

BUDGET 2017/18**SECTION 151 OFFICER'S STATEMENT ON ADEQUACY OF BALANCES
AND THE ROBUSTNESS OF THE BUDGET****1. Introduction**

The Chief Financial Officer is required to make a statement on the adequacy of reserves and the robustness of the budget. This is a statutory duty under section 25 of the 2003 Local Government Act which states the following:

- (1) *Where an authority to which section 32 or 43 of the Local Government Finance Act 1992 (billing or major precepting authority) or section 85 of the Greater London Authority Act 1999 (c.29) (Great London Authority) applies is making calculations in accordance with that section, the Chief Finance Officer of the authority must report to it on the following matters-*
 - (a) *The robustness of the estimates made for the purposes of the calculations, and*
 - (b) *The adequacy of the proposed financial reserves.*
- (2) *An authority to which a report under this section is made shall have regard to the report when making decisions about the calculations in connection with which it is made.*

This includes reporting and taking into account:

- The key assumptions in the proposed budget and to give a view on the robustness of those assumptions.
- The key risk areas in the budget and to assess the adequacy of the Council's reserves when reviewing the potential financial impact of these risk areas on the finances of the Council. This should be accompanied by a Reserves Strategy.

This paper has to be considered and approved by full Council as part of the budget approval and Council Tax setting process.

This document concentrates on the General Fund 2017/18, the Housing Revenue Account and Capital Programme, but in addition it also considers key medium term issues faced by the Council.

2. Assurance Statement of the Council's Section 151 Officer (Head of Finance and Resources)

The following are the summary assurances and recommendations of the Council's Section 151 Officer (currently the Director of Finance and Resources). They must be read in conjunction with the supporting statement in this Appendix, which together make up the Section 151 Officer's statutory duty to report under Section 25 of the Local Government Act 2003.

1. In relation to the 2017/18 General Fund Revenue budget I have examined the budget proposals and I believe that, whilst the spending and service delivery proposals are challenging, they are nevertheless achievable given the political and management will to implement the changes, good management, and the sound monitoring of performance and budgets. I am satisfied that sufficient management processes exist within the Council to deliver this budget and to identify and deal with any problems which may arise unexpectedly during the year.
2. The key process risks in making the above statement are the comparatively low resources within the Council, compared to other Unitary Authorities, dedicated to providing financial support services and advice to managers, which will need the finance teams to be focused on key risk budgets.
3. My recommendations are also conditional upon:
 - The agreement of the Medium Term Financial Strategy for 2017/18 to 2020/21;
 - A recognition in the medium term planning approach that the level of reserves and corporate risk assessment need to be regularly reviewed in the light of changing circumstances and that it may not be possible to match the two at any single point in time. The Council needs to show a commitment to maintain reserves at a level which provides adequate cover for most identified risks during the planning period. This approach is pragmatic, and shows a clear commitment to prudent contingency planning. It must be noted, however, that the recommended levels of reserves could leave the Council exposed to the very exceptional risks identified in this review and, if those risks crystallise, to reserves being inadequate;
 - Portfolio holders, Chief Executive, Deputy Chief Executives and managers not exceeding their cash limits for 2017/18 (and future years covered by the Medium Term Financial Strategy);

