

ROBUSTNESS OF BUDGET ESTIMATES AND ADEQUACY OF RESERVES: STATEMENT OF THE CHIEF FINANCIAL OFFICER

BACKGROUND

A key responsibility of the Council's Chief Financial Officer is to give assurance on the robustness of the budget strategy which includes highlighting the risks associated with its deliverability and sustainability and the adequacy of reserves.

The framework within which the Council's budget setting process operates and the final budget strategy was developed is governed by legislation which provides regulatory safeguards for the Council:

Section 25 of the Local Government Act 2003 requires the authority's Chief Financial Officer to report on the **robustness of the estimates and the adequacy of reserves** allowed for in the budget proposals in the budget report, so Members are informed and can consider this when they make their budget decisions.

Section 114 of the Local Government Act 1988 highlights the Chief Financial Officer's responsibility to report to members if it appears to him that an unbalanced budget is likely to be set for the year.

Local Government Finance Act 1992 identifies the requirement to set a balanced budget.

Section 151 of the Local Government Act 1972 - Financial Administration requires that authorities should appoint a Section 151 Officer to have responsibility for the proper administration of its financial affairs.

The Accounts and Audit Regulations 2003 – Regulation 5 requires that the accounting records and control systems include measures to ensure that risk is appropriately managed.

The requirements of the prudential Code must also be complied with (a separate report on prudential Indicators is included elsewhere in this suite of service and financial planning reports).

In addition the CIPFA guidance on Local Authority Reserves and Balances requires that a statement reporting on the annual review of earmarked reserves should be made to Council, at the same time as the budget. The statement should list the various earmarked reserves, the purpose for which they are held and provide advice on the appropriate levels. It should also show the estimated opening balances for the year, planned

additions/withdrawals and the estimated closing balance. This is included as appendix 10 of this report.

ROBUSTNESS OF ESTIMATES

Overview

The Comprehensive Spending Review announcements in October 2010 covered the period 2011/12 to 2014/15 and announced significant cuts to local authority funding – after allowing for inflation, the cuts amount to around £40m for Telford & Wrekin Council over this period. The Autumn Statement on 5 December 2012 highlighted that the UK's national deficit isn't reducing as the Government had anticipated and public services (other than those protected i.e. health, education and overseas aid) could expect further reductions on a similar trend line over the period through to 2017/18. There will be a spending round in the first 6 months of 2013 to update spending allocations through to 2015/16 which will be critical in determining what services the council will be able to deliver in the medium term.

It is also important to note there is an increase in demand for Council services, such as homelessness, benefit applications and care for those, both young and elderly, who are vulnerable members of our community.

Given the level of cuts to Government Grant funding, it is important that the Council reduces its dependency on government grant and develops other sources of income. This Service & Financial Planning Strategy therefore has a focus on adopting a more commercial, entrepreneurial approach to income generating opportunities which includes promoting business/economic growth and assessing the viability and risks and potential rewards of new commercial ventures.

The funding mechanism for local government is also changing in April 2013 with the Business Rates Retention Scheme replacing the current Formula Grant System. Under the new system, authorities will retain 50% (49% for Telford & Wrekin Council and 1% for the Combined Fire Authority) of locally collected business rates, and 50% of any growth in business rates up to a threshold where growth is deemed to be disproportionate by the Government and until the system is "reset" in 2019/10. This is a marked change which brings opportunities, in terms of the council directly benefiting from business rate growth, but also increased risk, in terms of lost income if businesses close or move out of the area or claim significant empty property reliefs. Significant changes to Welfare Benefits, with local Council Tax Support schemes replacing the national Council Tax Benefits system and Housing Benefit being incorporated into the new national Universal Credit are also being implemented in 2013/14. Close monitoring will need to be undertaken in 2013/14 to assess the impact of these changes on the Council's overall financial position.

The financial outlook is clearly challenging and the Council continues with its structured programme of delivering savings. Over the past 4 years £42m of ongoing savings have been delivered through: service restructures, improved

procurement, reductions to the number of council buildings and back-office efficiencies. Work will continue to develop additional proposals to deliver the savings targets set out in the Service & Financial Planning strategy for future years.

