

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

BUDGET 2015/16

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. Given the continuing financial challenges facing local authorities, 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 D1 below.

Table D1 – County Council Reserves Forecast to 31st March 2016

Reserve	Actual Balance as at 31/03/2014 £'m	Projected Balance as at 31/03/2015 £'m	Forecast Balance as at 31/03/16 £'m
General Fund Balances	29.1	23.9	17.9
Earmarked Reserves:			
Insurance Reserve	10.8	10.8	10.8
Trading Organisations	2.7	2.1	1.8
Earmarked for Services	48.2	34.1	18.5
Earmarked Reserve	3.4	-	-
Capital Projects Reserve	21.3	3.8	-
NDR Pool Reserve	0.2	0.2	0.2
East Leake PFI	3.1	3.1	3.4
Bassetlaw PFI	0.6	0.6	1.1
Waste PFI	28.7	28.7	28.0
Pay Review Reserve	0.8	0.8	0.8
Improvement Programme (WoW)	3.0	2.4	-
Corporate Redundancy	10.1	9.1	5.0
Strategic Development Fund	8.9	6.3	-
Subtotal Earmarked Reserves	141.8	102.0	69.6
Schools Statutory Reserve	36.3	36.3	36.3
Capital Grants Unapplied	2.0	-	-
Total Usable Reserves	209.2	162.2	123.8

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.
- Comparisons with other Shire Counties are conducted on a regular basis to help determine a prudent, yet realistic, General Fund Balance as a proportion of net revenue expenditure. The latest analysis shows a disparate position, with predictions ranging from 2.1% to 17.4%, likely to be the effect of authorities being at differing stages of their transformation, combined with the underlying impact of reducing funding and the associated increase in risk. The budget proposal in this report will take Council balances to 3.7% by the end of 2015/16.
 - The latest budget monitoring report, predicts an underspend in the region of £3.3m 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, and consideration will also be needed for additional resources to support ongoing change and transformation.

- A full review of services reserves has been commissioned to benchmark the Council's balances with neighbouring authorities in order to determine an appropriate level. The outcome of this review will be reported to Finance & Property Committee. Where funds have been identified as no longer required, transfers to General Fund Balances are being actioned. The Earmarked for Services reserves also include revenue grants that are received in advance, these will be spent in accordance with the grant conditions.
- 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.
- The establishment of a Strategic Development Fund was approved in February 2014. This is being used to support the transformation that the Council is currently undertaking. Wherever possible, additional resources will be identified to enable the Council to fully implement the changes required.
- 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. 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. Indeed, guidance 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. Further, in previous responses 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.'
8. Ultimately it is the responsibility of the County Council's Section 151 Officer to recommend a strategy for the management of reserves based on their professional opinion.

Risk Management Measures

9. 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. This 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

10. 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 D1 above. The table includes estimates of future reserve levels based on latest estimates of plans and commitments.
11. The strategy proposed in this report is to utilise up to £38.4m of General Fund and earmarked reserves. Of this total, £15.6m relates to reserves that have been earmarked for services, this is in line with the original plans at the time the reserves were created. The £6.0m use of General Fund Balances is being used to deliver a balanced budget for 2015/16.
12. 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

13. The level of proposed General Fund balances in 2015/16 be regarded as acceptable cover for any reasonable level of unforeseen events.
14. The report be noted.

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