

Chief Financial Officer's Opinion on Adequacy of Balances and the Robustness of the Budget

The Chief Financial Officer is required to make a statement on the adequacy of reserves and the robustness of the budget. This is a statutory duty under section 25 of the 2003 Local Government Act which states the following:

(1) Where an authority to which section 32 or 43 of the Local Government Finance Act 1992 (billing or major Precepting authority) or section 85 of the Greater London Authority Act 1999 (c. 29) (Greater London Authority) applies is making calculations in accordance with that section, the chief finance officer of the authority must report to it on the following matters-

(a) The robustness of the estimates made for the purposes of the calculations, and

(b) The adequacy of the proposed financial reserves.

(2) An authority to which a report under this section is made shall have regard to the report when making decisions about the calculations in connection with which it is made.

Summary Report of the Chief Finance officer and Divisional Director – Business Support:

I have examined the budget proposals contained in this report, and believe that whilst the spending, income and service delivery proposals contained remain challenging, they are achievable in terms of the requirement to set a balanced budget for 2014/2015.

I am satisfied that, in general, the requisite management processes exist within the Council to deliver this budget, and to identify and deal with any problems which may unexpectedly arise throughout the year.

The key points to highlight are:

- Un-earmarked reserves are at a prudent levels and this Budget proposes to maintain this position. This reserve will also be utilised for invest to save initiatives going forwards but at no point is the reserve planned to fall below the risk assessed minimum level.
- This Budget recognises the challenges over the medium term financial planning period and makes some provisions for this.
- Sound financial planning processes are in place, and there is member scrutiny at appropriate stages
- Revenue spend is closely monitored on a risk assessed basis and integrated finance and performance management reports are produced monthly.

- Challenging inflation targets continue to be set which will require the focus on commissioning and procurement to be maintained to help ensure they are fully delivered.
- The new and additional income targets assumed within the Budget proposals will increase the overall risk to the budget should they not be fully achieved.
- The retained local business rates have been budgeted at prudent levels allowing for anticipated appeals risk.
- Capital schemes are managed through an integrated project management, risk and financial management process.
- The intense external pressures on public finances require annually decreasing budgets and this will need to be closely managed.

The Medium Term Service and Resource Plans rely on the delivery of strategies and action plans within individual services and it will continue to be necessary to give a high priority to the monitoring and review the implementation of these plans as part of the financial management and monitoring processes of the Council.

The significant commitment in the capital programme for 2014/2015 will require sound monitoring, review and programming of schemes for projects to meet delivery and funding expectations. Where projects form part of partnership arrangements, satisfactory partnership governance processes will need to be in place.

On the matter of unearmarked reserves, I have continued to evidence the requisite level by use of internal risk assessment. The Council is maintaining its unearmarked reserves at the appropriate risk assessed level. The 2014/15 recurring budget contains no reliance on the use of unearmarked reserves although some of these reserves (above a minimum level) will be utilised on an Invest to Save basis under the parameters set out in Appendix 1.

In view of the challenging financial climate, it remains essential that unearmarked reserves are maintained at risk assessed levels, the only prudent exceptions being to fund invest to save schemes (provided a minimum level is maintained) and to enable exceptional risks or contingencies to be funded where no other funding is available.

It will be essential in the event of any exceptional use of unearmarked reserves for the Council to continue to put in place arrangements in future years' budgets to recover the level of reserves to at least the minimum level within 3 years.

From 2001/2, the Council adopted a risk management approach, which assesses the level of unearmarked reserves required against a corporate assessment of the risk being carried. The assessed risk suggests reserves of

£10.5M for 2014/2015 with a minimum level of £6M, excluding earmarked reserves.

My recommendation that the budget is reasonably robust and Unearmarked reserves are adequate is on the basis that the Council and the Cabinet:

- Recognise the need to continue to regularly review the level of reserves in the light of the regularly updated corporate risk assessment
- Recognise that in any use of reserves to fund 'one-off' corporate priorities on an invest to save basis, the Council needs to be clear that the overall level of reserves remains adequate and that the relevant business cases for such expenditure are fully scrutinised and monitored appropriately.
- Recognise that where there is a draw down on risk assessed reserves taking them below the minimum level, for whatever reason, this is repaid within 3 years.
- Maintain a rigorous approach to financial monitoring, particularly at this time when a significant level of savings is expected to be delivered in the financial year ahead.
- Ensures that capital schemes are funded prudently and do not rely excessively on revenue funding and do not create unaffordable revenue consequences including maintenance and other running costs
- Maintain a prudent approach to budgeting for capital receipts, given due consideration to the prevailing market conditions and the need to optimise value over the medium term.
- The Cabinet Members, Strategic Directors and budget holders achieve their cash limits for 2013/14.

