APPENDIX G

Report of the Chief Finance (Section 151) Officer under Section 25 of the Local Government Finance Act, 2003

1 Section 25 of the Local Government Act 2003 requires the Chief Finance Officer (Section 151 Officer) of a local authority to report on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides. This report has to be considered by Executive and the full Council as part of the budget approval and council tax setting process.

2 The proposed budget is set against the context of continued reductions in core Government funding. The proposed budget for 2019/20 is the last year of the current Medium Term Financial Strategy linked to the submission of an Efficiency Plan which secured a multi-year settlement until 2019/20 thereby providing certainty of this element of funding. This allowed planning to take place and the proposed budget is consistent with the MTFS framework. The final settlement from MHCLG did not impose the risk of Negative RSG that would have required unplanned savings or additional use of reserves to balance the budget.

3 In 2020/21 the Government intends to make fundamental changes to the funding framework for Local Government through the introduction of a new needs based fair funding formula and the introduction nationally of 75% business rate retention (Leicestershire is within a pilot scheme for 2019/20). The cumulative impact of both of these changes and lack of visibility on any transition or damping arrangements means that financial planning for 2020/21 is very uncertain. The Council will therefore retain high levels of reserves to mitigate against the impact of changes and allow the Council to plan for a sustainable financial future

4 The Council's S151 Officer is required to report to Executive and full Council the key risks facing the Council in relation to current and future budget provision. An assessment of material risks and associated mitigating actions are detailed below:

(a) Business Rates

The Council continue to experience significant volatility in respect of business rate appeals which is compounded by having significant appeals still outstanding based on the 2010 Rateable Value list and no published challenges on the 2017 list. There have been some appeals settled from the 2010 list, though the majority of Magna Park bills are still outstanding and required a further year of provision. Currently, very few 'check, challenge and appeal' appeals have been lodged against the 2017/18 list – this may be linked to outstanding appeals on the 2010 list. Following an external review, the Council has reduced its provision for the 2017 Rateable Value list to the national percentage included with the Valuation Office assumptions. This has led to less money being set aside in the provision and an increase in the retained business rate levy. The Council prudently retains a business rate reserve and does not draw down on in-year receipts. Business Rates are subject to potential changes in retained business rate percentages and baselines from 2020/21 onwards. It is not clear what damping or transitional arrangements may be in place and therefore maintaining a 'banked' business rate retention reserve and retaining general Fund balances is important at this time of volatility. The Council through being part of a business rate pool is mitigating the impact through being in a 'safety net position'. Additional funds have been secured for 2019/20 through being successful as a business rate pilot for 2019/20.

(b) New Homes Bonus

The use of new homes bonus in the budget has reduced to a sustainable level based on housing build out projections. The Council prudently provided for a new homes bonus reserve to smooth the impact of changes in the new homes bonus framework. This mitigates in the short to medium term against the impact of buoyant new homes bonus years dropping out and a slow down in the housing economy. There remains a risk from 2020/21 that New Homes Bonus will be removed or replaced with an alternative scheme to incentivise house building. The Council currently retains a New Homes Bonus reserve (set aside in previous years) to help mitigate against the impact of any immediate changes.

(c) National Economy

The national economic position continues to have an impact on Council funding and activity. Recent forecasts by the Office of Budget Responsibility (OBR) have identified improved growth forecasts and the Government's intention to manage with a residual national deficit. It is still unclear what this means for Local Government as there will still be distributional impacts across Government. The next Spending Review is expected in 2019 for 2020/21 onwards but at this stage it is unclear how many years the Spending Review will be for

There is continued uncertainty of the economic impact of exiting the European Union and the impact on public sector funding and especially infrastructure funds. The budget has been prepared primarily on the basis of a steady state position of the UK economy with a corporate assumption of 2% inflation. Any significant shifts in costs or investment returns are adequately covered by Council's contingencies and reserves.

Changes in the UK economy may have an impact on the financial health of businesses within Harborough District – this would be felt most significantly in respect of loss of business rates if it was to occur. The Council has made provision in its forecasts for changes in business occupancy and bad debts.

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(d) Inflationary Costs

It is expected that inflation and pay awards will remain at 2% for the foreseeable future. This places pressure on the MTFS at the time of flat cash increases in Central Government funding. The Council's next tri-annual pension review will be undertaken in the autumn and is likely to lead to further increases in employer contributions (the last tri-annual review led to 2% per annum increases per year and equated to approximately 110K per annum).

