

Chief Finance Officer Statement on the Budget Robustness

Background

- 1.1 The Local Government Act 2003 places a statutory duty on the Chief Financial Officer (CFO) to review the Medium Term Financial Strategy and comment upon the robustness of the budget and the adequacy of the reserves to be held by the authority when it is making the statutory calculations required to determine its council tax or precept. The authority is required to take this report into account when making that decision.
- 1.2 Section 26 of the Local Government Act 2003, places an onus on the Chief Finance Officer to ensure the authority has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonable defined within finalising the proposed budget.

Report of Chief Financial Officer on robustness of the budget proposal.

- 2.1 It is the opinion of the Chief Finance Officer that the medium term financial plan expressed within this budget report is a sound financial strategy that will enable the Council to delivery its Council Plan successfully.
- 2.2 Both the Revenue Budget and Capital Programme have been formulated having regard to a number of factors including funding availability; risks and uncertainties; inflation; priorities; demography and service pressures. The savings plans have been formulated having regard to Council priorities and assessed against an agreed set of impact criteria and equality assessments.
- 2.3 As the development of the Council Plan and budget for 2014/15 has progressed, the position has been the subject to reviews with Chief Officers and other officers and Members, including Cabinet and Scrutiny committees. Due consideration has also been given to reconciling the over-arching financial strategy with corporate priorities and hence all the proposals have been developed alongside service planning.
- 2.4 The budget proposed is a balanced budget and in finalising the budget; consideration has been given to unforeseen issues that could arise during the year; the content of the strategic risk register and the financial position in the current year to assess any impact on the 2014/15 budget in order to ensure action can be taken.
- 2.5 The option of increasing council tax will provide a more sustainable income to the Council which would help to protect services during the next round of Government comprehensive spending review (SR17). Balancing the 2014/15 revenue budget by investing in 'one-off' service improvement initiatives and supporting the delivery of the capital programme would be a sound and prudent strategy which will place the Council in a strong position to respond to the current challenging financial environment.

The Adequacy of Reserves

- 3.1 Reserves are a key element of the Council's financial management arrangements. Reserves can be broadly categorised as three main types:
 - A working balance which helps smooth cash flow and avoids the need to borrow temporarily, (County Fund Balance)
 - A contingency to cushion the impact of unexpected events and emergencies (an element within the base revenue budget)
 - A means of building up funds to meet known or predicted requirements (General Reserves)
- 3.2 The Council's approach to the management and accounting for reserves is set out in the Reserve Strategy adopted by the Cabinet in December 2012.

- 3.3 There are two main approaches taken by councils to determine their required minimum level of working balance, contingency and general reserves either by a straight percentage of the council's current spending: or an assessment of risks and the impact they will have on the council's overall financial position.
- 3.4 Using data drawn from a range of national benchmarking and comparison sources to determine the percentage, the consensus within Local Authorities is that 5% of net revenue spending is a sound base for determining the minimum level of reserves. This would equate to £18.5m for 2014/15. However the data was assessed in a period of stability in terms of local government finance and the general economy.
- 3.5 A risk-based assessment of issues which could have a major impact on the Council's finances provides a more flexible and responsive approach that better reflects the continuously changing environment within which local government has to work. This approach will take into account the type of risk, the potential magnitude of the financial risk and a judgement as to how likely the issue is to arise. The following table identifies a number of the high level risks that may have financial implications which could impact on the required minimum level of reserves to be retained.

Risk	Potential magnitude	Likelihood	Magnitude
			£m
The delivery plans for some saving proposals are in development. Each saving will be subject to consultation and decisions will be taken on individual savings proposals when full assessment has taken place. Therefore a risk exists that it will not be possible to make the planned savings within the timeframe required.	Total planned savings still to be delivered within the MTFP is £48.5m	10% non achievement	4.8
Non achievement of Fees & Charges targets built into the revenue budget, due to the continuing economic climate and government regulatory changes, e.g. reduction in Car Parking penalty charges.	F&C income for 2012/13 - £56.5m	Underachievement provision of 5%	2.8
The new Business Rate Retention Scheme means the Council's income will be subject to greater volatility and directly dependent on the ability of the Districts and Borough Councils to effectively collect it.	Business Rate planned income for 2014/15 is £11.3m	2% reduction in collection rates	0.2
Impact of acceleration of cost pressures above assumptions made within the MTFP	2012/13 spend on Supplies and Service £177m	1% additional inflation on costs	1.8
Potential loss on collection of Council Tax due to changes in the Welfare system reducing people's ability to pay.	Council Tax planned income for 2014/15 is £214m	2% reduction in overall net collection rate	4.3
Increasing demands for services both in Adult and Children services arising from demographic changes	2012/13 spend £169m	1% increase in demand	1.7
Adverse weather conditions may present the Council with additional unfunded costs.	2012/13 spend on roads and gritting - £5.4m	5% increase in costs due to adverse weather	0.3
The rate of transfer of schools to Academy status is unclear beyond 2014/15 which could lead to further reductions in the Education Support Grant; if these reductions are not matched by further reductions in associated expenditure it would have an adverse impact on the Council's overall financial position.	Education Support grant received in 2013/14 £6.8m	10% of schools likely to transfer over next 3 years	0.7
TOTAL			16.6

