

BUDGET 2019/20 - ROBUSTNESS OF ESTIMATES

SUMMARY AND RECOMMENDATIONS:

This report sets out the Executive Head of Finance's statement on the *robustness of the estimates* used in the preparation of the Council's budget. This is a statutory requirement, under Section 25 of the Local Government Act 2003.

Cabinet is asked to agree:

- a) the level of risk and set of assumptions set out in this report, which underpin the revenue and capital budget decisions and planning for 2019-22;
- b) to consider starting the budget process earlier in 2019;
- c) the formal designation of 'Responsible Budget Officers' (RBO's), for the purpose of managing the budget as set out at para 3.3, and that the provisions be included in the Financial Procedure rules.

1. INTRODUCTION

- 1.1 Whilst the purpose of the report is set out in the summary, there are two additional reasons for reporting, which both improve governance of the budget process. Firstly, to start the budget process earlier next year to ensure the greater challenges that will be announced in 2019 for the following years, have the space to be successfully considered. Secondly, to formally widen the pool of officers that has the responsibility to manage the revenue and capital budgets, and so improve governance and deliverability.
- 1.2 It is a key decision, required by statute, and will improve the audit standing of the Council.

2. BACKGROUND

- 2.1 This paper is one of a suite of reports to this Cabinet meeting that support decisions for the eventual budget recommendations to Council in February. It shapes the framework in which that process takes place, which is why it considered at the start of the process. The report will be updated to reflect the settlement decisions by Government on December 6 and late January, and will be considered again, in a revised form prior to February discussion of the budget report and recommendation of the budget and precept for 2019-20.
- 2.2 The level of risk and budget assumptions underpin decisions when setting the revenue budget and capital decisions and affect the recommended level of general balances held. Members must consider the level of risk and the assumptions set out in this report when recommending the revenue budget and capital programme.

- 2.3 The MTFFS 2019-22 (Cabinet, October 16 2018) rehearses the extra-ordinary increase in risk from 2019, as a consequence of leaving the European Union in early 2019 and a new Settlement regime after 2019-20.
- 2.4 Whilst it is possible to agree different levels of risk, due to ongoing levels of local government spending reductions, in common with other local authorities, there has been a decrease in non-statutory spend, reducing the room for manoeuvre. Consequently, whilst the 2019-20 budget, and later years, is severely constrained, more time is required to resolve difficult choices; Members may want to consider starting the budget process earlier next year.

3. DETAILS OF THE PROPOSAL

General

Approach to providing assurance on robustness of estimates

- 3.1 The budget estimates, are estimates of spending and income made at a point in time prior to the start of the next financial year. As such, this statement about the robustness of estimates does not provide a guaranteed assurance, but does provide Members with reasonable assurances that the draft budget, which supports the budget recommendations to Cabinet, has been based on the best available information and assumptions and has been subject to scrutiny by relevant staff, Executive Directors and Members.
- 3.2 The requirement on the robustness of estimates has been met through key budget planning processes during 2018-19, including:
- Issue of guidance to all services on budget preparation w/c September 3 2018;
 - Routine monitoring of current year budgets to inform future year's planning;
 - Review by finance staff of all cost pressures and regular reports to the Executive Leadership Team to provide challenge and inform the approach;
 - As part of preparing for a new three-year programme of work, the organisation undertook a review of functions and budgets including specific assessment of key areas of spend and income and functional peer review;
 - An organisational approach to planning with Cabinet providing guidance early in the process;
 - Member review and challenge through the Budget Strategy Working Group on October 9th, with further meetings at January 9th and March 12th;
 - Public review and challenge through the budget consultation, including impact assessment of proposals;
 - Assurance from Executive Directors and Heads of Service that the final budget proposals considered by the Council are robust and are as certain as possible of being delivered;
 - Member and Executive Leadership Team peer review of all service growth and savings throughout the budget planning process.
- 3.3 In addition, and as set out in the Scheme of Authority and Financial Responsibility, Executive Directors/Heads of Service are responsible for the overall management of the approved budget. A further development is the codification of 'Responsible Budget Officers' (RBO's), who exist in practice, but would formally ensure that authorised budgets are managed in the most effective and efficient manner in accordance with agreed plans and financial controls. Therefore, managers with

RBO responsibilities would also play a key part in monitoring the financial position, identifying variances and financial risks and planning for services changes including forecast contractual, demographic, legislative and policy changes. In preparing estimates, considerable reliance is currently placed on the Executive Leadership Team, now augmented by the recently filled Head of Service team. The completion of the governance network with the formal addition of RBOs, would make certain that these responsibilities are effectively delivered.

