

Statutory Report of the Chief Finance Officer on setting the 2019/20 Budget

1. Purpose of this Appendix

1.1 In setting its Budget Requirement, the Council is required under the Local Government Act 2003 (Section 25) to consider:

- i) The formal advice of the statutory responsible financial officer on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides;
- ii) The Council has to determine what levels of borrowing, if any, it wishes to make under the Prudential Code that governs local authority borrowing.

2. Robustness of Estimates

The 2019/20 Budget has been prepared at a time of relative financial uncertainty. The economic climate appears to be recovering as reported by central government but there is still some uncertainty around the impact this will have on budgets. The assumptions have been reviewed and amended where necessary. This is particularly relevant in respect of investments, with low interest rates continuing but believed possibly improve mildly in the medium term. In these circumstances, it becomes increasingly important to adhere strictly to the Council's Financial Procedure Rules and its Treasury Management Strategy while keeping a tight rein on budget monitoring so that adverse trends are identified quickly and acted upon promptly. The impact of Brexit on the finances of the country and Council increase the level of uncertainty but developments on this are being closely monitored.

The Council's revenue and capital budgets are integrated in that the financial impact of the proposed capital programme is reflected in the revenue estimates.

Service estimates have been prepared on a sound basis that reflects trends identified through the improved budget monitoring. Finance staff and budget holders continue to liaise closely on the monthly financial position. Monthly finance reports are produced Senior Management Team to consider. The emphasis will remain on accurate forecasting supplemented by clear action plans to deal with areas where variances are experienced.

Senior Management Team, Service Managers, and Financial Services staff are closely involved in budgeting and cross-checks for reasonableness are carried out on all information, prior to the submission of draft budgets to Members, giving confidence in the estimates.

There are risks however involved in projecting budget particularly over the medium term and the year- end position will never exactly match the estimated position. Areas of specific risk in the current five-year period under consideration are:

- The Government's 2015 Spending Review (SR15) indicated that Central Government funding of Local Government will be much tighter over the next four year period than the last four years. The provisional local government funding settlement confirmed these cuts to Council funding until 2019/20. The impact has been partially mitigated by increased grant support in 2019/20 only in the final settlement. The 100% localisation of business rates is expected to

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be accompanied by reallocation of resources nationally including additional duties and costs for local authorities.

- The Council will become increasingly reliant on income from business rates as the proportion retained locally increases to 75% from April 2020. In a system where the level of income is largely influenced by external factors the balance of risk and income will shift substantially. There is still uncertainty around the rates revaluation exercise of April 2017 which introduced a new system of check, challenge and appeal. Rate revaluations will become more frequent and resets will reallocate growth on a regular basis. The first reset will also be April 2020.
- The Senior Management Team (SMT) have continued with the previous year's practice to consider options to meet the future forecast deficits much earlier in the Budget Process. Consideration of budget reduction options (including raising additional income and savings in expenditure through efficiencies and or transfers) commenced in April 2016. SMT have been in consultation with SLDC Cabinet Members to balance the 2019/20 position and much improve the future years' positions. This work continues. As shown in the budget report the Council's Customer Connect programme contains an efficiency target of £750k in 2019/20 rising to £1.550m by 2020/21. Progress against this is being monitored by the Customer Connect Board. SMT are also continuing to review the efficiency of the services that fall outside that programme. These will be reported to Members to consider as part of the ongoing financial management process. Options are being developed to enable any increases to the deficit position due to external funding or internal pressures to be offset.
- The present economic climate has necessitated a thorough review of investment income. Although detrimental to the Council's finances, an element of risk has been minimised by the assumption that replacement investments will be at minimal interest rates, while the Council has limited exposure to increases in borrowing rates.
- The impact of the economic climate will continue to be closely reviewed, particularly in relation to income and interest earned on investments. It is unclear how long it will take for the effects in some service areas to be reversed and it is assumed that recovery will be limited during 2019/20. The Council is also dealing with a reduced number of counterparties it is able to place deposits with (continuing on from the Icelandic banking crisis).
- The estimated level of income generated from fees and charges has been set at a prudent level to take account of actual levels of income being generated in 2019/20.
- The implications of the Welfare Reform Changes and the introduction of Universal Credit to replace Housing Benefit will continue to be closely monitored and planned for as information is forthcoming.

To the best of my knowledge, the proposed Budget makes reasonable allowance for pay and price inflation and provides for all known commitments and legislative changes.

3. Adequacy of Financial Reserves

The level of and usage of the Council's reserves is undertaken annually as part of the Medium Term Financial Plan.

In preparing the 2019/20 Revenue Budget I have reviewed the level of reserves and balances and assessed their adequacy against a range of factors, including;

- the potential impact of unexpected events or emergencies;
- the predictability of cash flows demand-led pressures, inflation and interest rates;
- estimates of the level and timing of capital receipts and grants;
- the overall financial standing of the Council and its track record in budget management and capacity to manage in-year pressures;
- the adequacy of the Council's insurance arrangements;
- the financial risks in the medium term plans, including the robustness of those plans.

As part of my review of the adequacy of reserves, an assessment of financial risks and financial exposure has been carried out. **Section 6b** of the Draft Budget Book shows the risks taken into account in the assessment of the desired level for the General Fund Working Balance and the Council's General Reserve.

The Council's key financial reserves are summarised at **Section 6a** in the 26/02/2019 Council Draft Budget Book. In total, reserves are forecast to total circa £9.6m as at 31 March 2020. General Reserves remain in a sound position when taken together with the £1.5m General Fund Working Balance.

The Budget provides sufficient reserves for major repairs and IT replacement, with foreseeable expenditure allocated from these funds.

No significant recurring expenditure is funded from reserves, consistent with Council policy.

4. Advice

In respect of the General Fund, the proposed reserves and the £1.5m working balance place the Council in a sound financial position for 2019/20 and are adequate for the medium term. The Council will continue to review the medium and longer term pressures projected as part of its Medium Term Financial Plan. It is important that reserves are maintained at robust levels in order to respond to these challenges and as a cushion against forecast risks and unforeseen events.

5 Determination of Borrowing

The Prudential Accounting regime enables the Council to borrow subject to meeting criteria of affordability. The draft Prudential Indicators have been established and these will be finalised for Council approval once decisions on the overall Capital Programme have been made. The level of investment in the 2019/20 Draft Capital Programme has been maintained at a level that does not require borrowing other than for the Vehicle and Plant replacement programme, revenue generating projects and loans to third parties. A capital prioritisation process was applied to proposed capital projects and strengthens the assessment of the financial impacts of the investment.

Following the housing transfer the Council receives capital receipts from South Lakes Housing (SLH) under a VAT sharing arrangement. This income is based on actual spend by SLH on improvement works and is reviewed regularly. The Council also

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receives a proportion of capital receipts from Right to Buy Sales. Due to the volatility of this income, it is not allocated within the capital programme until actually received.

For the period under review the need for borrowing will be kept under consideration dependent on the level of capital receipts being generated and the future potential capital projects.

**Shelagh McGregor, Chief Finance Officer
South Lakeland District Council
26 February 2019**