

## **Supplementary Information**

HAVANT BOROUGH COUNCIL  
SCRUTINY BOARD  
26 January 2016

Dear Councillor

I am now able to enclose, for consideration at next 26 January 2016 meeting of the Scrutiny Board, the following supplementary information that was unavailable when the agenda was printed.

<b>Agenda No</b>	<b>Item</b>
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7	<b><u>Draft Revenue and Capital Budget 2016-17</u></b> (Pages 1 - 4)
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### STATEMENT ON THE GENERAL FUND BUDGET PROPOSALS BY THE CHIEF FINANCIAL OFFICER

#### **1. Background**

- 1.1. Section 25 of the Local Government Act 2003 requires Chief Financial Officers to report to their authorities about the robustness of estimates and the adequacy of reserves when determining their precepts. Authorities are required to consider their Chief Financial Officer's report when setting precepts.

#### **2. Summary Opinion**

- 2.1. Having taken into account the issues detailed in the report, I am able to give a positive opinion on the robustness of the estimates and the adequacy of financial reserves for 2016/17. This opinion is based on the budget scenario presented to Cabinet on 3 February 2016. Should any of the assumptions change which require the identification of significant additional savings then I will review my opinion.
- 2.2. The medium term financial plans of the Council have been prepared on the basis of estimates for retained Business Rates income and the Council Tax Support Scheme. The risks surrounding the medium term are rising. I will monitor these assumptions closely throughout the year and may review my opinion on reserves as a result of these.

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

#### **3. Estimates Procedures and Processes**

- 3.1. The Annual Audit letter for 2014/15 reports the Council is performing well and is effective in managing its finances. It has a robust budget setting process and a financial strategy that is comprehensive including future financial pressures and an analysis of key risks.
- 3.2. In giving a positive opinion on the robustness of the estimates and Council Tax procedures I have relied on the factors summarised in the budget report. These include well established and tested procedures and risk management. I confirm that in my view the Council has robust procedures in place. These procedures will need to be reviewed and revised for future years particularly in the light of continuing public sector spending constraints.

### **4. Determination of the level of resources available.**

- 4.1. The 2016/17 Revenue Support Grant settlement, announced in December 2015, was, in line with expectation. Indicative settlement figures for 2017/18 to 2019/20 have been provided and these figures inform the Medium Term Strategy. Consultation on proposals for New Homes Bonus and retained business rates are likely to change these projections.

### **5. Affordability of Spending Plans.**

- 5.1. In assessing this issue the following factors have been taken into account:
- The level of Council Tax considered acceptable both locally and nationally - the Government has confirmed that increases in Council Tax deemed to be excessive will be subject to local referenda. Although the Government has assumed 2% increases in Council Tax in its settlement, the Council has made a commitment in its Medium Term Strategy to maintain 0% Council Tax increases its 4 year period.
  - The budget process for 2016/17 has been based on costed business plans.
  - The budget position for 2016/17 includes a significant surplus on Business Rates and Council Tax. These have arisen due to fewer than anticipated appeals and lower than expected unoccupied property relief awards. These surpluses do not change the underlying longer term financial forecasts.

### **6. Advice on the level and use of reserves**

- 6.1. The estimated level of the General Fund Balance at 31 March 2016 is £3.5m. The General Fund Balance is set aside to mitigate the impact of unexpected events and emergencies. In order to assess the adequacy of the reserves I have identified key financial risks. It should however be noted that this is not a precise science and that local circumstances, the strength of financial reporting arrangements and the Council's track record in financial management will also be a key influence on the actual potential of any individual risk materialising.
- 6.2. An analysis of earmarked reserves held by the Council has revealed that the level of individual reserves is appropriate. The reserves are adequate to meet the commitments and forecast expenditure facing the Council.

### **7. Key Budget Risks**

- 7.1. The level of risk around local authority budgets has been increasing steadily since the localisation of business rates and Council Tax Support. As the Government now proposes a full localisation of business rates by 2019/20 the inherent risk in our budgets is rising and will continue to do so.

- 7.2. The first, and most immediate risk, Havant Borough Council faces remains the long term projected deficit anticipated in 2019/20 of £1.8m. The Council has done a significant amount of work in 2015/16 to address this deficit, especially through the Waste Joint Venture and 5 Councils' procurement projects. However, neither contract is yet signed, both projects' savings are back loaded and the 5 Councils' project does not start until October 2017, although this could be subject to negotiation. Therefore, the Council's transformation strategy will continue to need to reduce costs in 2016/17 and 2017/18 to strengthen the Council's financial position going forward.
- 7.3. There is a new group of risks following the Government's recent consultations on New Homes Bonus, the 2016/17 settlement and proposed consultation on the intended 100% localisation of business rates from 2019/20.
  - 7.3.1. The calculations in the Government's settlement for local government have changed this year. The settlement includes a concept called core spending power based on the total of council tax, business rates, Revenue Support Grant and New Homes Bonus. The core spending power calculation assumes all councils will raise council tax in 2016/17 and in future years by the referendum limit (2%). This change has led to some councils, including many of the Surrey and Buckinghamshire districts, having to give more than the whole of their share of business rates to the Government in 2016/17. We are not yet clear how a decision to not raise council tax will impact on the core spending power in the future and whether this might create a quicker reduction in grant or right to retain business rates in future years.
  - 7.3.2. The Government will also, shortly, start its consultation on the 100% localisation of business rates by 2019/20. Full local retention of business rates scheme will place a higher risk upon Havant Borough Council because it will leave us more vulnerable to business rate appeals and to reductions in businesses' ability to pay rates in the future.
- 7.4. Hampshire devolution bid also carries inherent risks to our budgets should the Council decide to approve it. This would replace the risk from the national business rates scheme detailed in paragraph 7.3.2 above. We are aware there is a £3billion shortfall for intra-structure across Hampshire, we are aware the Isle of Wight Council is in considerable financial difficulties and the "fiscal neutrality" of this proposal also suggests if demographic population demands from adult social care could become partly the districts' and borough's responsibility. We know by retaining all business rates in Hampshire we expect to be no better off as an individual authority. The risk is the deal could mean, ultimately, that Havant Borough Council is worse off.
- 7.5. The current view of the economic situation is the country is now nearer to the next recession than the last but we do not know when this will begin. With the world economy now not only heavily inter-related but also changing due to the rise of the BRIC economies in the last 10 years we cannot be sure where the

next recession will start. The next recession will be the first under a fully localised business rates and Council Tax support regime. Both these elements will potentially worsen our funding position when the recession occurs.

- 7.6. In summary, therefore, it is my view the estimates presented are robust for 2016/17, that reasonable steps are being taken to mitigate the associated risks. The medium term financial position of the Council is challenging, contains more risk than previously and will require concerted effort from the Council for us to be able to continue to deliver our key front line services to our customers.

### 8. **Conclusion**

- 8.1. Based on the assessment included in this report I have concluded the 2016/17 budgets as proposed and the associated systems and processes are sound. The level of the General Fund Balance and other reserves are adequate to meet the Council's medium term financial commitments for 2016/17, however as the risks in section 7 explain I have concerns about the rising risks to borough council finances. I may wish to revisit the level of General Fund Balance during the year as these matters become clearer. My conclusion is subject to no amendments being made to the budget proposals that would impact on this assessment.

Jane Eaton  
Section 151 Officer  
Havant Borough Council