Risk Assessment of Estimates

- 3.4 The organisation manages risk registers corporately, for each service and for key projects, these incorporate all types of risk, including financial. In addition, a formal risk assessment has been undertaken of the revenue budget estimates in order to support the recommendation of the level of General Balances. This risk assessment is detailed in a separate report to Cabinet.
- 3.6 The budget planning estimates are reported to Cabinet in October and January and key risks associated with the budget proposals identified. This enables Members to assess the risk associated with achievability of the savings identified and the robustness of the budget plans.
- 3.5 Early identification of risks enables the Executive Directors/Heads of Service to take mitigating action and to enable higher risk budgets to be more closely monitored during the year. The key corporate budget risks that will require ongoing attention are:
- Income: Continuing reduction to key government grant funding and lack of certainty of key funding streams. The list of grants is included at [Appendix A](#);
 - Savings: delivering the £3.09m revenue savings, in both this year and 2019-22, to timetable and volume;
 - General pay and prices: Inflationary pressures affecting RBC contracted spend and the level of future pay awards – see [Appendix B](#);
 - Purchase of income generating assets. Significant capital project[s] required to be identified and met within planned capital funding;
 - Organisational Change: Managing significant transformation and staffing changes.
- 3.7 The budget estimates span a three-year period 2019-22 and whilst forecast using the best available information, the planning assumptions and forecasts for future years will necessarily be based on less robust data and known factors. As part of the ongoing budget planning and monitoring cycle, these assumptions and emerging state of affairs are reviewed allowing the development of more detailed planning for the next financial years and revised medium-term financial plans.

Robustness of Revenue Estimates

- 3.8 The service and budget planning process focussed, through service and peer review, on the key priorities for services, including those services that we are required to do by law and reassessing the way that services are provided. In addition, cross cutting reviews considered shared opportunities for new ways of working and savings. Cost pressures to manage unavoidable inflationary,

legislatives and demand pressures have been included in the revenue budget estimates.

- 3.9 During the Autumn, the Executive team and Members have undertaken challenge reviews of all budget plans and spending proposals. This has included peer review and an opportunity to evaluate initial proposals, risks arising from savings proposals and emerging planning issues for services. The most significant issues affecting the Council relate to
1. Population increase;
 2. The economy;
 3. Policy decisions, from Government, the County and the Council;
 4. Rushmoor 2020 – encompassing the Council’s approach to transformation, income generation and delivery of savings across the business;

These are explored in detail in the medium term financial strategy (MTFS)

- 3.10 As part of the budget process Cabinet, Members and Scrutiny members will consider all the budget reductions and growth pressures and these are reflected in the budget. In addition, some of the key risks identified have been taken into consideration in the Cabinet’s budget recommendations, which will enable some budget risks to be managed down and this is reflected in the risk assessment of the recommended level of general balances.

- 3.11 The table below shows the current budget position for the following three years based on the MTFS to the October 16th Cabinet. The MTFS has yet to set out plans to fully meet the funding shortfall in 2019-22. Work is continuing to identify further proposals for savings and growth to address these deficits in future years.

£000's	2018-19	2019-20	2020-21	2021-22
Annual Funding Gap	41	171	27	752

- 3.12 The factors and budget assumptions used in developing the 2019-22 budget estimates are detailed over sixteen headings, including drivers of growth, savings and other planning assumptions and set out at [Appendix B](#).

Robustness of capital estimates

- 3.13 As with the revenue budget, the capital programme – at £137.8m in the MTFS - is designed to address the authority’s key priorities, including schemes which will help transform the way in which services are provided. To this end, the capital programme is guided by a prioritisation model; schemes that score less than that achieved by the repayment of debt, represent bad value for money. In this way, the Council will achieve the most economic use of its scarce capital resources.
- 3.14 Projects are costed using professional advice relative to the size and nature of the scheme. Where appropriate, a contingency allowance is included in cost estimates to cover unavoidable and unforeseeable costs.
- 3.15 The largest on-going capital programmes relate to regeneration (£70m) and revenue generating investments (£54m). In both cases there is significant member involvement.

