Section 25 Report

Report of the Chief Financial Officer on the robustness of the budget estimates and the adequacy of the reserves

Section 25 of the Local Government Act 2003 places a duty on the chief finance officer (the strategic director and chief finance officer) to make a report to the council on the robustness of the estimates and the adequacy of the reserves. This report fulfils this requirement and provides councillors with assurance that the budgets have been compiled appropriately and that the level of reserves is adequate. It is a statutory requirement that councillors must consider this report when considering and approving a budget.

In presenting this report the chief finance officer is mindful of other associated statutory safeguards designed to prevent the authority from over-committing itself financially:

• Section 151 of the Local Government Act 1972 which requires the authority to make arrangements for the proper administration of its financial affairs and that the chief financial officer has personal responsibility for such administration;

• Sections 32, 43 & 93 of the Local Government Finance Act 1992 which requires the authority to set a balanced budget;

• The Prudential Code introduced as part of the Local Government Act 2003 sets out the framework within which the authority must manage its investments, including adequate planning and budget estimates;

• The external auditor's duty to assess the adequacy of the authority's proper arrangements to secure economy, efficiency and effectiveness ('value for money').

To reinforce these obligations, section 114 of the Local Government Finance Act 1988 requires the chief finance officer to report to all the authority's councillors, in consultation with the Monitoring Officer, if there is or is likely to be unlawful expenditure or an unbalanced budget.

Introduction

In considering the setting of the County Council budget for 2018/19 two key facts must be recorded and absorbed:

The Council entered the 2017/18 financial year with a budget that proved inadequate in the face of the pressures experienced. The Zero-based review for that budget introduced more realism, but elements of the structural deficit take time to eliminate. This has meant an overspend in 2017/18 which has an influence on the 2018/19 budget. It also demonstrates the importance of complete realism in budget setting. The paucity of reserves means that the accuracy of the budget and the delivery of savings and avoidance of overspending during 2018/19 is essential.

The County Council faces an unprecedented set of challenges in setting the 2018/19 budget.

In common with all county councils, Northamptonshire has had to deal with the consequences of a local government finance system that does not properly recognise the impact of demographics and demand. However past decisions on spending and income, including the level of Council Tax set, have contributed to the County Council having very little room for manoeuvre in setting its budget for 2018/19.

Members of the County Council should be in no doubt that the Council faces a financial situation that is grave and which thus places strict limits on the choices available to the County Council.

Prior to 2011 a local authority in the circumstances facing the County Council would have been best advised to address its financial sustainability via an appropriate increase in the level of Council Tax. In the current legislative environment a proposed Council Tax increase exceeding 5.98% would have to be put to local voters using a referendum. In practice this is a hurdle that may be impossible to conquer and so the proposed level of increase in Council Tax is limited to 5.98%. Although this exceeds the current level of inflation, the withdrawal of funding by HM Government as well as the increase in demand, means that while it is a contribution to financial sustainability it is far from sufficient.

Council Members will be aware that the extra 1% increase in Council Tax allowed by HM Government since the draft budget was written has attracted attention along the lines of how the unexpected “extra” money will be spent. Council Members have to be clear that while this 1%, if approved, will add £2.7 million to the County Council’s income compared to the draft budget, the *further* pressures identified since the draft budget amount to £19.6 million. This is a sum that exceeds the £2.7 million by a factor of 7. Thus there is no unexpected extra money to be spent but in fact a minor contribution to a financial position that is unprecedented in its gravity. While speculation on the use of the £2.7 million is unavoidable in the press and on social media, Council Members have access to advice from qualified and experienced local government finance professionals and have thus being able to avoid similar speculation.

The budget-setting process has included a new rigour including detailed Cabinet Member involvement through the Star Chamber process. Chief Officers have risk-assessed all of the proposals included in the draft budget and advised the removal of those which are not deliverable. This added £3.7 million to the pressures facing the County Council.

