

## Chief Finance Officer Statement on the Budget Robustness

### 1.0 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.

### 2.0 Report of the Chief Financial Officer on the robustness of the 2016/17 budget proposal.

- 2.1 It is the opinion of the Chief Finance Officer that the draft budget for 2016/17 is based upon a sound financial strategy that will enable the Council to deliver 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. As the budget and Government funding 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 2016/17 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 2016/17 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 holds a capital contingency of £8.9m
- 2.5 Increasing the council tax will provide a more sustainable and increased income to the Council which will help to protect services. The new 2% social care levy will support help protect services that are already under significant pressure.

### 3.0 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 in ESCC

## 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.
- 3.4 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 £18.3m for 2016/17.
- 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 assist in determining the required minimum level of general fund balance to be retained.

**Table 1: 2016/17 Risks**

2016/17 risk	Potential magnitude	Estimate of potential impact	Magnitude
			£m
Growing demand for services is already impacting on service budgets particularly in Adult Social Care. Service departments are forecasting a £5.1m overspend, £4.3 of which is in ASC for 2015/16.	ASC budget £161.8m.	2% increased unfunded demand	3.2
Risk that inflation on contracts is not sufficient in year.	Total contracts 2016/17 £79.0m.	1% increase in provision.	0.8
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 2016/17 are £19.7m.	10% non-achievement	2.0
Non achievement of Fees & Charges targets built into the revenue budget, due to the continuing economic climate.	Planned Fees & Charges for 2016/17 is £57.7m	Underachievement provision of 5%	2.9
Unforeseen activity which impacts directly on Departmental budgets over and above the £3.4m within the general contingency.	Service budget £317.8m.	2%	6.4
Changes in historic weather patterns may be being the potential for adverse weather conditions which may present the Council with additional unfunded costs. The impact of weather as opposed to additional prevention, cannot be quantified	2014/15 spend on roads and gritting is £1.2m	10% increase in costs due to adverse weather	0.1

- 3.6 Taking everything into account the general fund balances have been increased marginally from £8.9 to £10.0m, 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 2016/17 and that, in addition, as noted at 2.4, an in year contingency is held. The small increase is therefore in recognition of the challenges ahead.

## Reserves

- 3.7 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.

It is crucial to bear in mind that the reserves are the only source of financing that 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 £94.6m as at 1/4/16. The Reserves total as at 1/4/15 was £130.3m;

**Table 1 Summary of Earmarked Reserve estimated at 1/4/16**

Reserves	£m
Named Service Reserves	
Held on behalf of other or statutorily ringfenced	28.7
Waste Reserve	12.8
Set aside for the New Capital Programme 2018/23	20.9
Insurance	6.5
Total service specific reserves	68.9
5 Strategic Reserves	25.7
Total Reserves	94.6

- 3.9 The **named service reserves** comprise:

- **Held on behalf of other or statutorily ringfenced** of £28.7m – this is comprised almost entirely of the £15.5m Schools Reserves, which cannot legally be spent ESCC activities, along with a ringfenced reserve of £10.7 to be spent only on Public Health;
- **Waste Reserve** – the Waste reserve has been reduced by £22m to £12.8m, following a review of the risks, which are now managed on a 4 year rolling programme;
- **Set aside for the New Capital Programme 2018/23** – ESCC has yet to fund the Capital Programme for the last year of the current MTFP and the 4 following years. Basic need (essential budgets, such as schools places) of £414m have been identified, with very limited Government funding and capital receipts to fund them. If other ways of managing these costs is not found, there is a risk that these costs will cause a revenue pressure in the last year of the current MTFP and beyond; and
- **Insurance**; the reserve which is £6.5m for 2016/17 is reviewed annually, based on an actuarial review of insurance liabilities that have arisen over previous years, which will become payable in 16/17 and beyond

- 3.10 The estimated brought forward balance of the 5 **strategic reserves** is £25.7m. These are itemised below;

- Financing reserve (11.7m) : to enable the effective management of the medium-term financial strategy. The main use in 2016/17 will be to fund the significant redundancy costs that will be required as a result of budget reductions ;
- Infrastructure reserve (£6.3m) : to fund infrastructure necessary to enable development across the County. Planned use in 2017/16 includes support to LEP staffing of £0.052m;
- Transformation reserve (£5.2m) : to fund the transformation programme to change, protect and improve Council services. Planned use for 2016/17 includes £1.8m to support the Agile Programme; and
- Risk reserve (£2.1m) : to manage the potential financial consequences of risks recognised in the Council's risk management arrangements.
- Service development reserve (£0.3m): to enable the Council to respond to the most urgent corporate service priorities. Planned use in 2016/17 includes £0.05m om Education Improvement Partnerships;

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

- DCLG will shortly consult on 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. The consultation will take into account the main resources currently available to councils, including council tax and business rates. 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 Gvt intends to phase in, beginning with delegating new responsibilities Local Government, such as managing the currently national £50bn Attendance Allowance Scheme and financing Public Health from business rates, with significant risks of funding shortfall, 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 Government's aim is that every secondary school will become an academy. Sixth form colleges will also be allowed to become academies. A consultation on policy and funding proposals will be published in 2016. At this stage, it is not clear what this will mean for the Council.