Processes

Budget estimates are exactly that - estimates of spending and income made at a point in time. This statement about the robustness of estimates cannot give a guarantee about the Budget but gives members reasonable assurances that the Budget has been based on the best available information and assumptions at the time. The budget process aims to set challenging budgets while recognising the risk of this within its reserves strategy.

In order to meet the requirement on the robustness of estimates a number of key processes are in place, including:

- Specific guidance to Directorates on developing their budgets.
- A Council wide risk assessment.

- The continuing use of budget monitoring and financial outturn information to identify risks.
- The Council's s151 Officer and his staff providing advice throughout the process of budget preparation and budget monitoring.
- The Directors' review of the robustness of their budgets and budget sensitivities.

Notwithstanding these arrangements, which are designed to test the budget throughout its various stages of development, considerable reliance is placed on the Strategic Directors and Divisional Directors having proper arrangements in place to identify issues, project costs, service demands, to consider value for money and efficiency, and to implement changes in their service plans. This is supported by appropriately qualified financial support service staff.

Corporate and departmental processes will continue to develop over the MTSRP period to reflect the challenging financial position of the public sector. This will include the on-going implementation of risk assessed budget monitoring and enhancements to processes for monitoring implementation and delivery of savings.

Robustness of Estimates

The 2014/15 Budget and the supporting MTSRP continues to link financial resources to corporate priorities and risks. There are complex and difficult choices for the Council:

- To realise ongoing efficiencies
- To allocate appropriate financial resources to meet demand and reduce risk; or
- To reduce where necessary service levels and standards, frequency of service delivery, and eligibility for services.
- To ensure all resourcing decisions reflect statutory and other external requirements, as well as Council priorities.

As part of developing the Budget, Members of the administration have considered these options and they are reflected in the proposed Budget.

Most notably the Council has had to address significant reductions in government grant funding, unavoidable cost increases, and demand pressures as well as the corporate priorities including;

- Significantly reducing Government Grant funding
- Changes to government funding

- The on-going impact of welfare and benefits reforms including Local Council Tax Support
- Priorities as set out in the Corporate Plan
- Low levels of interest rates
- Demand and price pressures in Adult Social Care
- Demand and price pressures in Children’s Social Care
- Realising and maximising capital receipts
- Need for capital investment in priority schemes

The assumptions used for the 2014/15 Budget and MTSRP period will require the forecasts for future years to be reviewed in light of actual circumstances. This will be undertaken early in each financial year leading to more detailed budgets being prepared for the next financial year and the medium term during the autumn of each financial year.

Given all these factors I, as the Council's Section 151 Officer, consider the estimates for 2014/15 to be sufficiently robust, and the reserves adequate, to be recommended for approval by the Council.

The medium term remains extremely challenging although the detailed MTSRP’s agreed as part of the Budget in February 2013 continues to place the Council in a relatively good position over this period.

It remains likely that further service improvement and reasonable Council Tax levels, will only be achievable in the medium term through continued development of different ways of working, and clear prioritisation between services.

The Capital Budget

Projects included in the capital programme for **Full Approval** were prepared by Divisional Directors and managers in line with financial regulations and guidance. All projects were agreed by the relevant Strategic Director and Cabinet Member and are fully funded, and reviewed through the Capital Strategy Group.

Projects have been estimated and costed at outturn prices with many subject to tender process after inclusion in the programme. This may lead to variance in the final cost.

Directorates are required to work within the given cash envelope so any under or over provision must be found within these limits.

In addition, I will require a clear commitment from the Council to:

- Ensure that all future commitments on the capital programme provide for a prudent source of funding in terms of revenue provision, including where investment will lead to future revenue savings.
- Carefully consider and balance the use of capital receipts to ensure they are prudently applied to help the council manage its resources effectively and achieve its priorities
- Review capital commitments in light of any future changes to Central Government support for capital projects where they are dependant on substantial Government funding.
- Be aware of the potential risks associated with capital spend before the scheme is completed i.e. the potential for costs charged to capital budgets to revert to revenue in the event schemes are discontinued prior to completion.

