

**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 2015 – Regulation 4** 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 12 of this report.

## **ROBUSTNESS OF ESTIMATES**

### **Overview**

Since 2010 the Council has faced unprecedented cuts in Government grant and over the past 7 years has made £80m of ongoing savings to manage within its reducing resources. The Government will continue to cut public spending as it aims to meet its target of eliminating the national budget deficit and while some part of the sector, such as health and defence, are protected further cuts will inevitably fall on local authorities as clearly set out in the Comprehensive Spending Review announcement in November 2015. Indeed DCLG's Departmental Expenditure Limit will be cut by 53% in cash terms (more after the effect of inflation) over the remainder of this Parliament.

The projected budget gap over the next two years for the Council is over £30m which will be met through a package of savings measures. It is now inevitable that some of the cuts will have significant impacts on local people and the Council is committed to extensive consultation and is keen to work with partner organisations to identify alternative options for service delivery. In parallel the Council is committed to investing in Telford's future.

The Council has specifically prioritised Adult Social Services and Children's Safeguarding. After implementing the Government's new 2% "social care precept" the budget for Adult Social Services will increase by £1.6m next year; and Children's Safeguarding will increase by £1.4m to reflect the pressures being experienced by these services. This is not to say that changes are not required in these services and longer-term savings are required which will be achieved from new operating models.

The Council's medium term service and financial strategy has 4 core elements which will take the organisation forward and deliver budget savings:

- Focusing on solving problems and promoting social responsibility and action to manage and reduce demand for services,
- Challenging and changing, reviewing and reimagining the way we do things,
- Reducing our dependency on Government grants,
- Being a modern organisation with modern practices and where we always get the basics right.

These themes are expanded upon in the "Being The Change" report issued by the Managing Director in December 2015 which also implemented a new Senior Management Team structure to drive the organisation forward..

Despite the financial challenges being faced, the Council has a clear goal to attract new jobs and investment and promote growth in the borough. Growth will deliver increased numbers of houses and businesses in the borough

which will result in additional council tax, new homes bonus (although the New Homes Bonus system will be reviewed by the Government in 2017/18) and business rates and whilst some additional costs will arise from a larger population, the net additional income generated will contribute towards helping to reduce the level of cuts needed.

2016/17 is the fourth year in which local government funding is provided through the Business Rates Retention Scheme. Under this system, authorities 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. This 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. Ensuring business rates income is maximised is a key priority for the Council which is being closely monitored. The announcement to move to 100% business rates retention by 2020 is in principle welcomed however we await the technical consultation, which is due during 2016/17, for further details to fully understand the implications for us. The outcome of the 2017 Revaluation, to be implemented in April 2017, could also have implications if the outcome results in yields being re-distributed on a national basis.

The financial outlook is clearly challenging and there is an ongoing programme of targeted service reviews and restructuring underway.

**Overall therefore, given the continued delivery of savings which now total over £80m, the long-term service redesign, particularly in relation to Adults and Children's services, the commercial approach being adopted, and the investment being made in the borough, it is considered that the Council is pursuing a sound financial strategy in the context of the most prolonged and challenging financial position it has ever faced due to the combined effect of Government grant cuts and increased service pressures.**

**The 2016/17 Service & Financial Planning Strategy has been informed by:**

**1. Impact Assessment and Risk Management**

We are continuing to develop and deliver savings; with the high level of grant cuts some impact on service delivery is inevitable. A commitment has been given to protect delivery of the most essential services for vulnerable children and adults. Initial impact assessments have been undertaken where possible and the most challenging savings have been scheduled for 2017/18 rather than 2016/17 to allow more detailed consultation to take place. Where required, this will include more targeted consultation with residents, service users and stakeholders to help us understand the impact that the changes may have on residents and identify ways to mitigate any negative impacts. The Council is also seeking suggestions from local people on ways to save money and is

keen to work with partner organisations to identify alternative service delivery options if possible. 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 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 and exacerbated by the move to 100% local retention of business rates. Cumulative risk attached to adopting an increasingly commercial approach will also need to be kept under review and key commercial decisions will continue to be subject to development of business cases and Cabinet approval

A differential approach to savings targets has been taken by Cabinet Members and Directors within their service areas, rather than an across the board percentage reduction, to recognise the relative demands, risks, opportunities and challenges faced by different Council services.

