**Appendix 9**

# Chief Finance Officer Statement on the Budget Robustness

**1 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 CFO 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.

**2 Report of the Chief Financial Officer on the robustness of the 2017/18 budget proposal.**

2.1 It is the opinion of the CFO that the draft budget for 2017/18 is based upon a sound financial strategy that will enable the Council to deliver its proposed 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. As the budget and Government funding is becoming increasingly complex, especially with the increasing importance of partnerships, risk management is key to the setting of budgets and reserve levels.

2.3 As the development of the Council Plan and budget for 2016/17 has progressed, the position has been the subject to reviews with Chief Officers, 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 as an integral part of service planning (the process known as Reconciling Policy, Performance and Resources).

2.4 The 2017/18 budget is balanced and, in finalising the draft budget, consideration has been given to unforeseen issues that could arise during the year and ensuring that those risks can be managed. The strategic risk register has been reviewed and an analysis of ESCC’s financial position in the current year has been carried out, to identify direct impacts and risks that are inherent within the 2017/18 budget. Additionally, the County Council holds a revenue contingency of £3.4m to cushion the impact of unexpected events and emergencies in year (within the base revenue budget) and a capital risk provision of £12.9m. Notwithstanding that the draft budget for 2017/18 is balanced, there are significant risks to the budget, arising from the requirement to realise £17.0m of revenue savings together with the innovative, and untested, financial arrangements of East Sussex Better Together (ESBT). Therefore a small transformation and risk delivery provision has also been made against in-year under-achievement of planned savings.

2.5 Increasing the Council Tax will provide a more sustainable and increased income to the Council which will help to protect services. Implementing the social care levy will support and help protect services that are already under significant pressure.

**3 The Adequacy of Reserves**

3.1 Reserves are a key element of the Council’s financial management arrangements. Reserves can be broadly categorised as follows:

- A working balance to manage in-year risks, called the General Fund Balance;
- A means of building up funds to meet known or predicted requirements, called General/Earmarked Reserves.

**General Balances**

3.2 For the General Fund Balance there are two main approaches taken by Councils to determine their required minimum level; 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.

3.3 In 2016/17 an exercise was carried out 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 2017/18.

3.4 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. Table 1 below identifies a number of the high level risks that may have financial implications, which assist in determining the required minimum level of General Fund Balance to be retained.

**Table 1: 2017/18 Risks**

| **Risk** | **Potential magnitude** | **Estimate of potential impact** | **Magnitude £m** |
|---|---|---|---|
| Growing demand for services is already impacting on service budgets particularly in Adult Social Care (ASC). Service departments are forecasting a £8.3m overspend, £6.1m of which is in ASC and £2.8m in Children's Services (CSD) with the provision for SEND places being a significant factor. | ASC 2017/18 budget £168.7m. CSD SEND budget for 2017/18 £13.3m. | 2% increased unfunded demand | 3.6 |
| Unforeseen activity which impacts directly on departmental budgets over and above the £3.4m within the general contingency. | Net Service Budget £326.7m | 1% increased unfunded demand | 3.3 |
| Risk that inflation on contracts is not sufficient in year. | Total contracts 2017/18 £254.3m. | 1% increase in current provision. | 2.5 |
| Many 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 in 2017/18 are £17.0m. | 10% non-achievement | 1.7 |
| Non achievement of Fees & Charges targets built into the revenue budget, due to the continuing economic climate. | Planned Fees & Charges for 2016/17 is £57.4m | Underachievement provision of 5% | 2.9 |
| Business Rate Revaluation significantly increases appeals. | Reduction in anticipated revenue from Business rates local share of £11.7m | Rates collected reduces by 5% | 0.6 |
| Changes in historic weather patterns may be being the potential for adverse weather conditions which may present the Council with additional unfunded costs.<br>The impact of weather as opposed to additional prevention, cannot be quantified. | 2015/16 spend on roads and gritting is £1.1m | 10% increase in costs due to adverse weather | 0.1 |

3.5 Taking everything into account, the General Fund Balances of £10.0m, is sufficient based on professional judgement which, given the level of risks, is a minimum general balance and remains lower proportionately than a lot of other authorities. This is considered adequate on the basis that the budget balances for 2017/18 and that, in addition, as noted at 2.4, an-in year contingency is held which is being supplemented in 2017/18 by a transformation and delivery risk provision of £0.9m to manage these risks in year.

**Reserves**

3.6 The Council's approach to the management and accounting for earmarked reserves is set out in the Reserve Strategy adopted by the Cabinet in December 2012. The Reserves have been reviewed using the principles set out in the Policy, namely:

- the challenges posed by a likely decade of austerity;
- uncertainty over the timing of reductions in Government support;
- the requirement to manage significant organisational change;
- the heightened risk profile across public services delivery arrangements; and
- The emphasis placed on a unified organisational response.