The WoE City Region Deal

The City Deal as agreed between the Government, the WoE Councils and the WoE Local Enterprise Partnership will provide significant potential for investment in infrastructure projects through the creation of an Economic Development Fund.

The underlying legal framework seeks to ensure no individual Council is worse off from the arrangements and the pooling of related business rates will seek to meet associated risks relating to qualifying appeals and bad debts. The Budget estimates reflect this position.

The Capital Programme does not currently include any projects for the Economic Development Fund and the Council will need to consider the specific risks and underwriting requirements attached to these projects on an individual basis, as the business cases come forward for approval.

The City Deal is a 25 year agreement and appropriate clauses are included to deal with withdrawal from, or cessation of, the arrangements. The implications associated with either of these events would be potentially significant and beyond the scope of current budgeting or reserve provisions. Any such future decision in this regard will need to be considered in light of such information.

Estimated Available Revenue Reserves

Earmarked Revenue Reserves

The Council's earmarked revenue reserves have been reviewed as part of the 2014/2015 Budget proposal and are generally committed either directly or as a contingency provision over the medium term as set out in Appendix 1. This position will be regularly reviewed.

Non-Earmarked Revenue Reserves

Detailed in the table below is the estimated level of non-earmarked revenue reserves over future years, reflecting the specific elements within the Budget proposal as set out in Appendix 1.

Table: Projected Non-Earmarked Revenue Reserves

	2014/15 £'000	2015/16 £'000	2016/17 £'000
Estimated Reserves @ 1st April each year	9,278	7,762	7,264
2013/2014 Projected Outturn Underspending			
Projected Invest to Save Movements	-1,516	-498	84
Estimated Reserves @ 31st March each year	7,762	7,264	7,348

Assessment of Adequacy of Reserves

Under the Local Government 2003 Act the Secretary of State has reserve powers to set a minimum level of reserves. The most likely use of this power is where an authority is running down its reserves against the advice of their s151 Officer.

Determining the appropriate levels of reserves is not a precise science or a formula e.g. a %age of the Council's budget. It is the Council's safety net for risks, unforeseen or other circumstances and must last the lifetime of the Council unless contributions are made from future years' revenue budgets. The minimum level of balances cannot be judged merely against the current risks facing the Council as these can and will change over time.

Determining the appropriate levels of reserves is a professional judgement based on local circumstances including the overall budget size, risks, robustness of budgets, major initiatives being undertaken, budget assumptions, other earmarked reserves and provisions, and the Council's track record in budget management. This judgement is subject to regular review as an integral part of the Council's financial reporting cycle, and annual review by full Council as an integral part of budget-setting and medium term financial planning. Clearly, as circumstances change, the currently recommended level of reserves can be expected to change.

The recommendation on the prudent level of reserves has been based on the robustness of estimate information and the Corporate Risk Register. In addition, the other strategic, operational and financial risks taken into account when recommending the minimum level of unearmarked reserves include:

- There is always some degree of uncertainty over whether the full effects of any economy measures and/or service reductions will be achieved. Directors have been requested to be prudent in their assumptions and should have clear action plans to deliver such savings.
- The Bellwin Scheme Emergency Financial Assistance to Local Authorities provides assistance in the event of an emergency. The Local Authority is able to claim assistance with the cost of dealing with certain emergencies over and above a threshold set by the Government.
- The extent to which the Council is dependent on traded income.
- The risk of major litigation, both current and in the future.
- Risks in the inter-relation between the Council and other partner authorities and organisations.
- Unplanned volume increases in major demand led budgets, particularly in the context of high and accelerating growth.
- The need to retain a general contingency to provide for any unforeseen circumstances or emergencies, which may arise.
- The need to retain reserves for general day-today cash flow needs.

The recommendations of the Council's s151 Officer are:

- **That the Council continues to maintain an absolute minimum prudent level of unearmarked reserves (excluding schools) of £6m at the end of any financial year, in addition to any specific earmarked reserves. The minimum level is designed to cope with risk and unforeseen circumstances that cannot be addressed by management or policy action within the year. Management and policy action should be the first actions taken before any resort to reserves.**
- **That an appropriate level of unearmarked reserves to provide resilience against day to day risks is £10.5m. This level of reserves is designed to allow the Council to withstand a measure of changes in circumstances during the year or minor variations in projected resources or spending over the period of the medium term service and resource plans.**
- **That the Council should restore reserves to at least their minimum level within a period of 3 years in the event they are used to meet any risks that crystallise.**