We have set aside a revenue contingency of £2.776m next year; in addition a further £2.5m one off budget facility has also been set aside specifically for Adult Social Services and one off resources of £0.5m have been identified to meet any unforeseen cost pressure in Children's Safeguarding. Additional funding is being made available to increase the budget for adults by £1.6m next year and for children's safeguarding by £1.4m.

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 performance and seeks to manage and mitigate significant potential exposures to risks where possible.

## **2. The Financial Management Process**

Financial 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 financial management 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. The Senior Management team also regularly consider significant debts

outstanding to the Council and agree actions to obtain payment as quickly as possible.

### 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.

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.

#### 2016/17 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 general revenue contingency of £2.8m and one-off funding of £2.5m for Adult Social Services and £0.5m of service balances held for Children's Safeguarding. A risk assessed review of reserves and balances has been undertaken which identifies uncommitted balances of £2.4m prior to any remaining underspend at year end which should increase usable balances to around £4.5m given current projections..

<u>Inflation</u>	
Pay Award	1% has been included for pay awards for 2016/17 and 2017/18 and 1.5% for 2018/19, including teachers pay. If the estimates are inaccurate the actual level of pay award will be allocated to service budgets and any adjustment made to the budget model which will either increase or reduce the savings requirement.
Apprentice Levy	An allowance of 0.5% of the pay bill has been included to meet the cost of the Apprentice Levy wef 1 April 2017.
Employer's Pension Contribution	As anticipated, the triennial evaluation of the pension fund at 31 March 2013 identified a pension fund deficit. Following discussion and negotiation with Pension Fund Officers, it has been agreed that the Council will pay an employers contribution rate of 12.6% plus a fixed lump sum amount each year, with a deficit recovery period of 25 years being set. The lump sum payment in 2016/17 will be £3.2m. The lump sum will continue to rise in subsequent years, although

<p>Employer's National Insurance Contribution</p> <p>Non-Pay budgets</p> <p>Contingencies</p>	<p>the next triennial evaluation is due at 31 March 2016 (and effective from 1st April 2017) at which point the deficit position will be reviewed. As the pension fund position has moved from being 79% funded to 72% funded we also anticipate an increase in the employers rate wef 1 April 2017, following the triennial evaluation, and £1.5m has been included in the 17/18 budget to accommodate this cost. Employer's teachers pension contributions increased in September 2015 from 14.1% to 16.5%, and so the full year impact of this will be felt in financial year 2016/17</p> <p>The abolition of contracting-out and the introduction of a Single State Pension wef April 2016 results in a loss of NI rebate to the Council. Estimated costs to the Council and schools have been included in budget projections.</p> <p>The abolition of contracting-out and the introduction of a Single State Pension wef April 2016 results in a loss of NI rebate to the Council. Estimated costs to the Council and schools have been included in budget projections.</p> <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> <p>There is a general contingency of £2.776m plus a further one off budget of £2.5m specifically for Adult Social Services and £0.5m for Children's Safeguarding. The Council also currently has around £2.4m available balances as part of its medium term financial strategy although this will increase by any otherwise uncommitted underspend in the current financial year.</p>
<p>Service Pressures</p>	<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 Adult Social Services and Children's Safeguarding.</p> <p>Children's Safeguarding– there are currently 296 Children in Care (at 6.1.16) and financial monitoring shows a projected</p>

