reports forecast year-end balanced budget, after appropriate action. It remains vitally important that all approved savings plans are delivered as not delivering services would add to the level of savings required in 2018/19 budget setting process.

45. The Medium Term Financial Plan for 5-year period has been reviewed and all assumptions validated to ensure that levels of future demand on services, inflation factors as well as deliverability of existing and future savings are prudent and de risked as far as possible. The MTFP has no drawdown of reserves other than those specified from earmarked reserves. The priority for use of earmarked reserves is to fund demand management strategies to mitigate risks.

46. The Risk Assessed Levels of Balances 2019/20 and previous years are as follows

	Year ended 31 st March				
	2019 £ million	2020 £ million	2021 £ million	2022 £ million	2023 £ million
General Fund Reserve risk assessment	11.6	11.6	11.6	12.0	12.0
Current General Fund Projections	12.0	12.0	12.0	12.0	12.0
Reserves sufficient	☑	☑	☑	☑	☑

47. The forecast levels of ear marked reserves are set out below as at March 2019 and the forecast for future years over the period of the MTFP.

Reserve	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22
Locally Managed Schools Balances	(5,930)	(4,264)	(3,264)	(2,264)	(1,264)
Insurance Reserve	(3,239)	(3,239)	(3,239)	(3,239)	(3,239)
PFI Reserve	(3,873)	(3,695)	(3,415)	(3,135)	(2,855)
Elections Reserve	(200)	(200)	(400)	(600)	0
Revenue Grants Earmarked Reserve	(6,714)	(5,714)	(4,714)	(3,714)	(2,714)
PFI Housing Scheme Earmarked Reserve	(2,851)	(2,596)	(2,436)	(2,276)	(2,116)
Single View of the Customer Reserve	(829)	(311)	0	0	0
Enabling Fund	(5,227)	(600)	0	0	0
Business Rates Equalisation Fund	(4,828)	0	0	0	0
Housing Benefit Subsidy Clawback	(500)	0	0	0	0
Childrens Management System	(325)	0	0	0	0
Disabled Facilities Grant	(273)	0	0	0	0
Waste Transformation	(1,250)	0	0	0	0
Capital Financing	(3,300)	(6,000)	(4,500)	(3,000)	(1,500)
Development of Local Plan	(500)	(1,000)	(1,500)	0	0
Other Small EMR	(648)	0	0	0	0
Total	(40,487)	(27,619)	(23,468)	(18,228)	(13,688)

48. Dedicated Schools Grant Allocation 2019/20

Dedicated schools grant: 2019-20 Initial allocations local authority summary - December 2018	2019-20 schools block (£million)	2019-20 central school services block allocation (£million)	2019-20 high needs block allocation (£million)	2019-20 early years block (£million)	2019-20 total DSG allocation (£million)
865 Wiltshire	[A]	[B]	[C]	[D]	[E]
2019-20 DSG allocations, after deductions for academies recoupment and direct funding of high needs places by ESFA	275.215	2.570	40.451	26.769	345.005

Recommendation

49. To note this report and consider this as part of the budget setting process.

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