- 3.16 The risks associated with having to fund large unforeseen programme variations are addressed in two ways: firstly by the introduction of a 'gating' regime, which splits each scheme into four stages that improves physical planning; and secondly, being able to amend the timing of projects between years. Secondly, the ability to re-profile projects between years does not result in a significant funding risk because the vast majority of funding is not time-bound, although there are inflationary risks which have to be considered.
- 3.17 An estimate of potential capital receipts is made each year, but the actual level of receipt in any one financial year can never be forecast in advance with any degree of certainty due to market conditions and interest from purchasers. Reduced receipts may result in fewer capital projects going ahead.
- 3.18 The Council's policy is to minimise unsupported borrowing and the impact of the capital programme on the council's future revenue budgets. Projects not funded from Government grants, other grants and capital contributions or capital receipts will have to demonstrate clearly that sufficient and identifiable additional revenue or cost reductions will be released to fully pay for the future revenue costs of borrowing.

Alternative Options

- 3.19 Statutory requirements preclude alternative options.

4. IMPLICATIONS

Risks

- 4.1 In setting the budget the Council can accept different level of risks, for example, minimising risk through investment in services or reducing higher risk savings or putting in place additional reserves for specific risks. The robustness of the budget estimates is evaluated, setting out budget assumptions and areas of risk, to enable Members to consider the assumptions and risks that will underpin further decisions for agreeing the budget and level of general balances. The assumptions set out in the report directly impact on the risk assessment of the level of general balances.
- 4.2 Whilst it is possible to agree different levels of risk, due to ongoing levels of local government spending reductions and in common with other local authorities, this budget carries a high degree of risk of delivery. Consequently the 2019-20 budget has little room for manoeuvre and member choice is severely constrained.

Legal Implications

- 4.3 Local authorities decide every year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on each of their services. Because they decide on the council tax before the year begins and can't increase it during the year, they have to consider risks and uncertainties that might force them to spend more on their services than they planned. Allowance is made for these risks by:

- making prudent allowance in the estimates for each of the services, and in addition;
 - ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.
- 4.4 Section 25 requires an authority's chief finance officer to make a report 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, so members will have authoritative advice available to them when they make their decisions. The section requires members to have regard to the report in making their decisions.

Financial and Resource Implications

- 4.5 There are no direct resource implications arising from this report, but it provides information and assumptions to support the Statement of the Executive Head of Finance on the Robustness of the Estimates and provides assurances to Members prior to recommending and agreeing the revenue and capital budgets and plans for 2019-22.

5. CONCLUSIONS

- 5.1 This report fulfils the statutory requirement, under Section 25 of the Local Government Act 2003, on the *robustness of the estimates*.
- 5.2 In addition, it looks to the future. to ensure the greater challenges that will be announced in 2019 for the following years, have the space to be successfully considered. Also, it proposes to formally widen the pool of officers that have the responsibility to manage the revenue and capital budgets, and so improve governance and deliverability.

BACKGROUND DOCUMENTS:

Cabinet October 16, 2018 Medium Term Financial Strategy.

CONTACT DETAILS:

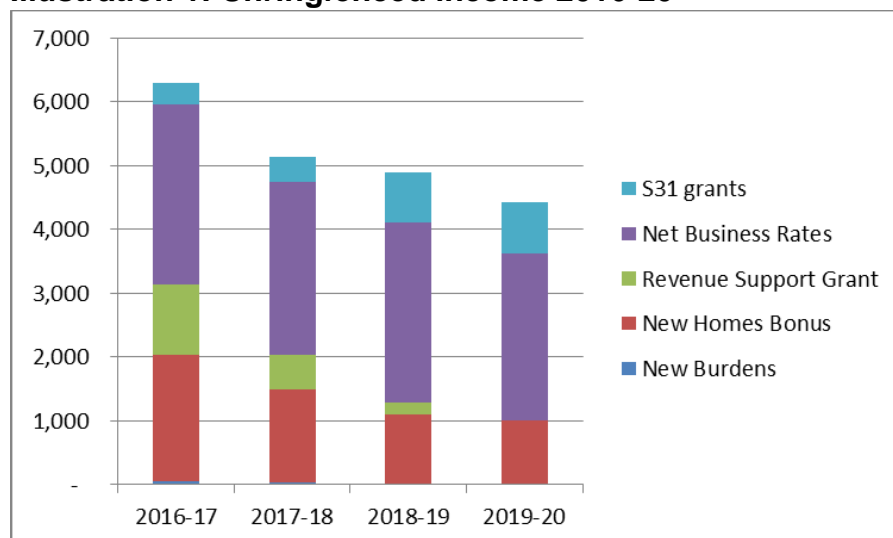
Report Author – Peter Timmins peter.timmins@rushmoor.gov.uk ☎ 01252 398440

Head of Service – Ian Harrison ian.harrison@rushmoor.gov.uk ☎ 01252 398401

REVENUE GRANTS

- 1 **Unringfenced Income** from Government 2016-20 – the four year settlement, with one year remaining – a 29.3% reduction, from £6.3m to £4.4m, and the demise of New Burdens and Revenue Support Grant.