	<p>overspend of £1.8m in the current year. Safeguarding children from harm and neglect is the Council's top priority and the 2016/17 budget includes new ongoing revenue investment of £1.4m in this area. The Service Area has also identified £0.5m one off resources to meet any unexpected cost pressures. A cost improvement plan is in place to address areas of pressure to ensure that costs are contained within the increased base budget as far as possible. The position will be continually monitored and reviewed again as part of the 2017/18 service and financial planning process.</p> <p>Adult Social Services – the Council has consistently prioritised the protection of vulnerable people and the level of cuts made to the Adult Social Services budgets has been significantly less than other services. The Council will use the Government's new "Social Care Precept" of 2% on council tax bills which will generate £1.1m to be re-invested into Social Care to meet cost pressures. In total, the 2016/17 Adult Social Services budget will be increased by £1.6m. While we are committed to meeting the assessed needs of vulnerable adults changes will be needed to the way services are provided to deliver savings in future years.</p> <p>One-off funds of £2.5m have been ring-fenced for Adult Social Services in recognition of the pressures being faced.</p>
<p>Central Government Funding / Local Government Resources Review</p>	<p>The Business Rates Retention Scheme replaced the current system for funding Local Government in 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 &amp; 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 16/17 has been based on local information, which we consider to be more realistic than the national estimate used by the Government in their settlement figures and will need to be closely monitored throughout the year.</p> <p>The level of business rates appeals if of particular concern, with £139m rateable value currently under appeal. The Council has made prudent provision to meet the cost of successful appeals.</p> <p>The outcome of the 2017 business rates revaluation, to be implemented in April 2017, could also impact on the funding available to the Council however at present there is no detailed information available.</p>
<p>Council Tax</p>	<p>The Council will increase council tax by the 2% "Social Care</p>

	<p>Precept” and by an additional 1.2% (3.2% in total) to recompense for the failure of the Government to offer any further council tax freeze grants.</p> <p>Confirmation of the referendum limit thresholds for 2016/17 (4%) was received in late December so there is no risk of the planned council tax increase being above the threshold set and the council therefore incurring additional costs of holding a referendum and potential re-billing costs.</p>
Council Tax Support	<p>Telford &amp; Wrekin’s Local Council Tax Support (CTS) Scheme was approved by Council in January 2016. A council tax hardship fund of £0.030m is available 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. Since CTS was implemented in April 2013 claimant numbers have reduced, reflecting the improving economy and collection rates have remained strong.</p>
Interest Rates	<p>Base rates have remained at 0.5% all year; the next rise is expected towards the end of 2016 at the earliest. The Bank of England’s Quantitative Easing programme remained at £375bn. Our investment and borrowing strategies for 2016/17 are set within this context.</p> <p>The assumptions for new borrowing are 3.0% in 2016/17 and 4.0% in subsequent years. A flexible approach to borrowing will be taken, in consultation with our treasury advisors, consideration will be given to affordability, maturity profile of existing debt, interest rates and refinancing risks as well as borrowing source. Maximum investment levels with counterparties are set to ensure prudent diversification and following strict investment criteria. Full details are included in the Treasury Management Strategy report included in this suite of service and financial planning reports. One of the primary objectives is to reduce the Council’s exposure to risk while at the same time maximising returns. In the current interest rate environment and with considerable uncertainty on the financial robustness of counterparties, it is more advantageous to reduce investment levels and therefore reduce borrowing requirements. 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 2016/17 follows the requirements of the CIPFA Treasury Management Code of Practice and clearly identifies the various exposures to risk and strategies</p>