Overall therefore, given the continued delivery of savings, the long-term service redesign, particularly in relation to Adults and Children's services, and the commercial approach being adopted, it is considered that the Council is pursuing a sound financial strategy in the context of the most difficult financial position it has ever faced due to the combined effect of Government grant cuts and increased service pressures and the transfer of costs relating to Continuing Healthcare cases from the PCT.

The 2013/14 Service & Financial Planning Strategy has been informed by:

1. Council Wide Risk Management

We are continuing to develop and deliver savings; with the high level of grant cuts some impact on service delivery is inevitable. Where implications have been identified a proportionate equality impact analysis has been carried out. Targeted engagement with service users and stakeholders will also be undertaken where required. The environmental impacts of budget proposals have also been considered, and overall, on balance, the environmental assessment of the proposals is positive. Some proposals are likely to have an economic impact as spending by the council is reduced. Final decisions are informed by extensive consultation with the community in general but also where appropriate with specific groups of service users. It therefore seems inevitable that the level of financial risk will increase both to individual services and the operation of the council as a whole and this will be common to local authorities across the country. The review of key risks by relevant Members of the Cabinet and of the senior management Team is thus important to ensure we put in place a level of mitigation wherever possible.

A differential approach to savings targets has been taken, rather than an across the board percentage reduction, to recognise the high risk area of Children's Social Care, where numbers of Children in Care and costs are increasing.

We have set aside a one-off general contingency of £2.5m next year; in addition a further £1.3m one off contingency has also been set aside specifically for Safeguarding (including £0.37m earmarked for Care & Support in respect of care leavers). A risk based review has also been carried out of all reserves and balances to inform the budget strategy. There has also been an assessment of key service risk exposure resulting in deletion of £0.3m assumed reduction in adult social care services.

Individual service areas have continually managed and monitored key risks relating to their service areas to ensure they are providing the best service they can when faced with reduced resources and ongoing reviews. The senior management team monitors service delivery unit performance and seeks to mitigate significant potential exposures to risks.

2. The Monitoring Process

Monitoring provides a regular financial health-check throughout the year and also provides information which feeds into the budget strategy. Financial monitoring follows a risk-based approach with high-value, volatile areas being monitored more closely than low-value, less volatile areas. Regular reports are presented to Senior Management Team and Cabinet during the year which highlight any significant variances and therefore areas of risk. Progress on the delivery of savings will be monitored through this route flagging both 'in year' and future year financial strategy impacts. The reports also monitor the budget contingency and performance against council tax, business rates and sales ledger income collection targets.

3. The Budget Setting Process

The overall medium term financial planning position of the Council is controlled through a model which is updated during the year as new information becomes available - including current year trends identified through monitoring. At a more detailed level finance officers meet with budget holders and review all budgets on an annual basis on top of the usual monitoring work. Budgets are cash limited. Areas of unavoidable growth and pressures have been identified and scrutinised as part of the budget process along with the deliverability of the savings package which forms an integral part of the overall strategy.

A strategic review of budgets was undertaken as part of this budget process to ensure budgets are realistic and achievable in the medium term. As a result of this review a number of budgets were adjusted to reflect ongoing pressures which has resulted in more sustainable budgets going forward. This exercise increased the base budget gap but results in a more robust budget. The budget setting process links to both the budget monitoring process, performance monitoring and risk management, discussed above, together with other issues such as meeting new legislative requirements and statutory obligations.

2013/14 Budget Assumptions and Considerations:

Given the difficult financial position the Council faces, a tight line has been taken on planning assumptions for next year but this is mitigated by the inclusion of the additional one-off general contingency of £2.5m, a risk assessed review of reserves and balances which identifies uncommitted balances of £3.67m.