Illustration 1: Unringfenced income 2016-20



£000's	2016-17	2017-18	2018-19	2019-20
New Burdens	46	40	0	0
New Homes Bonus	1,994	1,450	1,095	1,008
Revenue Support Grant	1,104	536	190	0
Net Business Rates	2,809	2,719	2,821	2,609
S31 grants	333	394	782	798
	6,286	5,139	4,888	4,415

Unringfenced Income from Government 2020-22 – the three years of the MTFs, as currently predicted, without the 2020 rebasing – a 24.1% increase, with a doubling of NHB.

Illustration 2: Unringfenced income 2020-22 – with NHB, an increase

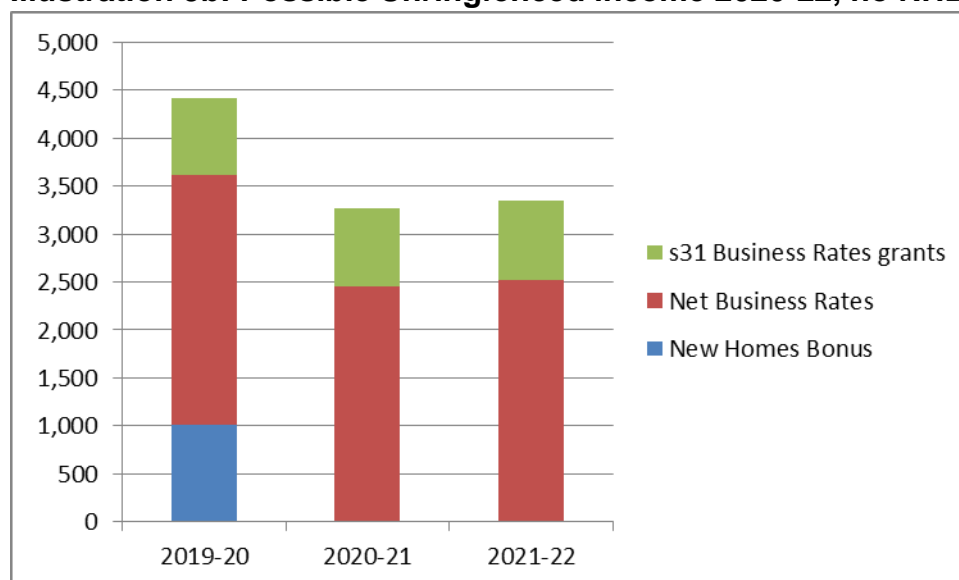
£000's	2019-20	2020-21	2021-22
New Homes Bonus	1,009	1,559	2,137
Net Business Rates	2,609	2,454	2,515
s31 Business Rates grants	798	814	830
	4,416	4,827	5,482

There is speculation – Municipal Journal and Pixel – that the Treasury regards NHB as a failed policy, and it could disappear from the last two years, 2020-22. Were this to occur, there would be a 24% decrease from 2019-20.

Illustration 3a: Possible Unringfenced income 2020-22, no NHB, a decrease

£000's	2019-20	2020-21	2021-22
New Homes Bonus	1,009	0	0
Net Business Rates	2,609	2,454	2,515
s31 Business Rates grants	798	814	830
	4,416	3,268	3,345

Illustration 3b: Possible Unringfenced income 2020-22, no NHB, a decrease



2 Ringfenced grant income

Ringfenced income, such as vehicle on-street parking, can only be used for specified purposes connected to the function.

3 Locally collected tax - Council Tax

Over the medium-term period, raising Council Tax by 2.99 per annum generates £1,125,000 of additional income to spend on services when compared to holding Council Tax at its current level.

