

SECTION 151 OFFICER'S STATEMENT ON ADEQUACY OF BALANCES AND THE ROBUSTNESS OF THE BUDGET – BUDGET YEAR 2015/16

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) (Greater 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; and
- 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 report has to be considered and approved by Council as part of the budget approval and Council Tax setting process.

This document concentrates on the General Fund 2015/16, the Housing Revenue Account and Capital Programme but, in addition, it also considers key medium term issues faced by the Council.

Assurance Statement of the Council's Section 151 Officer (Head of Corporate Finance)

The following are the summary assurances and recommendations of the Council's Section 151 Officer (The Head of Corporate Finance). They must be read in conjunction with the supporting statement (from Page 6 of this appendix) which together makes up the Section 151 Officer's statutory duty to report under Section 25 of the Local Government Act 2003.

1. In relation to the 2015/16 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 (subject to the more significant risks in paragraph 2 below) 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. Cabinet has received reports setting out those savings proposals with the greatest risk and these are regularly monitored within the Directors' Board. They fall within three main categories:
 - a) Reductions to the Children's and Adults Social care budgets through the management of demand and more efficient use of resources through the pooled Better Care Fund budget – although Directors' Board recognise the risk in the area of social care, especially considering the demand and complexity, I am confident at this stage that they are achievable;
 - b) Employees' Terms and Conditions. A reduction of £1m has been built into the 2015/16 budget with a further £1.5m over the two year period 2016-18. Discussions with the Unions have not been productive but I can still have confidence through allocating the amount to services as employee cost reductions leading to a range of savings from keeping posts vacant for longer through to permanent staffing reductions: and
 - c) The most significant risk at this stage is a £0.7m contract reduction with the Council's Strategic Services Partner, Serco, with a further £1.3m over the two year period 2016-18. At this stage there is still a significant shortfall in appropriate savings for 2015/16 and this is currently the main risk at this time.
3. The key process risks in making the above statement is the availability of timely and relevant financial information to the services. This is two-fold:
 - a) The reporting ability of the Council's financial system, Oracle, is still inadequate and requires considerable manual intervention before being of use to service managers; and
 - b) A number of the service specific systems, notably housing and Social Care, do not interface with the Oracle system in a way that allows the identification of future commitments.

These risks are known and work continues to improve this position.

4. My recommendations are also conditional upon:
 - The agreement of a Medium Term Financial Strategy and Plan for 2016/17 to 2018/19 that will require significant reductions in net revenue expenditure to deliver a balanced budget for the financial years 2016/17 and beyond;
 - 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 still leave the Council exposed to the very exceptional risks identified in this review and, if those risks crystallise, to reserves being inadequate;

- Portfolio Holders, Directors and Heads of Service managing within their cash limits for 2015/16 (and future years covered by the Medium Term Financial Strategy and Plan);
 - Taking every opportunity to meet the Reserves Strategy as a first call on windfall under spends or receipts;
 - 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 one-off 'invest to save', supporting the transition that is required for future service delivery and contributions to fund the Council's capital programme;
 - Where there is a draw-down on reserves, which causes the approved Reserves Strategy to be off target, that this is paid back within a maximum of three years; and
 - That the Council has arrangements and resources in place to consider value for money in preparation for future years' budgets.
5. 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.
- An absolute minimum level of General Fund reserves of £5m that is maintained throughout the period between 2015/16 to 2018/19;
 - An optimal level of reserves of £8.0m over the period 2015/16 to 2018/19 to cover the absolute minimum level of reserves, in-year risks, cash flow needs and unforeseen circumstances;
 - A maximum recommended level of reserves of £11.0m for the period 2015/16 to 2018/19 to provide additional resilience to implement the Medium Term Financial Plan;
 - A Reserves Strategy to maintain the recommended optimal level of reserves within the relevant period (2015/16 to 2018/19); and