<u>Inflation</u>	
Pay Award	<p>There is no allowance included for pay awards. The planning assumption is that service areas would meet this cost within cash limited budgets if this was the case through making further cuts or vacancy management. No increases are planned for teachers pay.</p>
Employer's Pension Contribution	<p>The Council agreed with pension fund officers and the fund's actuaries the maintenance of its contribution rate of 16.3% for the 3 years 2011/12 to 2013/14. Recommended changes from the triennial valuation of the fund will impact in April 2014 and following early discussions with the fund actuaries an estimate of 1.5% p.a. increase in the contribution rate has been included for this. Further, £0.1m has been included in 13/14, rising to £0.3m in 15/16 as an initial estimate of the impact of changes to the pensions regulations regarding auto enrolment for new starters. However, the council is recommended to take advantage of the option to defer auto enrolment for existing staff until 30th September 2016.</p> <p>Nil increase</p>
Employer's National Insurance Contribution	<p>A provision for known contractually committed inflation has been included. No other allowance for non-pay inflation has been made as budgets are cash limited. With the prevailing relatively low rate of inflation this is a more sustainable strategy than if inflation were to rise significantly but the position and pressures that this policy places on service budgets will be kept under review through regular financial monitoring.</p>
Non-Pay budgets	<p>There is one-off general contingency of £2.5m plus a further £1.3m contingency specifically for Safeguarding (with £0.37m of this earmarked for care leavers who become the responsibility of Care & Support).</p>

Contingencies	
Service Pressures	<p>The difficult economic situation has an impact on the community and results in an increase in demand for council services.</p> <p>The key service pressures identified for the medium term relate to Care & Support and Children’s Safeguarding.</p> <p>Children’s Safeguarding– there are currently 317 Children in Care and financial monitoring shows a projected overspend of £3.1m in the current year. To recognise the considerable pressure this area is facing, no additional savings have been taken from Childrens Safeguarding in 2013/14 and an investment of £0.6m is being made into the budget. This still leaves a considerable financial challenge to bring spend back in line with the available funding and an action plan is included at Appendix 2 to do this. The action plan will be rigorously monitored. The 13/14 strategy includes a £1.3m specific one-off contingency for Safeguarding (with £0.37m of this earmarked for care leavers who become the responsibility of Care & Support).</p> <p>Care & Support – budget pressures arising from the reduction in PCT Continuing Health Care funding and an increased rate of hospital discharges are evident. In the current year one off resources have been used to meet the costs. Savings are anticipated through a complete remodelling of service delivery and procurement. An action plan is included at Appendix 12a and progress against this will be monitored very closely.</p>
Central Government Funding / Local Government Resources Review	<p>The Business Rates Retention Scheme replaces the current system for funding Local Government from April 2013. This allows local authorities to retain 50% of locally collected business rates and going forward 50% of any growth in business rates (49% for Telford & Wrekin Council and 1% for the Combined Fire Authority). There are opportunities in relation to business rates growth but also risks in terms of reduction in business rate income. The amount included for business rates in 13/14 has been prudently based on local information, rather than the national estimate used by the Government in their settlement figures but will need to be closely monitored throughout the year.</p>
Council Tax	Telford & Wrekin’s Local Council Tax Support Scheme was

Support	<p>approved by Council on 22 November 2012. The shortfall due to the Government's reduction in funding has been met through a combination of changes to council tax exemptions and discounts and by applying a percentage global reduction in support given to less vulnerable claimants. A one-off £0.065m has been earmarked to award discretionary discounts in cases of extreme financial hardship. Council tax support is paid as a council tax discount and there is a greater financial risk than under the Council Tax Benefit System as claimants classed as "non-vulnerable" who previously received 100% benefit will now have some council tax to pay. Collection levels will be closely monitored throughout 2013/14 to assess whether the assumptions on losses on collection and growth in the tax base were appropriate.</p>
Interest Rates	<p>Base rates have remained at 0.5% all year; the next rise is expected to be upwards but not until there are signs that the economy is recovering – perhaps 2015/16. The Bank of England has extended its Quantitative Easing programme to £375bn. Our investment and borrowing strategies for 2013/14 are set within this context.</p> <p>The assumptions for new borrowing are 1.75%, 3% and 4.5% in 13/14, 14/15 and 15/16 respectively. The current strategy is to use maturing investments to reduce the need to borrow and therefore interest rate/counter-party exposure. The average return on investments is 5.54% in 13/14 (due to long-term fixed rate investments placed when market rates were much higher), 3.94% in 14/15 and 4.5% in 15/16. One of the primary objectives is to reduce the Council's exposure to risk while at the same time maximising returns. The Treasury Management Strategy for 2013/14 is presented to Council alongside the budget reports. The investment portfolio is monitored on a regular basis and advice is received from independent professional treasury advisors.</p>
Treasury Management	<p>The Treasury Strategy for 2013/14 follows the requirements of the Revised CIPFA Treasury Management Code of Practice and clearly identifies the various exposures to risk and strategies in place to minimise this. The Audit Committee has a role to review and monitor the Council's treasury management arrangements which includes policies, procedures and the management of risk. The 2013/14 Treasury Strategy was presented to Audit Committee on the 29 January for their consideration and comments and was supported by them. The Committee will monitor progress during the year.</p>
Dedicated	<p>The figure estimated for Dedicated Schools Grant was</p>

