

CHIEF FINANCE OFFICER (CFO) REPORT ON ROBUSTNESS OF THE BUDGET & ADEQUACY OF RESERVES - SUPPORTING INFORMATION

Context

In accordance with the Local Government Act 2003 (S25-S27) and to comply with CIPFA guidance on local authority reserves and balances, the CFO is required to formally report to members on the robustness of the budget and the adequacy of reserves. The CFO is appropriately qualified under the terms of S113 of the Local Government Finance Act 1988. In signing off this overall revenue budget report, the signature of the Chief Finance Officer constitutes the formal declaration required under the Act that these conditions have been fully met. This statement is also signed.

Adequacy of reserves

The CFO assesses and determines the appropriate level of reserves (including schools reserves) and provisions using a variety of mechanisms, including:

- Being significantly involved in the budget setting process, the annual financial cycle, and engaged in the strategic leadership of the organisation as a member of Senior Management Board (SMB);
- Writing and leading on the annual refresh of the Medium Term Financial Strategy (MTFS) and the production and refresh of the corporate integrated budget, planning and performance framework;
- Challenging the budget at various stages of construction, including the reasonableness of the key budget assumptions, such as estimates of inflationary and corporate financial pressures, realism of income targets, and the extent to which known trends and liabilities are provided for;
- Meetings with specific colleagues to examine particular areas or issues;
- An in-depth review of the financial risk assessments;
- Review of the movements, trends and availability of contingency, provisions and earmarked reserves to meet unforeseen cost pressures in the context of future pressures and issues;
- The use of professional experience and best professional judgement;
- The use of appropriate professional, technical guidance and local frameworks;

- Knowledge of the colleagues involved in the process, particularly finance professionals, including their degree of experience and qualifications;
- Review of the strength of financial management and reporting arrangements, including internal control and governance arrangements.

This is undertaken in consultation with relevant colleagues and the Leader of the Council.

A risk assessment approach is used to determine the required level of general reserves and provisions. The matter of reserves and contingencies is addressed within the MTFs, demonstrating our acknowledgement of the importance of sound governance and the priority this issue is given. Our longstanding and continuous aim is to have a prudent level of general reserves, which is index linked to the level of the net general fund revenue budget and continues to be informed by the risk assessment. The council will establish opening general reserves of between 3% and 5% of the total net general fund revenue budget, the precise level within this range to be determined by risk assessment. The level of 'free' reserves at 31 March 2017 is forecast to be £11.118m which represents 4.67% of the 2017-18 net operating budget.

The MTFs also sets out the authority's financial framework including calls on reserves and contingencies. This includes that reserves should not be considered to be or used as a budget and any in-year calls on general balances should be replenished. Services should also not approve unbudgeted expenditure on the assumption that it will be met from general balances. A level of contingency has been set aside within the 2017/18 budget. A review of reserves will be undertaken when updated estimates are known which may result in an increased call on general balances or a reduction in the levels of contingency and earmarked reserves required. Based on known circumstances and financial risk assessment it is felt that adequate earmarked reserves and provisions have been created to meet legal and expected liabilities. A list of existing reserves as at 31 March 2016 is included in Appendix 1. These will be revised as part of the 2016-17 closure of accounts process.

In recommending an adequate level of reserves, the CFO considers and monitors the opportunity costs of maintaining particular levels of reserves and balances and compares these to the benefits accrued from having such reserves. The opportunity cost of maintaining a specific level of reserves is the 'lost' opportunity for example, of investing elsewhere to generate additional investment income, or using the funds to invest in service improvements. In assessing this it is important to consider that reserves can only be used once and are therefore potentially only "one off" sources of funding.

Therefore, any use of general reserves above the lower minimum threshold is only ever used on one-off items of expenditure. The level of reserves is also determined by use of a comprehensive risk assessment to ensure they represent an appropriately robust "safety net" which adequately protects the council (a complex and multi-disciplinary metropolitan local authority) against potential unbudgeted costs.

The current level of reserves is considered to be sufficient in all but the most unusual and serious combination of possible events. In this context, it is considered that the current level of reserves presents an optimum balance between risk management and opportunity cost. This maintains a suitable and sustainable level of reserves, which include ensuring sound governance and financial stability in the short and longer term.

Schools Reserves

The CFO as part of this statement is required to confirm that schools balances are adequate. The level of school balances and planned use of these is reported to Schools Forum at the end of each financial year.

Termly updates on projected balances will be reported to the Quality and Standards Performance Executive officer group through 2017/18. The adequacy of balances was reviewed by the CFO at the end of 2015/16 and will be reviewed again as part of the 2016/17 closure of accounts process. The overall level of reserves is considered adequate.

Use of Reserves

The above assessment demonstrates that general reserves are at an appropriate level; as determined in accordance with the MTFs and the CFO's professional advice. No general reserves below the minimum threshold are being used to support the 2017-18 budget and no reserves are being used to fund recurring expenditure.

The risk assessment has informed the established level of general and earmarked reserves.

The CFO has been involved throughout the entire budget process, including revising the MTFs, input to the drafting of the budget, the ongoing financial monitoring and reporting process, evaluation of investments and savings, engagement with members of the cabinet and scrutiny, advising colleagues, the council Scorecard Actions, the public consultation process, challenge and evaluation activities, the Facing the Future Management Board and the scrutiny and approval of various reports.