	<p>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 2016/17 Treasury Strategy was presented to Audit Committee on the 26 January for their consideration and comments and was supported by them. The Committee will monitor progress during the year.</p>
<p>Dedicated Schools Grant (DSG)</p> <p>Education Services grant (ESG)</p>	<p>The figure allocated by the DfE in December 2015 for 2016/17 Dedicated Schools Grant was £132.349m (including academies). However the Early Years element of DSG will be adjusted for actual numbers of early years pupils in January 2016 and January 2017 and so will be finalised retrospectively in Summer 2017. Compared to Local Authority funding, school funding is comparatively protected from central government funding cuts.</p> <p>The amount paid for each pupil in a maintained school for ESG reduces from £87 in 2015/16 to £77 in 2016/17. In addition, any conversions of maintained schools to academies will have an adverse impact on Council funding as this element of funding will go directly to the academy from the date of conversion. The Government have also announced an intention to reduce ESG by nearly 75% (£600m from a 2015/16 total of £815m) which implies that steeper reductions in this grant should be expected from 2017/18 onwards.</p>
<p>Estimates on the level and timing of capital receipts</p>	<p>The revenue budget and capital programme assume around £51.5m anticipated future capital receipts over the medium term planning period. Any 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.</p> <p>The HCA Land Transfer Agreement also on the agenda for this meeting will also need to be closely monitored and spend on bringing sites to market managed in accordance with experience of generating receipts to minimise exposure to potential risk.</p> <p>The Government have offered some flexibility on the use of capital receipts generated for a 3 year period from April 2016. New receipts generated during this period may be used to fund the revenue costs of service reform projects so the</p>

	<p>Efficiency Plan and Strategy included as appendix 18 to this report has been prepared in order to ensure that the Council may take advantage of this flexibility offered by the Government whilst recognising that in doing so revenue balances would be preserved but debt levels would be increased.</p>
<p>Minimum Revenue Provision (MRP)</p>	<p>The policy in relation to MRP is set out in the Treasury Management Strategy Report. 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 2016/17 budget strategy.</p> <p>The MRP policy is broadly unchanged from 2015/16, however within the existing policy we are changing the way we are charging MRP in respect of historic borrowing and PFI borrowing. Historic borrowing was previously calculated on a 4% of reducing balance basis; it will now be charged at 2% over 50 years which pays the debt off. MRP on the Council's PFI contract was previously charge in line with the PFI agreement (28 years) and will now be charged over the life of the asset (60 years) on an annuity basis, in line with prudential borrowing. Details of the proposed changes were included in Appendix 13 of the service and financial planning report considered by Cabinet on 7 January 2016.</p> <p>These changes have been agreed in principle with KPMG, our external auditors. Until the accounts for 2015/16 have been signed off by KPMG there is a risk over the assumed level of benefits. Detailed calculations will be audited as part of the 2015/16 final accounts audit in July 2016. The changes will generate savings of £5.3m in 2015/16, £5.7m in 2016/17, £5.3m in 2017/18 and £2.4m in 2018/19. The saving remains broadly at this level until 2033/34 before ultimately becoming a cost. Allowing for the time value of money there is a net benefit to the Council. The impact of the MRP change has been included in the Service &amp; Financial Planning Strategy.</p> <p>The changes will increase the level of borrowing over the medium term as less MRP is set aside however by the end of the life of the asset the impact on borrowing is nil.</p>
<p>Prudential Borrowing / Prudential Indicators</p>	<p>The use of prudential borrowing is in line with the capital programmes approved by full Council. 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>

Single Status	<p>The Single Status process is in progress with planned implementation during 2017/18. 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 and potentially if a locally designed scheme is implemented some of the funding set aside may be available to be released. The additional ongoing budget is included in the budget strategy from 2017/18 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 following restructures. It now stands at £1.445m pa and after meeting the cost of the Government's new national "living"/minimum wage will fall to £0.9m.</p> <p>There is possible exposure to liabilities from back pay and equal pay claims which along with any other one-off costs (such as a potential period of pay protection for employees who see their pay reduced) could be met from the one-off provision.</p>
Savings	<p>The Council has an excellent track record of delivering savings in accordance with agreed plans. Over the past 7 years savings totalling over £80m have been delivered. There is a schedule of savings proposals included in the strategy at Appendix 2 which will deliver savings over the medium term planning period. Total savings are expected to reach well in excess of £110m by 2018/19. There is a reserve set aside to meet severance costs. In order to support the delivery of ongoing savings £3m has been added to this reserve and £3m to the Invest to Save/Capacity Fund, largely arising from the debt rescheduling benefits (MRP changes) mentioned above.</p>
Financial Risks inherent in any new funding partnerships, major outsourcing deals or major capital developments	<p>There are a number of major capital projects that have been identified which require careful project management and monitoring during 2016/17 and beyond to ensure 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 Housing Investment Programme and Building Schools for the Future programme.</p>
The availability of other funds to deal with major calls on	<p>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</p>