<p>Schools Grant (DSG)</p>	<p>£120.350m (including academies) at the time of writing this report. The final DSG allocation to the Council will not be known until June 2013 when all adjustments for academies and pupil numbers are finalised. Compared to Local Authority funding, school funding has been comparatively protected.</p> <p>From April 2013 a new school funding regime is being implemented and Telford & Wrekin has developed a local formula to comply with the changes which was agreed by Cabinet in November 2012. Pupil numbers are a key factor in this formula and while in the medium term it is anticipated that pupil numbers will increase, there will be an interim period where funding may be an issue for some secondary schools where numbers on roll fall, which will have to be managed by them.</p> <p>Going forward, any transfers to academy status are likely to have an adverse impact on Council funding.</p>
<p>Estimates on the level and timing of capital receipts</p>	<p>The revenue budget and capital programme assume around £112.8m anticipated future capital receipts over the medium term planning period. The sale of Civic Offices represents a large receipt and at the time of drafting this comment the proceeds from this sale are expected imminently. Also at the time of preparing this report the inquiry in to the possible sale of land at Station Road in Newport is in progress. The receipt from this sale is included in the capital receipts target and if nothing is received from the sale of this site there would be a revenue impact of £0.184m in 2013/14 rising to £1.575m in a full year. Any such shortfall or delays in generating expected receipts or in the amounts generated will need to be taken into account in future service and financial strategies. This could require scaling the capital programme back, re-phasing schemes or entering in to additional prudential borrowing which would necessitate further cuts to services. Delivery of projected receipts is monitored on a monthly basis as part of overall financial monitoring and reported to Cabinet quarterly. There should be no further decisions taken which significantly increase this medium to long term exposure until there is a clear pattern of receipts being delivered as planned.</p>
<p>Prudential Borrowing / Prudential Indicators</p>	<p>The use of prudential borrowing is in line with the capital programmes approved by full Council. The 100 day review of the 2011/12 budget reduced outstanding debt significantly and generated ongoing savings of £2.9m. Given the overall financial position faced by the Council it is important that any further significant prudential borrowing commitments are not entered into unless matched by additional savings/income</p>

