

ROBUSTNESS OF BUDGET ESTIMATES AND THE ADEQUACY OF THE COUNTY COUNCIL'S RESERVES

1. Reserves are a fundamental part of the Council's financial strategy and are used to ensure resilience and stability when setting the budget requirement. Therefore, by taking a prudent approach to budgeting, the Authority can operate with a level of reserves appropriate for the risks (both internal and external) to which it is exposed.
2. There are four main types of reserve held by the County Council:
 - The General Fund Balance is a non-earmarked reserve, consisting of 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.
 - The Schools Statutory Reserve represents funds held on behalf of Schools under the Financial Management of Schools scheme.
 - Grants/External funding 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 use reserves to maintain services in the face of immediate inflationary pressures whilst maintaining appropriate levels to support financial sustainability and future investment. This budget report is proposing to directly utilise £49.7m of reserves over the medium term with £3.9m being used to deliver a balanced budget in 2023/24.
4. As in previous years, the County Council has undertaken a review of all its reserves and forecasts based on latest estimates for the current and future years across the MTFs are shown in Table B1 below.
5. The Council has taken a risk-based approach in setting its budget for 2023/24 and compiling the MTFs. This is reflected in the level of balances and reserves it needs to maintain. The main financial risks include:
 - General inflationary pressures impacting a range of expenditure budgets including wage growth and costs that relate to energy, fuel and external contracts.
 - 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 pressures in Adults and Children's Social Care services.

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- The 2023/24 Settlement reflects a one-year settlement only. As such, the considerable uncertainty beyond 2023/24 will remain. In addition, 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.

Table B1 – County Council Reserves Forecast to 31st March 2027

Reserve	Actual Balance as at 31/03/2022 £'m	Projected balance at 31/03/2023 £'m	Projected balance at 31/03/2027 £'m
General Fund Balance	35.2	37.2	37.2
Earmarked Reserves			
General Insurance Reserve	39.4	38.5	29.7
Trading Activities	0.2	0.4	0.4
Earmarked for Services	12.7	4.6	4.6
Revenue Grants	20.5	15.0	15.0
Section 256 Grants	38.5	38.5	28.5
Earmarked Reserve	3.2	8.8	0.0
Capital Projects Reserve	15.8	14.7	4.0
NDR Pool Reserves	12.1	11.2	10.7
East Leake PFI	2.9	2.9	2.9
Bassetlaw PFI	1.7	1.7	1.7
Waste PFI	24.4	23.5	22.6
Workforce Reserve	6.6	6.6	0.0
Strategic Development Fund	17.9	15.0	3.4
Council Tax Equalisation	2.4	1.2	0.0
Business Rates Equalisation	5.6	5.6	4.4
COVID Recovery Reserve	5.7	0.0	0.0
Highways / Env't Reserve	15.0	10.8	0.0
Subtotal Earmarked Reserves	224.6	198.9	127.8
Schools Statutory Reserve	30.1	30.1	30.1
Capital Grants Unapplied	3.5	3.5	3.5
Total Usable Reserves	293.4	269.7	198.6

6. The movements above reflect current expectations in terms of usage of reserves over the period of the MTF5. Certain assumptions have been made in predicting closing balances and the timing of when movements on balances will occur. The key assumptions are outlined below.

General Fund Balance

7. The General Fund balance has been stable over recent years and can be considered relatively strong in terms of risk cover when compared with other County Councils. This is a prudent approach given the uncertainty that currently exists within the Local Government financial landscape and difficulty in projecting the full impact of inflationary pressures across the MTFS.

8. The latest budget monitoring report, which covers the first three quarters of the current financial year, predicts a small underspend of £2.2m representing 0.4% of the net budget. This projection may however fluctuate in the intervening period prior to 31st March. It is proposed that any in-year underspend is treated as a contribution to the General Fund, and this has been reflected in Table B1.

9. An assessment has been undertaken to identify the key financial risks for next year which can be used as a basis for determining the minimum level of general balances for the county council. Whilst this is not an exhaustive list of all the financial risks faced by the council, the assessment includes those most likely to have a significant impact on the budget. Details of this assessment are provided in the table below:

Risk	Impact	Probability (Low, Medium or High)	Mitigation	Proposed level of reserve cover for 2023/24 £m
Major funding stream variations	If an in-year correction or top-slice is made to external funding during 2023/24 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.	£0.7
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 £653.043m)	Medium	The Service Director – Finance, Infrastructure & Improvement monitors the economic environment and takes forecasts from reliable sources	£6.5

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Risk	Impact	Probability (Low, Medium or High)	Mitigation	Proposed level of reserve cover for 2023/24 £m
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 £653.043m)	Medium	The Council's Leadership 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	£9.8
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.	£6.0
Slippage 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 £8.667m to be saved)	High	The Council's Leadership Team control the delivery of the savings programme through a robust monthly budget management process, however, this becomes more difficult 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 however it is not certain this would cover all required expenditure. Whilst robust major emergency plans are in place, many associated costs will be unavoidable.	£1.0

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Risk	Impact	Probability (Low, Medium or High)	Mitigation	Proposed level of reserve cover for 2023/24 £m
Health and safety breaches	The Council could be faced with a fine if 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
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

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Risk	Impact	Probability (Low, Medium or High)	Mitigation	Proposed level of reserve cover for 2023/24 £m
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 £653.043m)	Low	The current uncertainty within Local Government Finance coupled with volatility in the global economy mean it is advisable for the Council to hold a contingent level of reserves	£3.3
Risk assessed minimum level of General Fund Reserve				£35.2
% of net revenue expenditure (based on £653.043m)				5.4%

Other Earmarked Reserves

- PFI Reserves are accumulated using funding surpluses which are held for use in later years of the contract when the planned withdrawal of government support 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 costs.

- A full review of Earmarked for Services reserves has 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 deliver and support County Council priorities. The reserves relating to revenue grants that are received in advance will be spent in accordance with the relevant grant conditions.
- In previous years, the costs of Transformation have been funded by capital flexibility provisions as announced in the 2018/19 provisional Local Government Settlement. Whilst this funding opportunity still exists, the Authority has taken the decision to use future capital receipts to either repay previous years borrowing or to invest directly in the Capital Programme. It is therefore proposed that the Strategic Development Fund is used to fund future costs of Transformation across the MTFS.
- The Schools Statutory Reserve comprises money that schools have set aside from their share of Dedicated Schools Grant and these funds are not available for use by the Local authority. 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

10. 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'.
11. Furthermore, 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. 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.
12. 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.

Professional Opinion of the Council's Section 151 Officer

13. 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.
14. 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 2023/24 be regarded as acceptable cover for any reasonable level of unforeseen events.
16. The report be noted.

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