contingencies	<p>and concluded that around £2.4m is available to use in the overall budget strategy; there is no proposed use of general balances in the Administration's strategy for 2016/17. Current projections for 2015/16 indicate that over £2m will be available to increase useable balances by at year end. In addition the Council could review capitalisation of expenditure charged to revenue and seek to make maximum use of the new flexibility on the use of capital receipts offered by the Government.</p>												
<p>The overall financial standing of the authority (level of borrowing, debt outstanding, collection of council tax etc.</p>	<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 31 December 2015 was £130.4m; net additional prudential borrowing anticipated in 16/17 is £53.1m, although a significant element of this relates to the Housing Investment Programme and PIP investments which will generate a commercial return greater than the cost of associated debt charges. The total reliance on capital receipts in the medium term strategy is £51.5m 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 rates available for new investments are very low.</p> <p>The assumed council tax collection rate for 2016/17 onwards is 98.75%. For each 1% not collected the cost is approximately £0.539m 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="778 1552 1066 1771"> <tbody> <tr> <td>2010/11</td> <td>99.59%</td> </tr> <tr> <td>2011/12</td> <td>99.51%</td> </tr> <tr> <td>2012/13</td> <td>99.29%</td> </tr> <tr> <td>2013/14</td> <td>98.92%</td> </tr> <tr> <td>2014/15</td> <td>98.13%</td> </tr> <tr> <td>2015/16*</td> <td>92.48%</td> </tr> </tbody> </table> <p>Recovery for all years is projected to be over 98% finally.</p> <p>*as at 31 January 2016 with 2 months until year end.</p> <p>Close monitoring of the impact of CTS on collection rates will continue during 2016/17.</p>	2010/11	99.59%	2011/12	99.51%	2012/13	99.29%	2013/14	98.92%	2014/15	98.13%	2015/16*	92.48%
2010/11	99.59%												
2011/12	99.51%												
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2013/14	98.92%												
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2015/16*	92.48%												

<p>The authority's track record in budget and financial management</p>	<p>The Council continues to demonstrate extremely strong financial management with outturn being very close to the net budget set and no overspends during the previous 8 years:</p> <ul style="list-style-type: none"> <li>• 2007/08 – underspent by £0.300m (0.27% of budget)</li> <li>• 2008/09 - underspent by £0.366m (0.31% of budget)</li> <li>• 2009/10 – underspent by £0.332m (0.27% of budget)</li> <li>• 2010/11 – underspent by £0.083m (0.07% of budget)</li> <li>• 2011/12 – underspent by £1.843m (1.42% of budget)</li> <li>• 2012/13 – underspent by £0.055m (0.04% of budget)</li> <li>• 2013/14 – underspent by £0.099m (0.07% of budget)</li> <li>• 2014/15 – underspent by £1.145m (0.89% of budget)</li> </ul> <p>This demonstrates an outstanding track record of continuous strong financial management, despite considerable pressure on service budgets, notably adults and children's services and an unprecedented protracted period of significant cuts to Government funding.</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 Council has a strategic risk register which is used to identify the substantive issues which may impact negatively on the delivery of the Council's priorities and may also have a financial impact. This is regularly reviewed by Senior Management Team and Service Areas to manage risks and mitigate potential exposures.</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 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.

Consideration is given to the key financial risks and mitigation available to 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.