	<p>flows or clear plans for the funding of the debt repayments have been identified.</p> <p>Prudential Indicators are approved as part of the budget strategy (see separate report on this agenda) and are monitored and reviewed on a regular basis.</p> <p>The rules around the calculation of the cost of borrowing that must be charged to the revenue account – the minimum revenue provision (MRP) - have been prudently applied in setting the 2013/14 budget strategy. The policy in relation to MRP is set out in the Treasury Management Strategy Report.</p>
Single Status	<p>The Single Status process is underway with a planned implementation date of April 2014. An annual provision equal to 4% of the relevant pay bill has been set aside in the accounts for the 4 years 2007/08 to 2010/11. It is now considered that there is adequate funding in the provision and no further contribution will be made. The additional ongoing budget is included in the budget strategy from 2014/15 in line with the implementation date although has been reduced to reflect the reduced risk by the movement of employees on fixed points to salary grades and the reduction in the workforce of around 20%.</p> <p>There is possible exposure to liabilities from back pay and equal pay claims and the authority will seek to identify the possible range of liability at similarly structured authorities though this is limited especially at present. Possible application for a capitalisation direction can be made for meeting backdated one off costs when there is any information available to support a claim, but the success of this is likely to be limited by strict controls on the total available nationally and under the regulations.</p>
Savings	<p>Over the past 4 years savings totalling £41.7m have been delivered. There is a schedule of savings proposals included in the strategy at Appendix 3 which will deliver savings over the medium term planning period. Savings of £8.6m are planned for 2013/14, rising to £15.6m by 2015/16. There is a reserve set aside to meet redundancy costs with a recommendation that this is increased by £1.219m and commitments against this are being monitored as restructures progress; the position will be reviewed at year end to assess whether further transfers in are required from any further underspend against the 2012/13 budget.</p>
Financial Risks inherent in any new	<p>There are a number of major capital projects that have been identified which require careful project management and monitoring during 2013/14 and beyond to ensure</p>

funding partnerships, major outsourcing deals or major capital developments	commitments are matched by funding actually achieved, particularly the reliance on capital receipts and future government funding levels for the council and its public sector partners. These include the Town Centre Redevelopment, accommodation project, Gorge instability project and Building Schools for the Future.								
The availability of other funds to deal with major calls on contingencies	General reserves or other funds may have to be used temporarily and restored if revenue contingencies, management and policy action is insufficient to deal with a major issue. The Council has evaluated the risks it faces against available balances as outlined earlier in this appendix and concluded that around £3.67m is available to use in the overall budget strategy at the start of 2013/14; there is no proposed use of general balances in the strategy for 2013/14.								
The overall financial standing of the authority (level of borrowing, debt outstanding, collection of council tax etc.	<p>The Council's approach to sustaining its overall sound financial position is covered in a number of sections of this Appendix. The overall projected net indebtedness position at 1 April 2013 is £96.7m; net additional prudential borrowing anticipated in 13/14 is £3.4m. The total reliance on capital receipts in the medium term strategy is £112.8m in line with profiled disposals (additional information is provided in both the Capital Programme and Treasury Management Strategy Reports). The Council budgets prudently for its level of borrowing, avoiding external borrowing where cash flow permits and running down investment exposure while new placement rates are low.</p> <p>The assumed council tax collection rate for 2013/14 onwards is 98%. This has been reduced from 99% to take into account the potential impact of the Council Tax Support (CTS) Scheme which replaces council tax benefits. For each 1% not collected the cost is approximately £0.495m in lost income to the Council. Legislation requires that any collection fund deficit is corrected through Council Tax in the next year. In recent years collection has outperformed projections allowing use of a council tax surplus as part of next year's strategy.</p> <p>Cumulative collection rates to date for recent years are</p> <table data-bbox="997 1736 1284 1881"> <tr> <td>2008/09</td> <td>99.39%</td> </tr> <tr> <td>2009/10</td> <td>99.36%</td> </tr> <tr> <td>2010/11</td> <td>99.26%</td> </tr> <tr> <td>2011/12*</td> <td>98.32%</td> </tr> </table> <p>Recovery for all years is projected to be well over 99% finally.</p> <p>*to-date</p>	2008/09	99.39%	2009/10	99.36%	2010/11	99.26%	2011/12*	98.32%
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	<p>Close monitoring of the impact of CTS on collection rates will be undertaken during 2013/14.</p>
<p>The authority's track record in budget and financial management</p>	<p>The Council continues to demonstrate strong financial management with outturn being very close to the net budget set:</p> <ul style="list-style-type: none"> • 2007/08 – underspent by £0.300m (0.27% of budget) • 2008/09 - underspent by £0.366m (0.31% of budget) • 2009/10 – underspent by £0.332m (0.27% of budget) • 2010/11 – underspent by £0.083m (0.07% of budget) • 2011/12 – underspent by £1.843m (1.42% of budget) <p>This demonstrates continued strong financial management, despite considerable pressure on service budgets, notably children's social services.</p>
<p>Virement and Contingencies</p>	<p>Virement is an important feature of budgetary control. It provides flexibility to adapt expenditure patterns to meet changing needs and objectives, consistent with Council policy.</p> <p>No Assistant Director or Service Delivery Manger should plan to overspend. All expenditure should be consistent with approved service priorities and the overall approved budget.</p>
<p>The adequacy of the authority's insurance arrangements to cover major unforeseen risks</p>	<p>The Council's insurance arrangements are a balance between external insurance premiums and internal funds to "self insure". The Council use the services of an external insurance advisor to provide additional expertise in managing insurance arrangements.</p> <p>The insurance section work closely with the Council's Risk Officer to identify insurance related risk areas and recommend ways of mitigating future risk.</p>