The budget planning process commenced in April 2016 and the draft budget was completed in December 2016, in advance of the provisional Government financial settlement. This enabled policy planning / budget seminars to take place with Cabinet and the Senior Management Board in July and December, with specific focus on the progress being achieved through the Facing the

Future programme. The Budget and Corporate Services Budget Scrutiny Board continue to review the quarterly budget monitoring and considered the directorate three year business plans on 8 February 2017. The final budget is due to be set at council on 7 March 2017, within the statutory deadline.

Consultation - internally and externally, has been comprehensive as outlined in the Medium Term Financial Strategy. A budget consultation was undertaken with non-domestic ratepayers and the business community during February 2017.

Budget monitoring reports are submitted to the Cabinet, Budget & Corporate Services Scrutiny Board, Senior Management Board, and directorate management teams across the council throughout the year. In compiling the budget monitoring reports for Cabinet, budget holders are challenged by Financial Management Teams on the accuracy and robustness of the projections and assumptions included within the financial monitoring.

The Government has confirmed that for those Local Authorities that deliver Adult Social Care Services an increase in Council Tax of 5% in 2017-18 will trigger the need for the council to hold a formal referendum on its budget proposals. Based on the council tax levels outlined in this report (an increase of 4.99%) there is no requirement for the council to undertake a referendum seeking approval for an increase from its electorate.

Each year "accountability letters" are sent to every manager setting out budget scope and responsibilities, including implementation of investment and savings. Managers are required to sign and return a copy acknowledging their responsibilities. This is formally tracked and reported on throughout the year. The CFO has received appropriately authorised accountability letters from all Directors prior to the Budget Report being presented to Cabinet on 22 February 2017.

The budget is a statement of financial intent, reflecting the council's vision, plans and priorities. It also sets the financial spending parameters for each financial year and as such, the CFO assessment of the adequacy of reserves also includes the risk of services overspending and/or underspending their budgets and the impact of this on the financial health of the council and its level of reserves. The current financial position has been reported on consistently throughout the year to Cabinet.

Key assumptions

The pay and prices used in the budget are derived from current intelligence, are considered appropriate and compare with those used by other councils. However, given the present economic climate these will need to be constantly reviewed. Demand changes have been identified and are reflected in budgets. Fees and charges have been reviewed and changes are reflected in the overall budget. The capital receipts to be used for the draft capital programme are based on professional estimates both of timing and value.

Financial risks

The council continues to use an embedded good practice risk assessment approach both when setting the budget and in validating estimated outturns. This continues for the 2016-17 outturn and 2017-18 budget. The prevailing level of general reserves is considered adequate to cover all but the most unusual and serious combination of events, there is also a contingency of £5.358m included within the recommended 2017-18 budget.

The budget in Context

The budget is a reflection of the vision, aims, objectives and policies of the council, and has been constructed with that in mind. The budget has been constructed in accordance with the principles and direction of the MTFs. The prudential code has been used to an appropriate degree to finance investment in leisure and housing to support investment in front line services. It is also used towards a strategic approach to office accommodation to enable more effective asset management and realise receipts.

All efficiencies and savings have been appraised to ensure accuracy of costings and deliverability. Individual officers are identified as accountable for their implementation. The council is working to improve performance outcomes on a range of activities, which are monitored through the council Scorecard, performance management system and within services across the council. Service business plans are an integral part of the budget setting process and were formally received by Cabinet on 8 February 2017.

Summary

Best endeavours have been made to ensure that the budget and reserves are adequate using the information available at this date. The budget has been constructed with a professional policy-led medium term strategic framework, using appropriate assumptions, linking investment and spending to key priorities and having undertaken a comprehensive assessment of risk.

Darren Carter, CPFA

Interim Director of Resources (Section 151 Officer)

Appendix 1

General Balances as at 31 March 2016

"Free" Resources as at 31 March 2016

	£m
Total General Fund Revenue Balance	70.998
less Committed Items:	
Revenue Contributions to Capital Expenditure	12.800
Earmarked Reserves (See Below)	46.057
Total "Free" Resources as at 31 March 2016	12.141

Breakdown of Earmarked Reserves as at 31 March 2016

Earmarked Reserves from Balances	£m
Directorate Carry Forwards	21.644
Redundancies	8.000
National Living Wage	4.000
SIPS Redundancy Reserve	2.400
NHS Rateable Relief	1.700
Dilapidations	1.000
Impress	1.000
Jobs Promise	1.000
Section 31 Grant	1.400
MMI	0.650
Other	3.263
Earmarked Reserves as at 31 March 2016	46.057

Breakdown of Provisions

Specific Provisions	£m
Insurance Provisions	7.312
Collection Fund Provisions	1.054
Redundancy/Retirement Costs	1.175
Other Provisions	0.057
Specific Provisions as at 31 March 2016	9.598

Appendix 1

Specific Reserves as at 31 March 2016

General Fund Reserves	£m
Insurance	9.000
NDR Reserve	2.625
BSF FM Sinking Fund Reserve	2.063
Early Help Reserve	1.330
Revenue Grants	1.047
Grants Irregularities	1.031
Social Fund Reserve	0.640
West Midlands Regional Reserve	0.584
Adoption Support Reserve	0.400
Regeneration & Economy	0.285
Private Sector Housing	0.209
Teaching for Public Health Network	0.208
Childrens Workforce Development	0.189
Other Earmarked Reserves	0.478
Total General Fund Reserves	20.089
School Balances (Held under delegation)	35.751
Housing Revenue Account	
HRA Balances	34.721
Other HRA Reserves	2.694
Total HRA Reserves	37.415
Total Specific Reserves	93.255