- Taking every opportunity to meet the Reserves Strategy as a first call on windfall underspends;
 - Not considering further calls on reserves other than for those risks that have been identified, those that could not have been reasonably foreseen and that cannot be dealt with through management or policy actions. The exception to this is where the Reserves Strategy (reviewed annually) is met. Even in those circumstances, it is not prudent to finance ongoing spending from one-off reserves. Any excess reserves should be targeted towards business transformation (including redundancies and invest to save), contributions to support capital outlay, Local Government funding changes and Welfare Reform changes.
 - Where there is a draw-down on reserves, which causes the approved Reserves Strategy to be off target, that this is replenished as part of a revised Medium Term Financial Strategy;
 - That the Council has arrangements and resources in place to consider value for money in preparation for future years' budgets.
4. In relation to the adequacy of reserves, I recommend the following Reserves Strategy based on an approach to evidence the requisite level of reserves by internal financial risk assessment. The Reserves Strategy will need to be reviewed annually and adjusted in the light of the prevailing circumstances.
- (i) An absolute minimum level of General Fund reserves of £8 million that is maintained throughout the period between 2017/18 to 2020/21;
 - (ii) An optimal level of reserves of £10 million over the period 2017/18 to 2020/21 to cover the absolute minimum level of reserves, in-year risks, cash flow needs and unforeseen circumstances;
 - (iii) A maximum recommended level of reserves of £12 million for the period 2017/18 to 2020/21 to provide additional resilience to implement the Medium Term Financial Strategy;
 - (iv) A Reserves Strategy to remain within the recommended level of reserves over the relevant period of 2017/18 to 2020/21.

5. The estimated level of unallocated General Fund reserves at 31 March 2017, based on current projections is circa £11 million depending on the final outturn position. Therefore:
- (i) The absolute minimum level of reserves of £8 million is currently being achieved;
 - (ii) The optimal level of reserves of £10 million criteria is being achieved for 2016/17 if departments spend against budget as currently projected;
 - (iii) The maximum level of reserves of £12 million is not being exceeded;
 - (iv) Reserves should remain within the recommended range of reserves during 2016/17. This is subject to resources set aside for redundancy costs proving adequate and the cash limited budget for 2016/17 being met.
6. These recommendations are made on the basis of:
- (i) The risks identified in the Chief Executive and Deputy Chief Executives reviews of their budgets;
 - (ii) My own enquiries during the development of the current budget;
 - (iii) The resilience required to deliver the Medium Term Financial Strategy;
 - (iv) One-off unallocated reserves not being used to fund new on-going commitments;
 - (v) That the reserves in 2017/18 and the foreseeable future are used only if risks materialise and cannot be contained by management or policy actions.
 - (vi) That where reserves are drawn down, the level of reserves is maintained in line with the latest Medium Term Financial Strategy.
7. There are also serious exceptional risks which, if they crystallise, could significantly impact the Council's reserves and leave its financial standing seriously in question. These include :
- (i) The potential for cliff slips, pier remediation works and any other unforeseen Council owned infrastructure issues;

- (ii) Waste Management – the Council has entered into a contract for long term facilities for waste disposal and also a strategy to comply with targets to reduce the amount of waste going to landfill. The full financial ongoing impact of the longer term facilities over a 30 year period, which will be costly, will not crystallise until full financial delivery on the overall scheme as part of a Joint Working Agreement with Essex County Council;
 - (iii) The new 16 year Waste Collection and Street Cleansing contract.
 - (iv) The financial implications from the Care Act, other welfare reform changes and other associated Housing legislation;
 - (v) The increasing cost and demand pressures for adult and child care;
 - (vi) The risk surrounding the non-delivery of savings within the circa £7.5 million savings package for 2017/18;
 - (vii) The extreme financial issues for the public sector arising from the prevailing and continuing national and local conditions;
 - (viii) The risk of even further significant reductions in Government grant funding, particularly in relation to:
 - Growth and decline in the Council's Tax base and Business Rates base;
 - Business Rates appeals from the 2017 revaluation;
 - Academies funding;
 - The Local Council Tax Support Scheme with reduction in subsidy funding and no protection for caseload increases;
 - Further changes to the way in which Local Government is financed by Government particularly with the introduction of 100% Business Rates retention;
 - Future Government changes in policy and funding for Local Government;
 - The need to address the Country's ongoing Public Sector Borrowing Requirement (PSBR) and the structural financial deficit.
 - (ix) Insurance Claims
8. In relation to the Housing Revenue Account (HRA) in 2017/18 and the medium to long term:
- (i) Given the current status of housing management provision the recommendation is that general reserves be maintained at the target figure of £3m;

- (ii) A 2017/18 budget has been agreed with South Essex Homes Ltd. to maintain a balanced HRA;
- (iii) Forward projections for the HRA beyond 2017/18 are being remodelled. In addition, this is linked to the HRA's own Medium Term Financial Strategy for the period 2017/18 to 2020/21.

