

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.

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

I have examined the budget proposals contained in this report, and believe that the spending, income and service delivery proposals are achievable in terms of the requirement to set a balanced budget for 2017/2018.

I am satisfied that, in general, the requisite management processes exist within the Council to deliver this budget, although it will be increasingly challenging to deal with any recurring financial pressures which may unexpectedly arise throughout the year.

The key points to highlight are:

- Un-earmarked reserves will be maintained at prudent levels and this Budget proposes to increase this position. This reserve will continue to 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 provides for a balanced Budget in 2017/2018 together with identifying actions within Directorate Plans to address a majority of the anticipated savings required through to 2019/2020. Further work will be required to fully meet these requirements.
- A robust financial planning process is in place, and there is member scrutiny at appropriate stages.
- Revenue spend is closely monitored on a risk assessed basis and financial management reports are produced on at least a quarterly basis.

- Delivery of the specific Budget proposals set out within Directorate Plans will be monitored regularly by the Strategic Management Team and the Cabinet.
- Provision for inflation and demographic changes continue to be challenging and 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.
- Retained local business rates have been budgeted at prudent levels allowing for anticipated appeals and collection risks. No provision has been made for exceptional changes from, for example mandatory reliefs.
- Capital schemes are generally managed through an integrated project management, risk and financial management process.
- Estimated provisions have been made within the Budget proposal to recognise the functions and funding of the West of England Combined Authority.

As part of the financial management and monitoring processes of the Council it will continue to be necessary to give a high priority to the monitoring and review of the savings delivery plans within each service area.

The capital programme for 2017/2018 continues to be of an exceptional scale, further increased by high degree of slippage from 2016/2017. This will require sound monitoring, review and programming of schemes for projects to meet delivery and funding expectations. Where capital projects form part of partnership, are of particular significance or are of a specialist nature, they will need to ensure that appropriate governance and management processes are in place to recognise the relative risks associated with the projects.

In considering the appropriate level of unearmarked reserves, I have continued to evidence this with the use of an internal risk assessment. The Council is increasing its unearmarked reserves to the appropriate risk assessed level for 2017/2018. The Budget proposal contains no reliance on the use of unearmarked reserves although some of these reserves (above a minimum level) will continue to be utilised on an Invest to Save basis under the parameters set out in Appendix 2.

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 2001/2002, 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 £13.5M for 2017/2018 with a minimum level of £7.5M, excluding earmarked reserves.

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

- Understand that this Budget proposal represents the second year of a challenging Spending Review period to 2019/2020 and that the Budget proposals identified in Directorate Plans will need to be delivered in full to achieve a balanced outturn budget position for 2017/2018.
- 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 years 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 deliver their cash limits for 2016/2017 except where recurring financial pressures have been specifically recognised in the 2017/2018 Budget proposal.

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.
- Member scrutiny of the Directorate Plans.

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 future financial planning period to reflect the challenging financial position of the public sector. This will include the on-going development of risk assessed budget monitoring and enhancements to processes for monitoring implementation and delivery of savings.

Robustness of Estimates

The 2017/2018 Budget and the supporting Directorate Plans continue to link financial resources to corporate priorities and risks. The delivery of the savings and income targets in the 2017/2018 financial year will be increasingly challenging and have presented some complex and difficult choices for the Council:

- To realise ongoing efficiencies.

- To allocate appropriate financial resources to meet new obligations and increased demand.
- 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.
- To manage risks and impacts appropriately.

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 continue 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 national taxation and employer costs
- Changing statutory service and operating requirements
- The on-going impact of welfare and benefits reforms
- 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 2017/2018 Budget period will require the forecasts for future years to be reviewed in light of actual circumstances. This will be undertaken as part of the Budget development for subsequent years.

Given all these factors I, as the Council's Section 151 Officer, consider the estimates for 2017/2018 to be sufficiently robust, and the reserves adequate, to be recommended for approval by the Council.

The Capital Budget

All new projects included in the capital programme are all proposed for **Provisional Approval**. This reflects the relatively limited time available to consider detailed project plans. All new projects proposals were agreed by the relevant Strategic Director and Cabinet Member and have identified sources to

achieve a fully funded position. Prior to consideration for **Full Approval**, the Divisional Directors and managers will prepare detailed project plans in line with financial regulations and guidance. These will be reviewed through the Divisional Directors Group prior to consideration for the appropriate approval.

Projects have been estimated and at outturn prices with further work required as part of detailed project planning. Many of the projects will be the subject to tender process after inclusion in the programme and 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 or income generation.
- 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 West of England Local Enterprise Partnership (LEP)

The Council currently acts as the Accountable Body for the West of England LEP for a range of capital and revenue funding streams to support infrastructure, skills and economic development across the sub-region. This function is expected to transfer to the West of England Combined Authority during the course of 2017/2018.

In fulfilling this role, the Council acts as “agent” for the LEP with governance through a “one front door” process in accordance with the Assurance Framework.

The Capital Programme does not include any projects for the West of England unless they relate specifically to funding for capital schemes to be delivered directly by this Council following appropriate approval.

Estimated Available Revenue Reserves

Earmarked Revenue Reserves

The Council's earmarked revenue reserves have been reviewed as part of the 2017/2018 Budget proposal and are generally committed either directly or as a contingency provision as set out in Appendix 2. 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 2.

Table: Projected Non-Earmarked Revenue Reserves

	2017/18 £'000	2018/19 £'000	2019/20 £'000
Estimated Reserves @ 1st April each year	12,536*	12,480	11,975
2016/2017 Projected Outturn Underspensing	-	-	-
Projected Invest to Save Movements	-56	-505	-595
Estimated Reserves @ 31st March each year	12,480	11,975	11,380

* Increased provision to reflect risk & robustness assessment (£3m increase)

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 increasingly challenged to identify savings and opportunities to provide for a balanced Budget proposal. Whilst there should be clear action plans to deliver such savings, they are highly reliant upon the capacity of key individuals and teams to deliver.
- 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, seasonal and demand related income.
- The changing nature of local government funding and the reliance upon differing funding streams which may be more linked to national and local economic factors.
- The risk of major litigation, both current and in the future.
- The risk of a significant and unplanned change to a major funding stream.
- Risks in the inter-relation between the Council and other partner authorities and organisations.
- The establishment of the West of England Combined Authority and related underwriting of risks.
- 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-to-day 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 £7.5m 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 £13.5m. 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 unearmarked 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.