- In relation to the Housing Revenue Account (HRA) my recommendation is that reserves be maintained at £1.7m.
6. The estimated level of unallocated General Fund reserves at 31 March 2015, based on current projections is £8.0m, depending on final spending. Therefore:
- The absolute minimum level of reserves of £5.0m is currently being achieved.
 - The optimal level of reserves of £8.0m will be maintained by the end of the current year.
 - The recommended maximum level of reserves of £11.0m will not be breached during 2015/16.
7. These recommendations are made on the basis of:
- The risks identified in the Directors' reviews of their budgets;
 - The detailed discussions that have taken place at Directors' board, including the regular review of the high risk proposals;
 - A satisfactory outcome to the discussions with Serco on the £2m savings target;
 - My own enquiries during the development of the budget;
 - The resilience required to deliver the Medium Term Financial Plan;
 - One-off unallocated reserves not being used to fund new ongoing commitments;
 - Reserves in 2015/16 and the foreseeable future being used only where planned and if risks materialise and cannot be contained by management or policy actions; and
 - That where reserves are drawn down, the level of reserves is restored within a maximum of three years to that required by the Medium Term Financial Strategy.
8. There are also serious exceptional risks over and above those mentioned which, if they crystallise, could eliminate the Council's reserves and leave its financial standing seriously in question. These include:
- Not realising the efficiencies from transformation and new ways of working;
 - Unforeseen impacts arising from the consequences of welfare reform, in particular the roll out of Universal Credit;
 - Unforeseen impacts arising from the governance and financial changes in the provision of public health services;

- Shortfalls in the reimbursement to Councils from the government with regard to the Care Bill;
 - The impact of the localisation of business rates and the consequences of future changes in the total rateable value of businesses located in Thurrock;
 - Interest rate rises that would reduce the ongoing savings arising from the restructuring of debt carried out in August 2010;
 - The failure of Gloriana Thurrock Ltd;
 - Any shortfall against the expected value of assets identified for disposal; and
 - The lack of contingency funds to meet demographic and economic pressures, especially at this time of significant change.
9. In relation to the General Fund and HRA Capital Programme 2015/16 (including commitments from previous years and new starts):
- The HRA Capital Programme will need to be contained within total programme costs;
 - The General Fund Capital Budget is based on the best information available in terms of project costs. What is less certain, given the history of cost variations, is the phasing of expenditure; and
 - The strategic schemes identified in the Capital Programme will be closely monitored in-year.
10. In relation to the medium/long term Capital Programme:
- 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 2015/16 to be sufficiently robust but challenging for approval by the Council. I advise the Council that the General Fund Reserves are currently at the optimum level required to ensure financial stability over the medium term and recommend that the Reserves Strategy be maintained in 2015/16 and the medium term.

Supporting Statement

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 information 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 Services on preparing budgets;
- The development of Council wide risk assessment;
- The use of budget monitoring to identify risk;
- The Council's S151 Officer providing advice throughout the process of budget preparation and budget monitoring;
- The Directors' Board's review of their budgets, budget sensitivities and regular monitoring of the higher risk proposals;
- A review of budget proposals by Directors' Board throughout the past year;
- A review of budget information by Executive Members and Overview and Scrutiny throughout the past year;
- Reports to every Cabinet meeting from July 2014 through to February 2015; and
- Enquiries made directly by the Section 151 Officer.

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

A summary of the key budget assumptions considered by Services in terms of assessing the robustness of their budgets were:

- 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 Service's track record in budget and financial management;
- The Service's capacity to manage in-year budget pressures; and
- The Directors' Board ability to manage any pressures that cannot be contained with a service.

The full key budget assumptions and comments by each Director are available from the Head of Corporate Finance and are listed within budget reports.

Corporate and service processes will continue to be improved in future years and these include improvements to the current reporting from the Oracle system. Improvement in these processes will assist in prevention or earlier identification of issues to be dealt with in the budget and Medium Term Financial Plan. Nevertheless, in preparing such a complex budget, unforeseen issues will arise throughout the year and in future years.

Robustness of Estimates – General Fund Revenue Budget

The 2015/16 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:

- Demographic changes for social care;
- Increasing complexity and hence cost of care provision;
- The cost of unsupported borrowing within the capital programme;
- The cost of fixing debt in advance of interest rate rises;
- Shortfalls in income;
- Reductions in grant from government; and
- The impact from business rate appeals.

These assumptions will require the forecasts for future years to be reviewed early in each financial year leading to more detailed budgets being considered as a standing item at each Cabinet.

