Appendix 7

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 reasonably defined within finalising the proposed budget.

Report of the Chief Financial Officer on the robustness of the 2015/16 budget proposal.

2.1 It is the opinion of the Chief Finance Officer that the current medium term financial plan to 2015/16 is a sound financial strategy that will enable the Council to delivery its current 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 2015/16 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 proposal is a balanced budget and in finalising the proposal consideration has been given to unforeseen issues that could arise during the year; as well as the content of the strategic risk register and the financial position in the current year being reviewed and any impact on the 2015/16 budget identified in order to ensure action can be taken.

2.5 Increasing the council tax will provide a more sustainable and increased income to the Council which will help to protect services during the next round of the Government comprehensive spending review, which will take place after the General Election in May 2015. Balancing the 2015/16 revenue budget by investing in 'one-off' service improvement initiatives and supporting the delivery of the capital programme is 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 in year and avoids the need to borrow temporarily, (County Fund Balance);
- A contingency to cushion the impact of unexpected events and emergencies in year (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, a number of local authorities have historically used 5% of net revenue spending as a sound base for determining the minimum level of reserves. This would equate to £18.2m for 2015/16.

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 some of the proposed savings are complex with delivery plans still to be finalised. 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 £17.8m	10% non-achievement	1.8
Non achievement of Fees & Charges targets built into the revenue budget, due to the continuing economic climate.	Planned Fees & Charges for 2015/16 is £57.3m	Underachievement provision of 5%	2.3
Unforeseen activity which impacts directly on Departmental budgets over and above the £3.5m within the general contingency	Service budget £314m.	2%	6.2
The Business Rate Retention Scheme provides the Council with £11m of NNDR income (compared to the £57m received directly from the Government). The risk is that the Council’s income will now 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
Increasing demands for services both in Adult and Children’s’ Services arising from demographic changes.	Planned spend in 2015/16 is £202m	1% increase in demand	2.0
Changes in historic weather patterns may be being the potential for adverse weather conditions which may present the Council with additional unfunded costs.	2013/14 spend on roads and gritting is £1.2m	10% increase in costs due to adverse weather	0.1
		TOTAL	12.6

3.6 In addition there are the following potential changes coming from developing national policy and legislative changes. Currently these cannot be fully quantified but will have potential financial impact over the planning period that will be covered by the newly emerging Council Plan. This Plan will cover the period 2016/17 to 2018/19.

Issue	Potential impact
East Sussex Better Together	The creation of the 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. Within the complexity of integrating this range of services, the current working assumption is that will be managed without incurring any additional financial impact for the Council.
Ordinary Residence	The Care Act means that OR claims will cease from 1st April 2015, however there remains the financial risk for the unsettled legacy claims; which will take a significant period of time to resolve.
0 to 5 year old – transfer of public health commissioning to local authorities	It is anticipated that appropriate resources will be transferred to the Council to fully fund the delivery of the additional responsibility.
School Inspections	The raised expectations of Ofsted and other inspection processes may bring pressure for additional staffing/resources.

3.7 A number of financial risks, such as the Care Act, have already been quantified and included within the council's financial planning process and projections.

3.8 The working balance, contingency and level of unallocated general reserves put aside for future policy purposes or to cover the above risks are as follow:

County Fund (general) balance	£ 8.9m *(equates to 2.5% of the annual spend)*
Contingency	£ 3.5m (per annum) *(equates to 1% of the annual spend, excluding Treasury Management costs)*

3.9 The Chief Finance Officer believes these amounts are a realistic minimum that the Council should maintain in the current economic climate.