

**REPORT OF THE SERVICE DIRECTOR – FINANCE & PROCUREMENT  
(S151 Officer)**

**BUDGET 2014/15**

**Robustness of Budget Estimates and the Adequacy of the County Council's Reserves**

1. The County Council has always taken a prudent approach regarding its reserves, which are specifically set aside to meet future, or potential future, expenditure. The Council's current position is therefore relatively robust.
2. There are four main types of reserve held by the County Council:
  - The General Fund Balance is a non-earmarked reserve, consisting of the accumulated surpluses. A balance on the General Fund is maintained to cushion the impact of uneven cash flows and as a contingency to reduce the impact of unexpected events or emergencies
  - Earmarked Reserves are held to meet specific planned expenditure, for example, that relating to PFI schemes.
  - Schools Statutory Reserve represents monies held on behalf of Schools under the Financial Management of Schools scheme.
  - Capital Grants have been received in advance but have not yet been applied.

**Forecast Level of Reserves**

3. In light of the significant changes to the economic environment, central government have encouraged councils to be innovative regarding the deployment of existing reserves to meet one-off costs now, and where possible to realise future benefits, for example reductions in borrowing costs, and to contain the impact of funding reductions.
4. As in previous years the County Council has undertaken a review of all of its reserves; forecasts based on latest estimates for the current and following year are shown in Table H1 below.

**Table H1 – County Council Reserves Forecast to 31st March 2015**

Reserve	Actual Balance as at 31/03/2013 £'m	Projected Balance as at 31/03/2014 £'m	Forecast Balance as at 31/03/15 £'m
<b>General Fund Balances</b>	<b>42.1</b>	<b>27.0</b>	<b>21.8</b>
<b>Earmarked Reserves:</b>			
Capital Projects Reserve	30.1	15.2	8.4
Corporate Redundancy	5.9	3.4	-
Bassetlaw PFI	0.9	1.3	1.3
East Leake PFI	3.0	3.3	3.3
Waste PFI	28.3	28.5	28.5
Earmarked for Services	38.7	15.7	4.6
Earmarked Reserve	5.0	1.9	-
Strategic Development Fund	-	-	7.1
Improvement Programme	11.4	6.7	-
Lifecycle Maintenance	4.2	4.2	-
Pay Review Reserve	6.7	5.7	3.5
Trading Organisations	3.5	4.0	4.0
Insurance Reserve	10.4	10.4	10.4
<b>Subtotal Earmarked Reserves</b>	<b>148.1</b>	<b>100.3</b>	<b>71.1</b>
<b>Schools Statutory Reserve</b>	<b>33.0</b>	<b>33.0</b>	<b>33.0</b>
<b>Capital Grants Unapplied</b>	<b>7.6</b>	<b>7.6</b>	<b>7.6</b>
<b>Total Usable Reserves</b>	<b>230.8</b>	<b>167.9</b>	<b>133.5</b>

5. Certain assumptions have been made in predicting closing balances and the timing of when movements on balances will occur. These are outlined below, with specific changes included in the Recommendations section within this report.
- A comparison exercise with other Shire Counties was conducted in 2012 and concluded that on average, a General Fund Balance equating to 3.96% of net revenue expenditure was considered prudent. Since then the exercise has been repeated and figures suggest that authorities have tended to hold higher balances, which is likely to be a reaction to the changing funding regime and associated increase in risk and to support the required level of transformation of service delivery. Current predictions range from 2.5% to 10.7% as authorities are at differing stages of their transformation. The budget proposal in this report will take balances to 4.3% by the end of 2014/15 (5.3% for the current financial year).
  - The latest budget monitoring report, which covers the first three quarters of the current financial year, predicts an underspend in the region of £3.6m although there may still be fluctuations in the forecast before year end. In previous years underspends have been transferred to the Capital Projects Reserve, the Corporate Redundancy Reserve as well as General Fund Balances. This has allowed capital schemes to be undertaken with limited impact on the Council's borrowing position, and therefore prevented increased future debt repayments, in addition to funding upfront the costs of staff redundancies. It is likely that a similar strategy will be recommended to Members once final outturn is known, which will also need to consider the need for additional resources to support ongoing change and transformation.

