

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 of transformation. This budget report is proposing to utilise £42m of reserves over the medium term with £17.0m being used to deliver a balanced budget in 2016/17.
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 2017

Reserve	Actual Balance as at 31/03/2015 £'m	Projected Balance as at 31/03/2016 £'m	Forecast Balance as at 31/03/2017 £'m
General Fund Balances	27.0	25.2	21.5
Earmarked Reserves:			
Insurance Reserve	10.3	10.3	10.3
Trading Organisations	3.3	1.1	1.0
Earmarked for Services	50.9	40.8	35.1
Earmarked Reserve	1.1	5.4	0.0
Capital Projects Reserve	11.2	11.2	11.2
NDR Pool Reserve	2.4	1.5	0.5
East Leake PFI	3.1	3.4	3.7
Bassetlaw PFI	0.3	0.7	1.1
Waste PFI	29.1	27.5	26.6
Pay Review Reserve	0.7	0.7	0.7
Improvement Programme (WoW)	2.5	2.0	1.5
Corporate Redundancy	9.1	5.0	4.0
Strategic Development Fund	7.4	4.8	1.9
Subtotal Earmarked Reserves	158.4	139.6	119.1
Schools Statutory Reserve	37.9	33.0	30.0
Capital Grants Unapplied	1.6	1.5	1.5
Total Usable Reserves	197.9	174.1	150.6

5. Certain assumptions have been made in predicting closing balances and the timing of when movements on balances will occur. These are outlined below.
- A full review of the Council's Reserves Strategy was undertaken by CAPITA in 2015. The review confirmed that the Council is maintaining a risk based General Fund Balance. Although the General Fund reserve has fallen over the previous two years, the position is relatively strong in terms of risk cover when compared with other County Councils. A risk based assessment of the required level of General Fund Reserve has been undertaken and can be seen in the table below:

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Risk	Impact	Probability (low, medium or high)	Mitigation	Proposed level of reserve cover for 2016/17 £m
Major funding stream variations	If an in-year correction or top-slice is made to external funding during 2016/17 this would reduce the Council's ability to fund its Budget (say 1% of RSG)	Medium	The government settlement has been announced, however, there have been in-year changes previously.	£0.6
Major variations in budget assumptions e.g. inflation	If inflationary expectations are too low, it could have a greater impact on the Council's expenditure than expected.	Low	The Service Director – Finance, Procurement & Improvement monitors the economic environment and takes forecasts from reliable sources	£1.6
Major expenditure and income variations	If expenditure is higher than budgeted or income lower than budgeted in any service, this will lead to a service overspend and potentially an overall overspend in Budget (say 1.5% of net committee requirements of £516.501m)	Medium	The Council's Management Team control the budget through a robust monthly budget management process, however, there are ongoing risks in Children's and Adults Services where safeguarding takes priority	£7.7
Delay in and/or non-delivery of savings	If planned savings are delayed or are found to be undeliverable this will have a significant impact on the Council's ability to deliver its Budget (say 10% non-delivery in-year, of £27.368m to be saved)	High	The Council's Management Team control the delivery of the savings programme through a robust monthly budget management process, however, this becomes more difficult year-on-year given the savings already delivered to date and the complexity of building change on change	£2.7
Major disaster implications	The Council could face unplanned expenditure if faced with a major disaster e.g. freak weather conditions	Medium	The Council may receive central government support but it is not certain that this would cover all required expenditure, there is also robust major emergency plans in place	£1.0

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Risk	Impact	Probability (low, medium or high)	Mitigation	Proposed level of reserve cover for 2016/17 £m
Health and safety breaches	The Council could be faced with a fine if it was found to be in breach of health and safety requirements	Low	The Council has very good health and safety procedures and records in place and these are reviewed and updated on a regular basis. A training programme is also in place	£1.0
Security breaches	The Council could be liable for a penalty from the Information Commissioner's Office if it is found to be in breach of data security requirements	Low	The Council has an SRO in place that is responsible for the security measures applied for this purpose, robust procedures are in place and reviewed and monitored on a regular basis	£1.0
ICT failure	The reliance on ICT for the Council is significant and growing, which means that there could potentially be a significant impact if one or more of the Council's main systems failed	Low	The Council has an ICT Strategy in place, which includes a disaster recovery plan and business continuity plans are in place for all services	£1.0
Impact of litigation	The Council may be faced with litigation related to the services that it provides e.g. related to safeguarding in Children's and Adults Services	Low	The services have strong procedures in place for the delivery of services and are fully conversant with the requirements of the legislation relevant to each service area	£1.0
Employment matters	The Council could be faced with costs associated with industrial action or individual tribunal cases	Low	The Council has good employee and union relations, including early consultation for major policy implications and major service changes	£0.5
Third party failure	The Council could have a significant negative financial impact of one or more of its major suppliers or trading operations failed	Low	The Council has strong governance and contract controls in place, with major contracts reviewed and monitored closely as part of the operation of each Council service	£1.0

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Risk	Impact	Probability (low, medium or high)	Mitigation	Proposed level of reserve cover for 2016/17 £m
Contingency – unforeseen events	The above risks are intended to cover all foreseen situations that the Council could face, however, there could be future major policy changes or unforeseen incidents that could significantly impact on the Council's financial stability (say 0.5% of 'Total before use of Reserves' at £499.750m)	Low	In the current uncertain times associated with Local Government Finance changes, volatility in the global economy and the focus on national security it is advisable for the Council to hold a contingent level of reserves	£2.4
Risk assessed minimum level of General Fund Reserve				£21.5
% of net revenue expenditure (based on £516.501m)				4.2%

- The latest budget monitoring report, which covers the first three quarters of the current financial year, predicts an underspend in the region of £5.4m although there may still be fluctuations in the forecast before year end. It is proposed that any in-year underspend is transferred to the Insurance Reserve to fund future costs associated with the Historic Abuse Claims, the Strategic Development Fund to support on-going change and transformational costs and the General Fund to inform the strategy required to meet the shortfall in funding as identified in the MTFS. 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 have been 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 previous years a Strategic Development Fund was established to deliver the Councils revised operating model, invest in IT and realise the savings agreed in the Proposed Savings Business Cases. 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. 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.
 - A full review of the Council's Reserves Strategy by CAPITA
 - 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 £25.5m of General Fund and earmarked reserves in 2016/17. Of this total, £5.4m relates to earmarked reserves that have been given up following a full review of reserves, this will be used to help deliver a balanced budget for 2016/17. A further £5.7m relates to earmarked for services reserves, this is in line with the original plans at the time the reserves were created. The £3.7m use of General Fund Balances is being used to deliver a balanced budget for 2016/17.
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 2016/17 be regarded as acceptable cover for any reasonable level of unforeseen events.
14. The report be noted.

NIGEL STEVENSON CPFA

SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT