

## **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:

- Leading the budget setting process, the annual financial cycle, and engagement in the strategic leadership of the organisation as a member of the Executive Management Team (EMT);
- Writing and leading on the annual refresh of the Medium Term Financial Strategy (MTFS);
- 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 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 2018 is forecast to be £11.9m which represents 4.73% 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 2017 is included in Appendix 1. These will be revised as part of the 2017-18 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 2018-19. The adequacy of balances was reviewed by the CFO at the end of 2017-18 and will be reviewed again as part of the 2017-18 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 a series of Cabinet workshops; regular meetings with the Leader of the Council and Cabinet Members; and regular meetings with the senior management team. This has led to revisions to the MTFs but within the context of the Council's strong track record for managing our finances.

The CFO has also been fully engaged in the development of the council's 2030 vision that sets out our ambitious plans for the future.

Budget planning is an iterative process. Initial planning for the 2018/19 budget process commenced in 2016 and continued throughout 2017 with a draft budget completed in December 2017 ahead of the publication of the provisional local government financial settlement. This enabled policy

planning / budget seminars to take place with Cabinet and the Senior Management Board at regular points throughout the year. The Budget and Corporate Scrutiny Management Board continue to review the quarterly budget monitoring and considered the directorate three-year business plans on 21 February 2018. The final budget is due to be set at council on 6 March 2018, 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 2018.

Budget monitoring reports are submitted to the Cabinet, Budget & Corporate Scrutiny Management 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.

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 28 February 2018.

The budget is a statement of financial intent, and should be considered alongside our ambitious 2030 vision. 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 2017-18 outturn and 2018-19 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 sum included within the recommended 2018-19 budget.

All efficiencies and savings have been appraised to ensure accuracy of costings and deliverability. Individual officers are identified as accountable for their implementation.

**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**

**Executive Director of Resources (Section 151 Officer)**

## Appendix 1

### General Balances as at 31 March 2017

#### "Free" Resources as at 31 March 2017

	£m
<b>Total General Fund Revenue Balance</b>	71.748
less Committed Items:	
Revenue Contributions to Capital Expenditure	6.324
Earmarked Reserves (See Below)	53.740
<b>Total "Free" Resources as at 31 March 2016</b>	<b>11.684</b>

#### Breakdown of Earmarked Reserves as at 31 March 2017

Earmarked Reserves from Balances	£m
Directorate Carry Forwards	22.228
Redundancies	6.000
General Projects Fund (New)	5.000
Children's Services/Trust Pressures	4.000
Section 31 Grant	3.717
National Living Wage	2.000
SIPS Redundancy Reserve	2.000
Land Regeneration Fund (New)	1.322
Dilapidations	1.100
Community Hubs (New)	1.000
Grant Irregularities	1.000
MMI	0.650
Other	3.723
<b>Earmarked Reserves as at 31 March 2016</b>	<b>53.740</b>

## Breakdown of Provisions

<b>Specific Provisions</b>	<b>£m</b>
Insurance Provisions	6.271
Redundancy/Retirement Costs	4.105
Collection Fund Provisions	0.886
Other Provisions	0.405
<b>Specific Provisions as at 31 March 2017</b>	<b>11.667</b>

## Appendix 1

### Specific Reserves as at 31 March 2017

<b>General Fund Reserves</b>	<b>£m</b>
Insurance	9.131
BSF FM Sinking Fund Reserve	2.652
NDR Reserve	2.625
Early Help Reserve	1.083
Revenue Grants	1.047
Grants Irregularities	1.031
West Midlands Regional Reserve	0.513
Dartmouth Park HLF (New)	0.409
Social Fund Reserve	0.361
Private Sector Housing	0.254
Teaching for Public Health Network	0.247
Regeneration & Economy	0.191
Children's Workforce Development	0.097
Other Earmarked Reserves	0.452
<b>Total General Fund Reserves</b>	<b>20.093</b>
<b>School Balances (Held under delegation)</b>	<b>34.406</b>
<b>Housing Revenue Account</b>	
HRA Balances	32.937
Other HRA Reserves	2.712
<b>Total HRA Reserves</b>	<b>35.649</b>
<b>Total Specific Reserves</b>	<b>90.148</b>