New pressures have become clear since the draft budget was set, including a likely £6 million cost of sleep-in allowances. These costs have to be accounted for in the pressures noted above of £19.6 million (and in the case of the sleep-in allowances will be included as an earmarked reserve, to be released only to meet sleep-in costs when the Executive Director of Finance is satisfied in relation to discussion with individual providers).

The 2018/19 budget also features, for decision, the cost of the additional 1% pay increase, as per the national offer and beyond the 1% in the draft budget. This recognises the real risks of recruitment and retention faced by the County Council.

The budget for 2018/19 is heavily influenced by the project financial outturn for 2017/18.

The County Council entered 2017/18 with minimal reserves, and a budget that was achievable only with ambitious savings proposals and via inherently risky asset sales. In the event the County Council faces an overspend of £21.1 million for 2017/18, of which around half is the consequence of delayed capital receipts.

The County Council only has reserves that would meet half of this overspend. This is why the sale and leaseback of One Angel Square is being expedited in the current year. Council Members need to be aware that the alternative would be to close the year with a negative General Fund balance. This would be an unprecedented prospect and, if at all likely, would lead to formal action by me in my role as the s151 Officer via an s114 report. This may still be necessary should the projected sale and leaseback not prove possible or if other spending risk becomes apparent. In such circumstances rapid and difficult reductions in non-statutory services would be unavoidable.

The potential sale proceeds from One Angle Square is also required in order to set a balanced budget for 2018/19 through carrying forward around £20 million of the receipt to pay for qualifying expenditure in 2018/19. Doing so takes advantage of the continued Capital Receipts Flexibility announced as part of the Local Government Finance Settlement in December 2017.

However Council Members have to be clear that the use of one-off monies to support ongoing expenditure can never be a sustainable financial strategy. The use of asset sales to generate receipts can only be a stop-gap until financial sustainability can be gained.

Council Members must also be very conscious of the fact that only qualifying expenditure on Transformation can be met from these capital receipts. Should the quantum of qualifying transformation activity that can be charged to the flexible use of capital receipts be less than the overall revenue gap then that gap will have to be filled through the elimination in whole or in part of expenditure on non-statutory functions. This analysis will be closely monitored during 2018/19. However it is more likely to become a significant factor in setting the budget for 2019/20 and beyond. In simple terms it may not be possible to close the budget gap through applying capital receipts as the size of the gap may exceed the amount of qualifying expenditure. The only recourse at that point will be the elimination of non-statutory spending and this would almost certainly involve, again, a further set of difficult decisions.

The County Council's ability to set balanced budgets beyond 2018/19 will be dependent on further asset sales, but can only be in any way sustainable through 2019/20 and 2020/21 through cost reduction, demand control, rigorous financial control and iron discipline in decision making and delivery. The investment in the Transformation of the Council's services is aimed at the control of costs in the face of demand. Financial control has been improved during 2017/18 but will require further attention and rigour and I have accepted this is a personal priority. However the demonstration of financial discipline is something that must be led by decision makers – i.e. the members of the County Council and in the current circumstances this should begin with the acceptance of the maximum number of realistic savings options, including those which have proved controversial or unpopular during the consultation process since the draft budget. Reversing the consulted-upon savings options on Libraries, Bus Subsidies and Trading Standards to the value of £1.56 million – as proposed in this budget – may not be sustainable even in the short term.

The long term financial sustainability of the County Council cannot be delegated to external agents. HM Government have promised that a new system of local government finance will be introduced for 2020/21. However similar promises have been made and broken in the past, and in any respect HM Government's fiscal plans do not hold out much prospect of a significant increase in the resources allocated to local government. A new finance system is more likely to be concerned with the distribution of an ever-shrinking quantum of support rather than a major injection of spending power. Sustainability for local government in Northamptonshire is more likely to be helped by reorganisation leading to the creation of one or more unitary authorities in the County with explicit cost saving through reduced costs of business. Achieving this will require leadership, partnership and a focus on the needs of the residents of the County and suppression of the vested producer interests, including those of local government members and officers.

Even so the fundamental contribution to the financial sustainability of the County Council has to come from decisions made by Council Members and the starting point must be a realistic and sustainable budget for 2017/18.