

Strategy & Resources - Meeting 8 February 2016

Budget-Setting Report (BSR) 2016/17

EXECUTIVE AMENDMENT

Background

This report details amendments to the Budget-Setting Report 2016/17 that was recommended to Council by the Executive at its meeting on 21 January 2016.

Unless otherwise stated, any references in the recommendations to sections, pages and appendices relate to Version 1 of the Budget Setting Report (BSR) 2016/17.

New or updated information:

- **Section 25 Report (Robustness of Estimates and Adequacy of Reserves):**
This report is made under the Local Government Act 2003, which requires that the Chief Financial Officer reports to the authority, when it is making the statutory calculations required to determine its Council Tax or precept, on the robustness of the estimates made for the purposes of the calculations, and the adequacy of the proposed financial reserves [Section 10, page 61 refers]

Information awaited:

- **Final Local Government Finance Settlement:**
As yet, the proposals in the provisional 2016/17 settlement have not been confirmed. Further changes may be necessary once the relevant report has been laid before the House of Commons.

Recommendations:

The Executive Councillor is recommended to approve the amendments outlined above, namely:

- (a) **Section 25 Report:**
Insert the report into the BSR as per the attached EXECUTIVE - Section 25 Report.

and to authorise the Section 151 officer to make necessary changes to the Budget Setting Report 2016/17, to be considered by Council at the meeting on 25 February 2016, to reflect the impact of changes for the above.

Note that further changes are expected before Council, which will be notified and then incorporated into the BSR, in respect of:

- Council Tax Base 2016/17 and Council Tax Setting 2016/17 [Appendices A(a) and A(b), pages 62 and 63 refer], following notifications from precepting authorities.
- Any other minor typographical amendments.

EXECUTIVE – Section 25 Report (BSR 2016/17, Section 10]

Section 25 of the Local Government Act 2003 requires the Council's S151 officer to report to the council when it is considering its budget requirement and consequent council tax. The report must deal with the robustness of the estimates made for the purposes of the calculations and the adequacy of the reserves allowed for in the budget proposals.

The rationale is to ensure that the estimates are sufficient to cover regular recurring costs plus any reasonable risks and uncertainties and, in the event of unexpected expenditure, there are adequate reserves to draw on. The calculations relate to the budget for the forthcoming year and the legal requirement may, therefore, be interpreted as reporting only on the 2016/17 estimates and reserves up to 31 March 2017.

Robustness of estimates

The council has well established and robust budget processes. These have been followed when compiling the 2016/17 budget and medium term projections.

Estimates and assumptions were reviewed during the preparation of the MFR in September 2015, and confirmed during the development of this BSR. Appendix C reviews these estimates and assumptions and indicates the sensitivity of each in financial terms.

The key driving factor through the process has been the requirement to identify savings to address projected decreases in core funding. The savings requirement has been addressed in two principal ways:-

By continuing and extending the ambitious transformation programme, first set out in last year's BSR; and

Using cash balances and earmarked reserves released in 2015/16 to generate additional income.

These actions require substantial change to be delivered within the organisation to demanding timescales. The transformation programme includes savings resulting from sharing services with other local authorities and the creation of alternative service delivery vehicles. There are, therefore, significant levels of risk around the estimation of potential income and savings and the timing of their delivery. These risks are mitigated, to a certain extent, by management review and challenge of the proposals, regular budget monitoring and management, and the implementation of governance processes for the transformation programme.

Adequacy of reserves

The requirement for financial reserves is acknowledged in statute. Section 32 of the Local Government Finance Act 1992 requires billing authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

It is the responsibility of the S151 officer to advise local authorities on the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.

The council holds two types of general fund reserves:

The general fund is a working balance to cushion the impact of uneven cash flows. The reserve also acts as a contingency that can be used in year if there are unexpected emergencies, unforeseen spending or uncertain developments and pressures where the exact timing and value is not yet known and/or within the council's control. The reserve also provides cover for grant and income risk.

Earmarked reserves are set aside for specific and designated purposes or to meet known or predicted liabilities, e.g. insurance claims.

Earmarked reserves remain legally part of the general fund, although they are accounted for separately.

A key mitigation for financial risk is the S151 officer's estimate of a prudent level of reserves. A risk assessment was undertaken in MFR 2015 to determine the level of non-earmarked general reserves required by the council. Section 8 of this report recommends no changes to the assessment at this time. In making the recommendation for the level of reserves, the S151 officer has followed guidance in the CIPFA LAAP Bulletin 77 – Guidance notes on Local Authorities Reserves and Balances. The risk analysis shows that a prudent minimum level of reserves for 2016/17 will be of the order of £5.1m.

The final table in Section 8 shows that the anticipated level of the general fund reserves will remain above the prudent minimum level for the duration of the medium term planning period.

I therefore consider that the estimates for the financial year 2016/17 to be sufficiently robust and the financial reserves up to 31 March 2017 to be adequate.

Caroline Ryba
Head of Finance and S151 Officer