These assumptions are reviewed on an annual basis.

Reserves & Balances Policy

Introduction

Guidance on local authority reserves and balances is available from the Chartered Institute of Public Finance & Accountancy (CIPFA). This represents good financial management and underpins the framework followed by Telford and Wrekin Council in this policy.

Types of Reserves and Balances

As part of the Service & Financial Planning process, the Council will consider the establishment and maintenance of reserves and balances.

Reserves and balances can be held for a number of purposes. Some reserves and balances are essential for the prudent management of the Council's financial affairs. These will provide a working balance to cushion the impact of uneven cash flows; a contingency for the impact of unexpected events or emergencies and allow the creation of earmarked reserves to meet known liabilities. The consequences of not keeping a minimum level of reserves can be serious and is therefore one of the considerations taken into account when setting the medium term financial plan.

When establishing reserves, the Council will ensure compliance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Some of the most commonly established earmarked reserves are:

- Sums set aside for major schemes, such as capital developments
- Insurance reserves – to provide for an element of self-insurance
- Service Balances – to permit year end under spends to be carried forward for future commitments
- School Balances – unspent balances of budgets delegated to individual schools

Level of Reserves and Balances

The minimum prudent level of reserves that the Council should maintain is a matter of judgement. It is the Council's safety net for unforeseen circumstances and must last the lifetime of the Council unless contributions are made from future year's revenue budgets. CIPFA guidance does not set a statutory minimum level so it is up to the Council itself, taking into account all the relevant local circumstances, to make a professional judgement on what the appropriate level of reserves and balances should be. Telford & Wrekin Council adopts a risk based approach to determine the appropriate level of reserves and balances to sustain and that which can be released to support the medium term financial plans.

Reserves and balances are only maintained in accordance with the risk assessment undertaken and are used in a planned way. Therefore the

opportunity cost of maintaining the determined levels is kept to a minimum while interest is earned on the retained amount.

Process

Each reserve and balance will have a clear purpose showing how and when it can be used together with a process for review to ensure continuing relevance and adequacy.

An annual review of reserves and balances will be undertaken as part of the budget process each year and a schedule presenting the estimated opening balances for the forthcoming year, planned additions to/withdrawals from and the estimated closing balances will be presented in the budget report. The schedule will also show the purpose of each reserve and a comment on the appropriateness of the value held.

The key financial risks will also be identified and an assessment of estimated exposure and possible mitigation will be made. This will link to the Council's key strategic risk register. The conclusion of this risk evaluation process will determine the resources available over the medium term to support the Council's budget.

This process will be repeated each year to ensure the ongoing adequacy of the Council's reserves and balances.

Responsibilities and Reporting Mechanism

The Chief Financial Officer has a duty to local tax payers, and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.

The level and usage of reserves will be formally approved by Council, as part of the budget strategy, informed by the Chief Financial Officer's judgement and expertise.

The budget report to Council will include a statement showing the estimated opening balances for the year ahead (including general fund and earmarked funds), any projected additions to/withdrawals and an estimated end of year balance. This will be accompanied by a statement from the Chief Financial Officer on the adequacy of the general reserves and provisions for the forthcoming year and the authority's medium term financial strategy. A report on the annual review of reserves and balances will also be made to Council at the same time.