Medium Term Financial Planning

Over the medium term, the Council needs to deliver its Medium Term Financial Plan reflecting the continuing impact of the proposed budget and only minimal growth in relation to issues that are unavoidable. Within the tight financial climate over the medium term it is clear that expenditure reductions will have an increasing impact on residents and staff.

The Council's Medium Term Financial Strategy shows that further reductions in grant and increased budgetary pressures requires the Council to reduce its net cost by some £30m over the period 2016/17 – 2018/19. It is essential that work continues on identifying what will be a considerable change to the Council's way of working and the experience for our residents.

The approach for the medium term will follow that used in the setting of the 2015/16 budget. Reports will be considered by each Cabinet with the first proposals being brought forward to the Cabinet in July 2015 so as to:

- Maximise the time available to implement what will be significant change; and
- Deliver savings within 2015/16 to add some resilience to the 2015/16 financial position.

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 level of reserves is not a precise science or a formula (e.g. a particular percentage of the Council's budget). It is the Council's safety net for risks, unforeseen events 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 level 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.

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. Directors have been requested to be challenging but realistic 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 Council 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;
- Risk in the delivery of financial efficiencies between the growing partnership of Health and Social Service authorities;
- The risk of losing subsidy arising from outstanding Housing Benefit and Council Tax Benefit Subsidy Claims;
- Unplanned volume increases in major demand led budgets, particularly in social services;
- Any event that closes a material business rate payer in Thurrock and larger than estimated awards to business rate appeals;
- 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 within the same financial year; and
- 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.

The analysis would indicate an underlying prudent level of unallocated reserves of £8.0m to be achieved pragmatically over time under normal circumstances (and in addition to school balances).

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 the use of internal risk assessment.

- An absolute minimum level of General Fund reserves of £5m that is maintained throughout the period between 2015/16 to 2018/19;
- A level of reserves of £8.0m over the period 2015/16 to 2018/19 as the optimal level of reserves to cover in-year risks, cash flow needs and unforeseen circumstances;

- A maximum recommended level of reserves of £11.0m for the period 2015/16 to 2018/19 to provide additional resilience to implement a Medium Term Financial Plan; and
- A Reserves Strategy to maintain the recommended optimal level of reserves within the relevant period (2015/16 to 2018/19).

The estimated level of unallocated General Fund reserves at 31 March 2015, based on current projections, is £8.0m depending on final spending. Therefore:

- The absolute minimum level of reserves of £5m is currently being achieved;
- The level of reserves to meet day to day risk of £8.0m will be maintained; and
- The recommended maximum level of reserves of £11.0m will not be breached in 2015/16.

Despite this, the 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 draw down on reserves within a three year period.

In these circumstances, I will require the Council, Cabinet, Directors and Heads of Service:

- To remain within their service budget for 2015/16 and within agreed medium term financial plan targets for future years (2016/17 to 2018/19) with a strict adherence to recovering overspends within future years' financial plan targets;
- To make repayment to reserves over three years should these risks materialise; and
- To direct any windfall revenue and under spends to reserves should the General Fund Revenue Strategy require it.

Estimated Earmarked General Fund Revenue Reserves

I have reviewed the Council's earmarked revenue reserves. The amounts held for general fund purposes are minimal having previously taken the opportunity to rationalise the earmarked reserves to support the transition that the Council is both currently and will be going through over the medium term.

The estimated amount available to the general fund is just £1m over and above the general balance of £8m although this has been earmarked for Schools' Improvements.

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. To that effect the Council's Scheme for Financing Schools 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.

The Capital Budget

Projects included in the Capital Programme were prepared by Heads of Service and Managers in line with financial regulations and guidance. All projects were agreed by the relevant member of Directors' Board and Executive Member 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 variances in the final costs.

Services 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 2015/16 (including commitments from previous years and new starts):

- The HRA Capital Programme will need to be contained within total programme cost by delaying or stopping specified schemes if necessary;
- The General Fund Capital Budget is based on the best information available in terms of project costs. What is less certain, given the history of underspends, is the phasing of expenditure; and
- The strategic schemes identified in the Capital Programme will be closely monitored in-year.