(e) Income Risks

A prudent level of income assessments has been factored into the budget for 2019/20. Fees and Charges have increased by inflation or by the statutory fee or cost recovery needs. Regular budget monitoring of income identifies any income trends and appropriate action plans put in place. The income targets included within the 2019/20 budget are considered achievable for the traded services. The largest income target is for development management fees that could be impacted on by national economic conditions and customer confidence that could lead to slower housing growth rates. However, the likely adoption of the Local Plan in April and allocations to two Strategic Development Areas (Scraptoft and Lutterworth East) should lead to a sustained build out rate over forthcoming years. Any shortfall would be addressed through a scalable development management team and through use of corporate contingencies and General Fund balances.

(f) Welfare Reforms

The Government continues to implement the largest change to welfare reforms since 1940. Universal Credit has been introduced in Harborough District alongside other changes in the welfare framework. This is resulting in increased hardship for a small number of residents. The Council have a series of advice services and hardship funds that seek to mitigate some of the impact of these externally driven changes. The Council continues to work in partnership to understand and evaluate the changes and the impact on the Council's finances and its' communities.

(h) Capital Spending

The three year Capital Programme details the Capital priorities and ambition for the Council. Detailed Business Cases will be developed and external funding opportunities and conditions evaluated. A level of unsupported borrowing has been estimated and debt charges incorporated in the budget. The capital budget is ambitious and is supported by External Funding and Capital Receipts. Detailed business cases will detail the risks and the funding options linked to major schemes.

The Capital Programme includes housing schemes that will generate capital receipts – the recent change in MRP policy allows the deferral of the financing of the scheme, pending receipt of the Capital Receipt. If there was a significant downturn in the housing market development of sites could be amended to a phased development based on market conditions.

The Capital Programme makes provision for investment in the Council's Leisure facilities for a new Leisure Contract from 2022/23. The procurement route and any management fee from a provider will be subject to a competitive procurement process.

(i) Property Investments

During 2018/19 and for the next three years the Council is investing in property funds (£5 million) and potential commercial property acquisitions (£10 million) alongside the investment already approved by Council in November 2018. These investments are made on the basis of being long term investments with the potential that the capital value can both increase and decrease over the period – this only has a material impact at point of realising an asset value through sale. Analysis shows that even if an investment value was to rise or fall the revenue yield supporting the budget remains consistent and therefore this would not be an immediate risk to the financial forecasts. The Council retains professional advisors in this area.

(j) Contingent Liabilities

The Council is aware of a number of contingent liabilities which are detailed annually in the statement of accounts. During the year there is the potential for additional liabilities to be identified, for example, planning appeals, judicial review etc. At the moment no separate provision has been made in the accounts until the nature and timing of the liabilities become more certain. To mitigate against this the projected General Fund balance will be maintained higher than the minimum level required.

5 Robustness of Estimates

There is an element of judgement as budget estimates of spending and income are made at a point in time and may change as circumstances change. This statement about the robustness of estimates cannot give a 100% guarantee about the budget but gives the Council reasonable assurance that the budget has been based on the best information and assumptions available at the time. The Council utilises a computer system (collaborative planning) where all the budget movements are documented and subject to sign-off by budget managers.

In setting the budget for 2019/20, current expenditure trends and service demands have been reviewed and challenged. The budget for 2019/20 has therefore been set on the basis of need, demand and funding availability.

The Council is utilising a variety of funding and flexibilities to fund the capital programme. Where appropriate, the release of major funding schemes will be subject to detailed business case and affordability and risk will be assessed at appropriate decision points. Investment income from property and commercial investments is based on demonstrable returns over the medium term.

The Council has demonstrated its ability to deliver challenging savings targets in recent years through efficiencies and income generation. It has also prudently invested in its priorities within the context of a sustainable balanced budget. There are no 'unidentified' savings still to be identified within the 2019/20 Budget.

6 Adequacy of Reserves

The recommendation on the utilisation of reserves has been based on the robustness of estimates information and a risk assessment of the budget.