The current position demonstrates that it is possible to:

- Maintain a balanced HRA throughout that period;
- Meet current level of capital investment; and
- Repayment of required debt

- (iv) Recognition is made of the potential for a Levy payment in respect of higher value voids
9. In relation to the General Fund and HRA Capital Programme 2016/17 to 2020/21 (including commitments from previous years and new starts):
- (i) The HRA Capital Programme will need to be contained within the total programme cost;
 - (ii) The General Fund Capital Budget is substantial but is based on the best information available in terms of project costs. What is less certain is the phasing of expenditure;
 - (iii) The key strategic schemes identified in the Capital Programme will be closely monitored in-year;
 - (iv) That the funding identified for the approved Capital Programme is delivered and is prudent, affordable and sustainable.
10. In relation to the medium/long term Capital Programme:
- (i) The delivery of the agreed Capital Strategy and Asset Management Plan is a critical priority to enable the matching of resources to needs and priorities.

Assurance

Given all these factors, I, as the Council's Section 151 Officer, consider the estimates for 2017/18 to be sufficiently robust but challenging for approval by the Council. I am also able to advise the Council that the level of General Fund Reserves is adequate and to recommend a Reserves Strategy which is achievable by 2017/18.

3. Supporting Statement

a. Processes

Budget estimates are exactly that – estimates of spending and income made at a point in time and which will change as circumstances change. This statement about the robustness of estimates cannot give a 100% guarantee about the budget but gives Members reasonable assurance that the budget has been based on the best available information and assumptions available at the time.

In order to meet the requirement on the robustness of estimates a number of key processes have been put in place, including:

- The issuing of clear guidance to Departments on preparing budgets;
- The development of Council wide risk assessment;
- The use of budget monitoring and its escalation process to identify risks;
- The Council's S151 Officer providing advice throughout the process of budget preparation and budget monitoring;
- The Chief Executive and Deputy Chief Executives review of their budgets and budget sensitivities;
- A review of budget proposals by CMT from June 2016 to February 2017;
- A review of budget proposals by Executive Members from September 2016 to February 2017;
- Enquiries made directly by the Section 151 Officer and Finance Officers

Notwithstanding these arrangements, which are designed to test the budget throughout its various stages of development, considerable reliance is placed on the Chief Executive, Deputy Chief Executives and Directors having proper arrangements in place to identify issues, project costs, service demands, to consider value for money and efficiency, and to implement changes in their service plans. This is supported by appropriately qualified financial staff.

A summary of the key budget assumptions considered by Departments in terms of assessing the robustness of their budgets are shown below;

- The treatment of inflation and interest rates.
- The treatment of demand led pressures.
- The treatment of efficiency savings/productivity gains.
- The financial risks inherent in any significant new funding partnerships, major outsourcing deals or major capital developments.
- The availability of other funds to deal with major contingencies.

- The Department's track record in budget and financial management.
- The Department's capacity to manage in-year budget pressures.

The full key budget assumptions and comments by the Chief Executive and Deputy Chief Executives have been used in constructing the current year's budget.

Corporate and departmental processes will continue to be improved in future years. Particularly over the last few years there has been a continued emphasis on a robust scheme of budget monitoring and additionally the regular review and monitoring of the annual budget savings that was introduced by the current Director of Finance & Resources and will continue in 2017/18.

