

APPENDIX C

REPORT UNDER SECTION 25 OF LOCAL GOVERNMENT ACT 2003 (To be read in conjunction with the Council Budget Report – 1 March 2016)

1. Purpose:

- 1.1 The purpose of this report is to provide Members with information on the robustness of the Councils estimates and the adequacy of reserves so that Members have appropriate advice available when they take their budget and Council Tax decisions.

2. Background:

- 2.1 Section 25 of the Local Government Act 2003 requires that an authority's statutory officer(s) reports to the authority when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals.

3. Robustness of Estimates

- 3.1 The Council has a well established and robust budget processes that comply with statutory and best guidance requirements. These have been followed when compiling the 2016/17 budget and medium term projections.
- 3.2 The Council has four sets of inter-dependant 'guiding principles' that need to be adhered to when setting the budget – these are the "medium term financial strategy *guiding principles*" the "*modelling for recovery*" principles, "*budget containment strategy*" and the 'prioritisation golden rules'. These provide a sound reference point for the Councils financial planning. The draft budgets under consideration by the Council adhere to these guiding principles.
- 3.3 The above are supplemented by the Councils 'Budget Delivery Framework' – a set of workstreams that have successfully delivered ongoing efficiency savings to help ensure that the Council continues to achieve a balanced budget. These continue to be focused upon 'adding value' and generating additional income more than concentrating on reducing inputs.
- 3.4 The Council has as in previous years identified the required savings in full – however there are number of significant consultations that could see changes in National Policy over the coming years such as New Homes Bonus that may adversely impact the Council's budget in the medium term. The assumptions used in the estimates and the risks outlined in Section 4.9 of the main report will also need to be closely monitored.
- 3.5 Based on the assumptions applied to the Council's Medium Term Financial Strategy, in the years after 2016/17 the Council will need to deliver additional annual on-going savings in the region of £1¼m – this adds up to around £5m over the medium term which is on top of the £9.9m ongoing savings achieved since 2011. This is a very significant challenge and one that will only be achievable if the Council makes good progress in its aspirations to become more financially self-sufficient particularly through generating returns from commercial investments. It will also require restraint from the Council in sticking to its existing suite of guiding principles and not taking on additional revenue spending pressures.

- 3.6 The reality of the Council being able to deliver a balanced budget in the medium term is looking increasingly challenging – the Council will need to carefully consider its main sources of income (Council Tax, Fees and Charges and Commercial Investment returns) at the same time as starting to consider its priorities for services (and levels of services) if a balanced budget is to be achieved in the medium term.
- 3.7 As the Council looks at ways of generating new investment income members should note that they will need to consider business cases for potentially large scale capital investments in the near future. This will require a change in thinking and approach as we move forward.
- 3.8 The Council continues to focus on the medium term and influence what the medium term 'world' may look like – this is in accordance with the Council's guiding principles and is considered a good use of resources, as any small changes that take place at a national level can have significant financial implications for the Council's budget. The time taken to try and influence the shape of any new system(s) is an investment by the Council and is time well spent – this is especially true in relation to the future system for New Homes Bonus and Business Rates.

4. Adequacy of Reserves

- 4.1 There is no statutory requirement in relation to revenue reserves. Best practice guidance from CIPFA suggests that each local authority should consider their own local circumstances (and levels of associated risks) and take proper advice from its Officers.
- 4.2 Reserves can be held for two main purposes:
- ◆ A working balance to help cushion the impact of uneven cash flows and unexpected events or emergencies;
 - ◆ Earmarked reserves to build up funds to meet known or predicted requirements.
- 4.3 One of the Council's guiding principles is that *"Revenue balances should not fall below £1m and overall revenue reserves should not fall below 10% of net revenue expenditure"* – the Council's medium term financial projections comply with this provided that the required levels of ongoing efficiency savings are delivered in each year.
- 4.4 The Executive Committee have an established policy whereby any budget savings (over and above those required to set a balanced budget) will be used to supplement earmarked 'smoothing' reserves. These reserves have been created specifically to deal with the uncertainty that currently exist in the local government environment and to provide some additional flexibility to deal with the challenges that the Council is likely to face into the future. This is a sensible policy to follow and recognises the potential scale of the financial risks – particularly around Business Rates (new system, appeals, potential new burdens) and reductions in Central Government Support.
- 4.5 As identified in the budget reports that have been under consideration during this budget process, the Council does not hold any significant 'cash backed' reserves. It is likely that the Council will have to take on some external long-term debt in the near future (as identified in the Treasury Management strategy report approved by the Executive Committee on 17th February 2016).

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19th February 2016