

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 that 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 £19.9m of reserves over the medium term with £3.9m being used to deliver a balanced budget in 2022/23.
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 B1 below.
5. The Council has taken a risk-based approach in setting the Budget for 2022/23 and compiling the MTFs which is also reflected in the level of balances and reserves it needs to maintain. These financial risks include:
 - The on-going financial impact of the COVID19 pandemic and the implications that this may have on the delivery of council services.
 - The assumptions factored into the budget may not be sufficient to meet the underlying cost and demand pressures that actually arise, particularly with regard to increased demand and inflationary pressures in Adults and Children's Social Care Services.
 - The 2022/23 Settlement reflects a one-year settlement only. As such, the considerable uncertainty beyond 2022/23 will remain.
 - The outcome of the Fair Funding Review and the move to a higher retention of business rates has been delayed and we await further announcements as to if and when this review will complete.

- General inflationary pressures on our suppliers particularly in energy, construction and ICT.

Table B1 – County Council Reserves Forecast to 31st March 2023

| Reserve | Actual Balance as at 31/03/2021 £'m | Projected balance at 31/03/2022 £'m | Forecast balance at 31/03/2023 £'m |
|------------------------------------|---|--|---|
| General Fund Balance | 32.1 | 32.2 | 32.2 |
| Earmarked Reserves | | | |
| General Insurance Reserve | 36.7 | 36.7 | 36.7 |
| Trading Activities | 0.6 | 0.3 | 0.3 |
| Earmarked for Services | 9.4 | 9.1 | 9.1 |
| Revenue Grants | 16.6 | 15.7 | 15.7 |
| Section 256 Grants | 22.6 | 19.0 | 19.0 |
| Earmarked Reserve | 3.2 | 1.7 | 1.7 |
| Capital Projects Reserve | 7.5 | 10.9 | 8.2 |
| NDR Pool Reserves | 11.5 | 10.0 | 7.7 |
| East Leake PFI | 2.9 | 3.0 | 3.0 |
| Bassetlaw PFI | 0.9 | 1.0 | 1.0 |
| Waste PFI | 24.3 | 23.7 | 23.1 |
| Workforce Reserve | 6.2 | 6.2 | 6.2 |
| IICSA Reserve | 1.4 | 0.0 | 0.0 |
| Strategic Development Fund | 12.4 | 9.6 | 6.8 |
| Council Tax Equalisation | 2.4 | 1.2 | 0.0 |
| COVID19 Recovery Reserve | 19.3 | 5.2 | 0.0 |
| Highways / Env't Reserve | 0.0 | 15.0 | 10.0 |
| Subtotal Earmarked Reserves | 177.9 | 168.3 | 148.5 |
| Schools Statutory Reserve | 28.5 | 28.5 | 28.5 |
| Capital Grants Unapplied | 2.9 | 2.9 | 2.9 |
| Total Usable Reserves | 241.4 | 231.9 | 212.1 |

6. Certain assumptions have been made in predicting closing balances and the timing of when movements on balances will occur. These are outlined below.

- Given the uncertain future economic outlook and the risks surrounding the MTFs, the Council is maintaining a risk based General Fund Balance. Although the General Fund reserve has fluctuated over the previous three years, the position is relatively strong and stable in terms of risk cover when compared with other County Councils. This is a prudent approach given the uncertainty that currently exists within Local Government Finance, pressures on our services, together with the ongoing implications of responding to the COVID19 pandemic and the impact this is having upon our suppliers. A risk-based assessment

Appendix B

of the required level of General Fund Reserve has been undertaken and can be seen in the table below:

| Risk | Impact | Probability (low, medium or high) | Mitigation | Proposed level of reserve cover for 2022/23 £m |
|---|---|--|--|--|
| Major funding stream variations | If an in-year correction or top-slice is made to external funding during 2022/23 this would reduce the Council's ability to fund its Budget (say 0.5% of RSG+BR) | Low | 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. (1% of net committee requirements of £596.371m) | Low | The Service Director – Finance, Infrastructure & Improvement monitors the economic environment and takes forecasts from reliable sources | £6.0 |
| 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 £596.371m) | 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 | £9.0 |
| Risk in the Social Care Market | As a result of the COVID19 pandemic, the Social Care Market is facing significant challenges relating to workforce, quality and cost which could lead to potential service overspends in Children's and Adult budgets | High | The Council will maximise the use of external funding opportunities, put plans in place for improved career progression and recruitment and continue to control budgets through the usual budget monitoring processes. | £5.0 |

Appendix B

| Risk | Impact | Probability (low, medium or high) | Mitigation | Proposed level of reserve cover for 2022/23 £m |
|---|---|--|---|--|
| 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 £1.744m 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 | £0.9 |
| 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 are also robust major emergency plans in place | £1.0 |
| 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 mandatory training programme is also in place. | £0.5 |
| Security breaches | The Council could be liable for a penalty from the Information Commissioner's Office with regard to the new General Data Protection Regulations. | Low | The establishment of an Information Governance Framework was approved at Policy Committee in March 2018. A mandatory training programme is also in place. | £3.0 |
| 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 |

Appendix B

| Risk | Impact | Probability (low, medium or high) | Mitigation | Proposed level of reserve cover for 2022/23 £m |
|--|--|--|---|--|
| 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 if 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 |
| 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 Net Budget Requirement £559.472m) | Low | In the current uncertain times associated with Local Government Finance changes, volatility in the global economy and the implications of Brexit it is advisable for the Council to hold a contingent level of reserves | £2.6 |
| Risk assessed minimum level of General Fund Reserve | | | | £32.1 |
| % of net revenue expenditure (based on £596.371m) | | | | 5.3% |

- The latest budget monitoring report, which covers the first three quarters of the current financial year, predicts a minor underspend. Given the uncertainty that currently exists there may however still be fluctuations in the forecast before year end. It is proposed that any in-year underspend is treated as a contribution to General Fund balances.
- 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 Workforce Reserve covers potential pay protection, National Living Wage increases and Pension Strain, as well as Pension Contributions and Redundancy.
- A full review of services reserves has also been undertaken and where funds have been identified as no longer required, transfers have been actioned. A further review will be undertaken to assess planned use against the need to support County Council priorities. 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 transformational costs have been funded by the capital flexibility opportunity as announced in the 2018/19 provisional Local Government Settlement. As this funding opportunity is no longer available and the Authority has taken the decision to use future capital receipts to re-pay previous years borrowing, it is proposed that the Strategic Development Fund is used to fund future costs of transformation.
- The Trading Organisations Reserve is money set aside by the Trading Units e.g. Catering, Cleaning, and Landscape 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

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. 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'.
8. 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.' The CIPFA Resilience Indicator for local authorities provides a useful broad dashboard indicator of the financial risks and mitigations within the budget approved for the current year. The Resilience Indicator for Nottinghamshire does not highlight any undue risk to the Authority.

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 their 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. This supports the general arrangements the authority has in place for managing risk, and is underpinned by:
 - The External Auditors annual review of the Council's financial arrangements and assessment of the Council's financial health, which are then formally reported in the Auditor's Annual Report.
 - The Council's positive track record in sound and effective financial management.

Professional Opinion of the County Council's Section 151 Officer

11. 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 B1 above. The table includes estimates of future reserve levels based on latest estimates of plans and commitments.
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 2022/23 be regarded as acceptable cover for any reasonable level of unforeseen events.
14. The report be noted.

NIGEL STEVENSON CPFA

SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND IMPROVEMENT