Illustration 4: effect of annual increases in Council Tax

Council Tax summary	2019/20	2020/21	2021/22
Tax base	31,159	31,470	31,785
Increase in number of properties	375	454	378
Band D equivalent (2.99% rise)	204	211	217
Band D equivalent (0% rise)	198	198	198
CT base rate and Band D Rise (2.99%)	6,369,711	6,625,767	6,892,116
CT Base rise	6,184,704	6,246,551	6,309,017
Additional income from 2.99% rise	185,007	379,216	583,100

4 Locally collected tax – Business Rates (BR)

The MTFs rehearses the development of localising BR, and the arrangements for sharing growth. It also notes the bid of the Hampshire authorities to become a pilot with 75% retention, as opposed to 50%. In 2020-21, the higher percentage retention will be adopted nationwide.

As Illustration 1 demonstrates, the net retained BR in 2019-20 is expected to be lower than in the previous three years, which, in part, reflects the greater risk that is carried locally. This is due to appeals, the change in the economy (from bricks to clicks), national policies to lighten the load on small businesses, and the revaluation that changed the way BR was spread between local authorities.

Analysis of Robustness of Revenue Estimates

Budget Assumption	Explanation of financial forecast and approach																											
Growth Pressures 1) Inflation	<p>Pay inflation - Pay awards of 2% in 2019/20 and all periods following plus incremental progression within grades. The Council is part of the national agreement and therefore future years will be subject to any agreements reached.</p> <p>Pensions – Increased pension liability of 1% (from 15.1 to 16.1), is built in for 2019-20. The 2019 Actuarial Evaluation will set the employer contribution rates from 1 April 2020.</p> <p>Price Inflation is provided where a contractual increase is required. This is at the contractual or forecast rate.</p> <p>Inflation on income - Increases in fees are determined on two separate bases:</p> <ul style="list-style-type: none"> • Inflation • Cost recovery <p>Inflation increases will be determined by RPIX published for September 2018. Cost recovery increases are determined by review the cost of the Council provided a service and are recalculate every year in-line with scheme requirements.</p> <p>Interest costs at short-term rates of approximately 0.85% in 2018/19 and then increasing at 0.25% increments in-line with the estimated rate of Bank of England base rate increase and the associated Minimum Revenue Provision.</p>																											
2) Demand and Demographics	<p>There are two key areas where demand and demographic pressures have a significant impact on the council's budget planning</p> <p>Increase in population over the planning period.</p> <table border="1" data-bbox="547 1525 1463 1659"> <thead> <tr> <th></th> <th>2017</th> <th>2018</th> <th>2019</th> <th>2020</th> <th>2021</th> <th>2022</th> <th>2023</th> <th>2024</th> </tr> </thead> <tbody> <tr> <td>Population</td> <td>94975</td> <td>95334</td> <td>97577</td> <td>98790</td> <td>100071</td> <td>102669</td> <td>103953</td> <td>105039</td> </tr> <tr> <td>Increase from prev yr</td> <td></td> <td>359</td> <td>2243</td> <td>1213</td> <td>1281</td> <td>2598</td> <td>1284</td> <td>1086</td> </tr> </tbody> </table> <p>Changes in waste collection tonnage The 2019-20 budget is based on the most recent predictions for waste tonnages and reflect the expected out-turn position for 2018-19 allowing for increases in landfill tax and contract price increases. For 2020-22 the current assumption is for a stable position.</p>		2017	2018	2019	2020	2021	2022	2023	2024	Population	94975	95334	97577	98790	100071	102669	103953	105039	Increase from prev yr		359	2243	1213	1281	2598	1284	1086
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Budget Assumption	Explanation of financial forecast and approach
Growth Pressures	
3) Legislative changes	<p>The budget estimates will have to include some recognition with regard to current and future legislative changes.</p> <p>However,. the two greatest challenges are:</p> <ul style="list-style-type: none"> • the UK's exit from the EU, and, • the new local government Settlement regime from 2020-21, that resets baselines with winners and losers. <p>The current thinking is to ensure Reserves are sufficient given the lack of any basis for planning.</p>
4) Policy decisions	The 2019-20 budget includes the financial impact of previous year's budget decisions,
5) Interest Rates	Budgeted interest earning on investments are based on the London Intra Bank Bid rate for money market trades.
Savings	
6) Income	<p>Inflationary increases to fees and charges have been included within the budget proposals – see 1 above. Changes to income either through expected reduction in income or initiatives to increase income generation are reported as individual budget proposals.</p> <p>Assumed increases in</p> <ul style="list-style-type: none"> • Business Rates income of 3% per annum in 2018/19 and 3.5% thereafter; • Council Tax 2.99% increase year on year; and 1.5% growth in Council Tax base from 2019/20.
7) Savings	<p>Savings have been identified across all services and range from productivity efficiency savings to reductions in service provision. At the moment, broadly 70% of the savings derive from income increases and 30% from spend reductions.</p> <p>All managers are responsible for ensuring that proposed savings are robust and delivered in accordance with plans. Measures throughout the planning process have reviewed and challenged the deliverability of savings. Changes or delays in delivering savings will result in variance to the budget and as such savings will be closely tracked throughout the year as part of the budget monitoring process and reported to Cabinet, with management actions identified as necessary.</p>
Other Planning assumptions	