In addition there are the following potential changes coming from developing national legislative changes which can not be quantified currently but will have potential financial impact over the planning period covered by the MTFP.

Issue	Potential impact
Introduction of 'Free School' meals	The financial cost to the Council has not yet been determined. Government funding is available for 2014/15 and 2015/16, but there is no certainty of this continuing beyond that period. Therefore from 2016/17 the council might have to pick up the costs.
Extension of Foster caring to aged 21.	The Council currently funds foster caring to the age of 18; the government has indicated its intention to extend this responsibility to the age of 21 with effect from 1 April 2014. The potential cost implications of this change are estimated at £0.1m in 2014/15 , raising to a peak of £3.3m in 2018/19
Living Wage	The introduction will have a significant financial implication to the Council in terms of its directly employed staff and major contractors.
Friends & Family foster payments	Recent case law, and in particular the case of R on the application of X and LB Tower Hamlets [2013] EWHC 480, has emphasised that related foster-carers and stranger foster-carers must be treated equally in respect of both the allowance they are paid (which is designed to meet the needs of the child and must be at least the minimum set annually by the Department for Education), and in respect of any fee element. The additional costs arising from this case law is estimated at £0.1m per annum
Support for interventions.	Enhanced expectations of Local Authorities role and increasing numbers of schools requiring intervention as a result of changes to the Ofsted framework. Estimated costs of £0.5m in 2015/16.
Local Welfare Provision	This is currently funded from a specific grant that is due to terminate at the end of 2014/15. If the council wants to continue to provide this service then it will be an additional cost pressure from 2015/16
Social Care	Risk of ESCC having to pick up the costs of other Local Authorities placing their residents in homes within the ESCC area. The level of potential claims is rising, at present is estimated at £4.4m.
Better Care Fund	The creation of the estimated £38m Section 75 pooled budget for the delivery of integrated community health and social care services with shared governance and delivery arrangements will create a range of risks. Difficult to quantify risks at this time but significant pressures exist within health and social care which would be exacerbated if services fail to deliver savings required from new pathways of care.
Dilnott review	Implementation guidance is limited. Longer term impact is likely to arise from self –funding individuals who will seek ASC help. The financial impact is likely to be in the latter part of this decade.
Strategic Risk of Pandemic	Need to cover cost of responding to a health related pandemic incident.
Transfer of Health responsibilities	There is a service risk that not all the responsibilities transferring to the council have been fully identified and the financial impact fully assessed. For example FP10 Prescribing responsibilities
Commissioned Services	Risk of service failure from newly transferred commissioned Public Health services, All services will be recommissioned over the next few years, giving rise to procurement and service delivery risks.
School Inspections	The raised expectations of Ofsted and other inspection processes may bring pressure for additional staffing/resources.

- 3.6 There are a number of variables which makes it difficult to quantify with any certainty the financial impact of the above issues, but collectively the impact could be in the region of £20m to £30m
- 3.7 The total financial impact of the above risks and issues could amount to between £36.6m and £46.6m. This is higher than 5% of net revenue expenditure and reflects the higher risks faced by the Council in the current economic and public sector financial climate.
- 3.7 The forecasted working balance, contingency and general reserves available at the 31st March 2014 is
- County Fund (general) balance £ 8.8m
 - Contingency £ 3.5m (per annum)
- 3.8 In addition the council has set aside specific amounts as earmarked reserves for future policy purposes or to cover contingencies, at the 31st March these as estimated to be £70.4m
- 3.8 The Chief Finance Officer believes the amount is a realistic minimum reserve that the Council should maintain in the current economic climate.