Additionally, with the continuous development of the ERP system (Agresso) covering both Financial and HR systems this has improved the authority's capacity to monitor the overall budget. Continual improvement in these processes will assist in prevention or earlier identification of issues to be dealt with in the budget and Medium Term Financial Strategy and allow for any in-year rebalancing to be undertaken if required. Nevertheless in preparing such a complex budget, unforeseen issues will arise throughout the year and in future years.

b. Robustness of Estimates - General Fund Revenue Budget

The 2017/18 budget and service planning process continues the need to link financial resources to corporate priorities and risks. In addition to improving efficiency, there are clearly choices for the Council in this respect:

- To increase financial resources to meet demand and reduce risk; or
- To reduce (where possible) service levels and standards, frequency of service delivery, and eligibility for services.

As part of developing the budget, Members of the administration have considered these options and they are reflected in the proposed budget.

Most notably the Council has had to address major cost increases and pressures as well as corporate priorities including:

- Employee costs (including Employer Pension Contributions and National Insurance Contributions)
- Demographic and cost pressures for Adult and Children Social Care
- The cost of prudential borrowing within the capital programme
- Shortfalls in income
- Inflation

The factors and risks taken into account in developing the proposed budget and recommendations on reserves are contained in each of the Chief Executive and Deputy Chief Executives proposals surrounding their Departmental budget.

These assumptions will require the forecasts for future years to be reviewed early in each financial year leading to more detailed budgets during the autumn of each financial year.

c. Medium Term Financial Strategy

Over the medium term, the Council needs to deliver its Medium Term Financial Strategy reflecting the continuing impact of the proposed budget and only minimal growth in relation to issues that are unavoidable. Within the extremely tight financial climate over the medium term it is very likely that service improvement and reasonable Council Tax increases, without key service reductions, will only be achieved through improving efficiency, clear prioritisation and new income generation.

d. Adequacy of Reserves – General Fund Revenue Budget

Under the Local Government 2003 Act the Secretary of State has reserve powers to set a minimum level of reserves. The most likely use of this power is where an authority is running down its reserves against the advice of their S151 Officer.

Determining the appropriate levels of reserves is not a precise science or a formula e.g. a percentage of the Council's budget. It is the Council's safety net for risks, unforeseen or other circumstances. The reserves must last the lifetime of the Council unless contributions are made from future years' revenue budgets. The minimum level of balances cannot be judged merely against the current risks facing the council as these can and will change over time.

Determining the appropriate levels of reserves is a professional judgement based on local circumstances including the overall budget size, risks, robustness of budgets, major initiatives being undertaken, budget assumptions, other earmarked reserves and provisions, and the Council's track record in budget management. It is also a professional judgement on the external factors that influence the Council's funding position.

The consequences of not keeping a minimum prudent level of reserves can be serious. In the event of a major problem or a series of events, the Council would run a serious risk of a deficit or of being forced to cut spending during the year in a damaging and arbitrary way.

The recommendation on the prudent level of reserves has been based on the robustness of estimate information and the Corporate Risk Register. In addition, the other strategic operational and financial risks taken into account when recommending the minimum level of unallocated General Fund reserves include:

- There is always some degree of uncertainty over whether the full effects of any economy measures and/or service reductions will be achieved. The Chief Executive and Deputy Chief Executives have been requested to be prudent in their assumptions and that those assumptions, particularly about demand led budgets, will hold true in changing circumstances.
- The Bellwin Scheme Emergency Financial Assistance to Local Authorities provides assistance in the event of an emergency. The Local Authority is able to claim assistance with the cost of dealing with an emergency over and above a threshold set by the Government.
- The risk of major litigation, both current and in the future.
- Risks in the inter-relation between the NHS and Social Service authorities coupled with the responsibilities of Public Health.
- The Local Council Tax Support Scheme with less Government funding and increases in caseload at the Council's own risk
- Issues arising from the final Housing Benefit Subsidy Claim.
- The localisation of Business Rates including the impact of businesses declining in the borough boundaries
- New and impending legislation
- Unplanned volume increases in major demand led budgets, particularly in adult and children's services, learning disabilities, physical and sensory impairment, and housing benefits.
- The need to retain a general contingency to provide for some measure of unforeseen circumstances which may arise. This part of the reserves is not provided for directly but indirectly on the assumption that the financial risks identified will not all crystallise.
- The need to retain reserves for general day-to-day cash flow needs. This is minimal given the level of cash the Council holds at any given time.