- PFI Reserves are built up using funding surpluses which are held for use in later years of the contract, when the planned withdrawal of government funding will leave a funding shortfall.
- A full review of services reserves has also been undertaken and where funds have been identified as no longer required, transfers to General Fund Balances are being actioned. A further review will be undertaken to assess planned use against the need to support County Council priorities, particularly in light of the reduced level of General Fund Balances. The Earmarked for Services reserves also include revenue grants that are received in advance, these will be spent in accordance with the grant conditions.
- In recognition of the need to fund the resource that will be required to deliver the Councils revised operating model, investment in IT and realise the savings agreed in the Outline Business Cases, the establishment of a Strategic Development Fund was recommended in the report to Finance & Property Committee earlier this month. This will be met by a combination of the remainder of the existing Improvement Programme Reserve and the re-designation of the Lifecycle Maintenance Reserve. However, it is unlikely that the amount identified to date will be sufficient to meet the overall requirement, and it is therefore imperative that wherever possible, additional resources can be identified to enable the Council to fully implement the changes required.
- The Trading Organisations Reserve is money set aside by the Trading Units e.g. Catering, Cleaning, Landscape and County Supplies to fund future replacement equipment.
- The Schools Statutory Reserve comprises money that schools have set aside from their Dedicated Schools Grant and these funds are not available for general authority use. As such it is not possible to accurately predict future balances although they are likely to reduce as schools transfer to Academy status.

### **Adequacy of Proposed Reserves**

6. Neither CIPFA nor the Audit Commission offer a prescriptive assessment of authorities' reserve needs, guidance instead suggests that 'local authorities, on the advice of their finance directors, should make their own judgement on such matters taking into account all the relevant local circumstances'.
7. CIPFA do not advocate the introduction of a statutory minimum level of reserves as 'there is a broad range within which authorities might reasonably operate depending on their particular circumstances'. Imposing a statutory minimum would also be against the promotion of local autonomy and would conflict with the increased financial freedoms that are being introduced in local authorities.
8. However, in a recent response to media coverage of Council reserve balances, CIPFA have supported the flexible management of reserves 'If local councils are trying to manage their reserves to protect the public from future financial problems this is good financial management and should be applauded. In fact it is encouraging that the majority of councils are exercising prudence in their reserves management, providing crucial

capacity to invest in service transformation and protect against future unexpected shortfalls.'

9. Ultimately it is the responsibility of the County Council's Section 151 Officer to recommend a strategy for the management of reserves based on his professional opinion.

### **Risk Management Measures**

10. The Council has developed a strategic approach to risk management that seeks to identify potential risks at an early stage so that remedial action can be taken. A comprehensive analysis of the main financial risks facing the County Council is shown at Appendix D.
11. This analysis supports the general arrangements the authority has in place for managing risk, and is underpinned by:
  - The External Auditors annual review of the Councils financial arrangements and assessment of the Council's financial health, which are then formally reported in their Annual Audit Letter.
  - The Council's positive track record in sound and effective financial management.

### **Professional Opinion of the County Council's Section 151 Officer**

12. The 2003 Local Government Act stipulates that the County Council's Section 151 Officer should report to Members on the robustness of budget estimates and the adequacy of proposed reserves. A summary of the total usable reserves available to the County Council is shown in Table H1 above. The table includes estimates of future reserve levels based on latest estimates of plans and commitments.
13. The strategy proposed in this report is to utilise up to £28m of General Fund and earmarked reserves. Of this total, £7m relates to the capital programme and it has always been planned to spend against the projects reserve in this way. Similarly, the utilisation of £11m earmarked for services reserves is in line with the original plans at the time the reserves were created. The £5m use of General Fund Balances is being used to deliver a balanced budget for 2014/15.
14. Aside from the Capital Projects Reserve, the total reduction in reserves balances planned for 2014/15 represents 14% of the County Council's total reserves. My conclusion is that the budget as set out in this report is legal, robust and sustainable. However, given the on-going financial uncertainties and challenges, the need for robust financial management, strict budgetary control and the on-going monitoring of savings delivery plans, will be of paramount importance.

### **Recommendations**

15. The level of proposed General Fund balances in 2014/15 be regarded as acceptable cover for any reasonable level of unforeseen events.
16. The report be noted.

**PAUL SIMPSON CPFA, SERVICE DIRECTOR, FINANCE & PROCUREMENT**