Risk	Reserve Cover/Mitigation
Impact of Inflation	In year changes in inflation are usually absorbed within the approved budget envelope for each service and/or contingency. Whilst inflation is currently above the Bank of England target of 2% it is expected that the Government will retain the 2% target and will introduce fiscal interventions to manage inflation in the short term. There is a risk that inflation could be materially impacted upon by Brexit. The budget has provided for 2% inflation for both pay and prices. The Council retains General Fund Balances above the minimum recommended level to respond to significant costs if they were to occur.
Business Rate Volatility	The Council retains a business rate growth reserve in excess of the annual draw-down from the reserve to support the Revenue Budget, thereby only utilising 'banked growth'. Prudent provision for appeals and bad debts are included in the forecasts. The forecast balance on the reserve of £1.644 million on this reserve at the end of 2019/20 is in excess of £1.364 million of retained business rates being utilised on a recurrent basis to support the budget.
Changes in New Homes Bonus	In anticipation of changes in the New Homes Bonus framework and number of years that New Homes Bonus would be paid on the Council created a New Homes Bonus Reserve to mitigate the impact of these changes. The budget draws down £400K from this reserve to support the budget with an estimated £347K left in the reserve at the end of 2019/20 to draw down in 2020/21. There is a risk that from 2020/21 the Government could alter the New Homes Bonus

	Scheme. Currently £2.472 million of New Homes Bonus supports the 2019/20 budget in addition to the £400K direct from the reserve. Any changes would be managed initially from the General Fund Reserves (which is retained at a high level to mitigate against such risks) but would involve major realignment of the budget in the future if New Homes Bonus was to be removed.
Earmarked Reserves	The budget assumes earmarked reserves totalling £4.698 million by 31st March 2020 for the specified purposes. The level of contributions and drawdown from these reserves is assessed as prudent.
General Fund Balance	The Council's Reserves Policy is to retain the General Fund balance at between 7.5% - 15% of the net revenue budget). The estimated balance at the 31st March 2020 of £5.110 million is significantly above this. My Section 151 opinion is that I would propose a minimum balance of 15% of the net revenue budget (£1.845 million) for 2019/20. This is an increase from 10% in previous years and reflects the level of uncertainty linked to changes in 2020/21 in respect of business rate retention and fair funding. The proposed balance on the General Fund is forecast to be significantly above this. The retention of a higher General Fund Balance is justified given the volatility in the funding framework for local government and funding pressures at the end of the MTFS period and from 2020/21 onwards.

7 Assurance Statement of the Council's Section 151 Officer

The continued change in Government funding streams and volatility of business rate appeals (and proposed changes in retention and national resets) mean that the Council continue to experience financial pressures and uncertain funding in the medium term.

The current MTFS, Change agendas and a planned utilisation of reserves provides a flexible approach to managing those risks in the medium term and creates scope for further innovation and efficiency in response to reductions in core Government funding and the opportunities/volatility arising from locally generated income sources. The budget has redirected resources into areas ensuring that we have the capacity to deliver on the change agenda.

In relation to the 2019/20 revenue budget, the continued need for savings to respond to the Government's austerity agenda and to invest in Council priorities are challenging, but are nevertheless achievable. The Council has been highly successful in bringing forward income generation proposals especially around property and commercial investments and funds

The budget utilises a mix of savings, efficiencies and income generation along the prudent use of reserves and locally generated growth funds to propose a balanced and sustainable budget for 2019/20.
The track record of the Council in successfully delivering transformation and savings over the past decade provides additional assurance. The Council has a good record of managing and planning for other potential financial risks that arise from time to time which provides further assurance that it can proactively manage risks. The healthy reserves position also provides against any future risks.

The levels of reserves, balances and contingencies held are in my opinion adequate. Clearly, there are risks in the achievement of some of the proposed savings and/or income generation proposals. Whilst it is not possible to guarantee that every single proposal will be achieved. I consider the overall package to be prudent and affordable, and I am assured of the robustness of the projected savings, and the extent of rigour in their calculation. The retained level of earmarked reserves and general fund balance are sufficient to address and mitigate any unplanned cost pressures or funding changes in the short and medium term. The risks of business rate appeals resulting in the Council moving to a 'safety net' position is mitigated through being part of the Leicester and Leicestershire Business Rate Pool.

The Capital Programme sets out a three year programme from 2019/20 to 2021/22 and details estimates of external funding and need for unsupported borrowing and capital receipts alongside other funding sources. The financial implications of these are included within the Council's prudential indicators (due to be adopted by Council on 25th February 2019. A number of schemes will require the development of future business cases and procurements. Assurances will be provided at the appropriate point.

The Council is currently under-borrowed against its Capital Financing Requirement (CFR) resulting in the actual prudential code indicators being lower than the permitted and spent capital programme.

In my opinion, the estimates are sufficiently robust to allow the Council to set the revenue budget, capital programme and council tax for 2019/20. The budget strategy, level of reserves and MTFS provides a sound approach for balancing the budget in future years.