Further exceptional risks identified may have a potential and serious call on reserves. The Council is advised to be cautious about these risks and commit to restoring any drawn down reserves in line with the Medium Term Financial Strategy.

In these circumstances, I will require the Council, Cabinet, Chief Executive, Deputy Chief Executives and Directors:

- To remain within their service budget for 2017/18 and within agreed medium term financial strategy targets for future years (2018/19 to 2020/21) with a strict adherence to recovering overspends within future years' financial plan targets.
- Repayment to reserves in line with the Medium Term Financial Strategy should these risks materialise.
- Direct any windfall revenue savings/underspends to reserves should the General Fund Revenue Reserves Strategy require it.

e. Estimated Earmarked General Fund Revenue Reserves

I have reviewed the Council's General Fund earmarked revenue reserves which are estimated to amount to circa. £42 million at 1 April 2018. This is compiled of key specific reserves of Insurance at £4.9 million, Welfare Reform and Social Fund at £1.5 million, Adult and Children's Social Care at £4.2 million, Interest Equalisation at £2.6 million, Waste Management at £5.2 million, Business Transformation at £4.0 million, New Homes Bonus at £2.9 million, Business Rates Retention at £2.6 million, Capital at £4.1 million, Pensions at £2.1 million and Grants at £4.5 million. The remainder is made up of other smaller funds held for specific purposes.

f. Estimated Earmarked Housing Revenue Account Revenue Reserves

I have reviewed the Council's Housing Revenue Account earmarked revenue reserves which are estimated to amount to £23.2 million at 1 April 2018. This is compiled mainly of a Capital Investment reserve of £22.8 million.

g. Schools' Balances

Schools' balances, while consolidated into the Council's overall accounts, are a matter for Governing Bodies. Nevertheless, under the Council's Scheme for Financing Schools the Council has a duty to scrutinise whether any school holds surplus balances. Section 4.1 "The right to carry forward surplus balances" identifies that Schools may carry forward from one financial year to the next any surplus/deficit in net expenditure relative to the school's budget share for the year plus/minus any balance brought forward from the previous year.

Any revisions to the Council's Scheme for Financing Schools in respect of balances will be amended in line with the requirements of the Secretary of State for Education with minor amendments agreed by the Schools' Forum.

I am satisfied that the arrangements in place are adequate.

h. Capital Programme – 2017/18 to 2020/21

The Capital Budget

Projects, included in the capital programme, were prepared by Directors and managers in line with financial regulations and guidance. All projects were agreed by the relevant member of CMT and Portfolio Holder and are fully funded for their estimated cost.

Projects have been costed at outturn prices with many subject to tender after inclusion in the programme. This may lead to variance in the final costs.

Departments are required to work within the given cash envelope so any under or over provision must be found within these limits.

Capital Programme Risks

The risk of the Council being unable to fund variations in the programme is minimal mainly due to phasing of projects. The Council is able to freeze parts of the programme throughout the year to ensure spend is within the agreed financial envelope, although this will have service implications.

A further key risk to the capital programme is the ability of the Council to fully deliver it within the agreed timescales.

In relation to the General Fund and HRA Capital Programme specifically for 2017/18 (including commitments from previous years and new starts):

- i) The HRA Capital Programme will need to be contained within total programme cost by delaying or stopping specified schemes.
- (ii) The General Fund Capital Budget is substantial but is based on the best information available in terms of project costs. What is less certain is the phasing of expenditure.
- (iii) The strategic schemes identified in the Capital Programme will be closely monitored in-year.
- (iv) That the funding identified for the approved Capital Programme is delivered and is prudent, affordable and sustainable.