Budget Assumption	Explanation of financial forecast and approach
Growth Pressures	
8) Grant	The budget reflects funding announced within the 2019-20 Local Government Finance Settlement and plans for future years are based on the indicative settlement figures and high-level Government forecasts of Departmental Expenditure Limits for Local Government. The budget report sets out the detail of key grants and states where any key areas of funding are yet to be announced.
9) Financial risks inherent in any significant new funding partnerships; major contracts or major capital developments	Financial risks are included within the assessment of the level of general balances. The financial risks arising from new partnership arrangements will be closely monitored over the coming start-up phase.
10) Availability of funds to deal with major contingencies	All provisions and earmarked reserves have been reviewed to test their adequacy and continued need. A risk assessment of the level of general balances has been undertaken and the budget reflects the assessed level of balances required. This approach is out in a separate report to Cabinet.
11) Overall financial standing of the authority	<p>The Council treasury management activity is to both manage short term cash requirements and address the Council's borrowing need to fund capital expenditure on long-term assets either through long term borrowing or utilising temporary cash resources with the Council pending long term borrowing. The approved strategy is to delay new borrowing, using cash balances on a temporary basis.</p> <p>At the 30th September 2018, the Council's outstanding debt totalled £12.9m. (March 31st £14.4m) The Council continues to maintain its total gross borrowing level within its Authorised Limit of £58m for 2018-19. The Authorised Limit being the affordable borrowing limit required by section 3 of the Local Government Act 2003.</p> <p>There are four treasury related indicators to restrict treasury activity within certain limits and manage risk. These are; variable interest rate exposure; fixed interest rate exposure; maturity profile of debt and investments greater than 364 days. Monitoring is reported regularly to Cabinet on an exception basis.</p> <p>The Council's treasury management activities are regularly benchmarked against those of other local authorities. The Council has upper quartile investment performance; is cost effective, pays comparable rates of interest on its debt and is effective at managing risk.</p>

Budget Assumption	Explanation of financial forecast and approach
Growth Pressures	
12) The authority's track record in budget and financial management	<p>As at the end of September 2018 (Quarter 2) the 2018-19 revenue budget is forecast to overspend by £323k on a net budget of £12.129m (gross £76.8m).</p> <p>The Council has a good track record of sound budget and financial management and the Council's external auditors has issued an unqualified opinion on the 2017-18 accounts and concluded that the Council has made appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>
13) The authority's capacity to manage in year budget pressures	<p>The level of general balances are assessed as part of the budget setting process and reviewed monthly and reported to Cabinet as part of the monthly monitoring process. Review and challenge improves the accuracy of budget estimates, which aims to support management and the early identification of budget issues. The regular reporting of risk and monitoring of mitigating actions supports in-year budget management.</p>
14) The strength of the financial information and reporting arrangements	<p>Information on budget and actual spend is reported publicly and monitoring reports are published quarterly through the year. The reports are on a risk basis, so that attention is concentrated on what is most important. Improvements to the monitoring process are in hand, with the objective of being able to report monthly.</p>
15) The end of year procedures in relation to budget under/overspends at authority and departmental level	<p>Guidance on end of year procedures is reported annually and arrangements are monitored. Detailed year-end financial information is reported alongside services performance monitoring. The proposed year end arrangements will be reported to Cabinet for approval.</p>
16) The authority's insurance arrangements to cover major unforeseen risks	<p>The Council has a mix of self-insurance and tendered insurance arrangements. Premiums are set on an annual basis and reflected within the budget planning. Premiums are subject to annual variance due to external factors and internal performance, risk and claims management. General balances include assessment of financial risk from uninsured liabilities.</p>

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