3.7 It is crucial to bear in mind that the reserves are the only source of financing to which ESCC has access to fund risks and one-off pressures over a number of years. If ESCC minimises the level of reserves such that in future, financial planning across years is hampered, eventually, the requirement for managing these costs will fall directly on the Council Tax set in each year in an uneven and less well managed manner, which will prove hard to sustain as budgets become even tighter. Reserves can only be spent once and the possibility of creating new reserves in an era where budgets are tight and can become overspent, not just individually but corporately, is now very limited.

3.8 The reserves are split into two categories: named service reserves and strategic reserves, as set out in the Reserve policy. ESCC reserves are estimated to total £100.2m as at 1/4/17. The actual Reserves at 1/4/16 totalled £106.7m;

**Table 2 Summary of Earmarked Reserve estimated at 1/4/17**

| | £m |
|---|---|
| **Named Service Reserves** | |
| Held on behalf of other or statutorily ringfenced | 30.1 |
| Waste Reserve | 12.8 |
| Set aside for the new Capital Programme 2018/23 | 26.8 |
| Insurance | 5.9 |
| **Total service specific reserves** | **75.6** |
| 5 Strategic Reserves | 24.6 |
| **Total Reserves** | **100.2** |

Planned use of these reserves is estimated to reduce them to £52.2m by the end of the MTFP period in 2020/21.

3.9 The **named service reserves** comprise:

- **Held on behalf of other or statutorily ringfenced** of £30.1m – this is comprised almost entirely of the £16.1m Schools Reserves, which cannot legally be spent on ESCC activities, along with a ringfenced reserve of £9.2 to be spent only on Public Health:
- **Waste Reserve** – the Waste reserve is £12.8m. Financial risks relating to the waste contract are reviewed and managed through this reserve on a 4 year rolling programme;
- **Set aside for the Capital Programme 2018/23** – The proposed Capital Programme (presented at Appendix 2) runs to 2023. Basic need (essential budgets, such as schools places and highways infrastructure) of £331.0m has been identified, with very limited Government funding and capital receipts to fund them. Therefore, the reserve of £26.8m was agreed at County Council in February 2016 to support this and reduce the need to borrow and therefore the revenue pressure on the current MTFP and beyond; and
- **Insurance** – it is proposed that this reserve be reduced to £5.9m from £6.6m estimated outturn for 2017/18 following review. This is based on an actuarial review of insurance liabilities that have arisen over previous years, and represents the liability that the actuary estimates will become payable in 17/18 and beyond.

3.10 The estimated brought forward balance of the 5 **strategic reserves** was £23.3m this has been increased to £24.6m by a transfer from the insurance reserve and insurance provision to the transformation reserve. These are itemised below:

- Financing reserve (£11.8m) – to enable the effective management of the Medium-Term Financial Strategy. The main use in 2017/18 will be to fund the significant redundancy costs that will be required as a result of budget reductions. Estimated planned use over the MTFP period reduces this to £1.9m.
- Infrastructure reserve (£6.2m) – to fund infrastructure necessary to enable development across the county. Planned use in 2017/18 includes £0.083m support to develop the Schools Information Hub. Estimated planned use over the MTFP period reduces this to £3.1m.
- Transformation reserve (£3.9m) – to fund the transformation programme to change, protect and improve Council services. Estimated planned use over the MTFP period reduces this to £2.2m. A contribution of £1.3m has been made comprising a £0.7m estimated transferred from the insurance reserve (noted above) and a further £0.6m from a reduced insurance provision requirement, in recognition of the as yet unknown challenges ahead.
- Risk reserve (£2.2m) – to manage the potential financial consequences of risks recognised in the Council's risk management arrangements.
- Service development reserve (£0.5m) – to enable the Council to respond to the most urgent corporate service priorities. Estimated planned use over the MTFP period reduces this to £0.3m.

3.11 There are a number of significant areas of change that currently are not fully understood and cannot be fully quantified but will have potential financial impact over the planning period, these include:-

- Changes to the Local Government finance system to pave the way for the implementation of 100% business rate retention by the end of the Parliament. As part of these reforms, the main Local Government grant will be phased out and additional responsibilities devolved to Local Authorities. This will be a fundamental change in Local Government funding, which the Government intends to phase in, and includes delegating as yet unknown new responsibilities to Local Government which could bring significant risks of funding. The change will be fully effective by the end of this Parliament, but it is not currently possible to estimate the impact of this on the Council until further detail is provided; and
- The Accountable Care Organisation/East Sussex Better Together. The proposed arrangements are innovative and offer the potential to make a major improvement to clinical, social care and public health outcomes while maintaining financial sustainability. They are however untested at this scale and therefore there is a risk to implementation.