SECTION 151 OFFICER'S STATEMENT ON ADEQUACY OF BALANCES AND THE ROBUSTNESS OF THE BUDGET – BUDGET YEAR 2017/18

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, the Housing Revenue Account and Capital Programme but, in addition, it also considers key medium term issues faced by the Council.

Statement of the Council's Section 151 Officer (Director of Finance and IT)

1. I have reviewed the budget proposals for 2017/18 and consider them to be challenging but achievable. There are specific areas within the budget that carry a degree of risk and will require strong officer and political management to achieve them:

   a) During the 2015/16 budget setting meetings, service related savings of £2.5m were agreed for the 2017/18 financial year and some of these are still in the process of being delivered;

b) As the Council continues the direction towards a more commercial approach, income targets become more stretching. All targets have been agreed by the relevant services but obviously depend on take up from third parties and so carry a degree of risk. Improved monitoring arrangements are being implemented;

c) There are targeted reductions in additional employee costs such as agency, overtime and consultancy. Confidence is taken from the increased management and targeted approach in these areas but a high level of monitoring will be required;

d) Whilst this budget provides significant growth for both Adults' and Children's Social Care, increasing demand in both of these areas is well documented. Transformation programmes for both areas are in place and progress will be closely followed;

e) The impact of welfare reform continues to evolve and may increase demands on services and provide a challenge to the collection of council tax and rents;

f) There have been a number of contract failures within Adult Social Care by third party providers. Whilst the impact on those receiving care could be significant if not managed properly, action taken to stabilise the failure is always more costly. Work within the service is seeking to minimise this risk but a financial impact is likely should the risk materialise;

g) The level of Public Health Grant (PHG) continues to reduce whilst the expectation of delivery remains the same. Since the council took on responsibility for PHG in 2013/14, there has been a reduction of £1.2m, approximately 12%, and further reductions are planned over the remaining life of this parliament. Recent procurement exercises have mitigated these reductions to a degree; and

h) The Housing Revenue Account continues to face pressures brought about by the legislative periods of rent reductions – circa £14m of income lost over the life of this MTFS. Demands for increased repairs budgets may be at risk if additional income and/or corresponding reductions in other areas of expenditure are not achieved.

2. 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 is still inadequate and, whilst some progress has been made ahead of the financial year, further work is continuing to support budget management within services; and

   b) A number of the service specific systems, notably housing and Social Care, do not interface with the financial system in a way that allows the identification of future commitments. This is included within the Oracle Steering Group's considerations.

These risks are known and although there has been progress on the general reporting, work needs to continue to improve still further.

3. In addition, the demands within the senior leadership group and services to both deliver core services and implement the transformational change required means that capacity is a risk to delivery. Directorate Management Teams and Directors' Board will have to manage this risk and redirect resource where necessary.

4. My statement for both 2017/18 and the medium term is also conditional upon:

    - Members supporting the need for the Council to become far more commercial, including the need to increase the Council's income base, in both the General Fund and the Housing Revenue Account, through both core business and other investment opportunities;

    - The agreement of a Medium Term Financial Strategy and Plan for 2018/19 to 2020/21 that requires significant reductions in net revenue expenditure to deliver a balanced budget for the financial years 2018/19 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 2017/18 (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 underspends 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 £8.0m – an increase of £1.0m - that is maintained throughout the period between 2017/18 to 2020/21;

   - An optimal level of reserves of £9.26m over the period 2017/18 to 2020/21 to cover the absolute minimum level of reserves, in-year risks, cash flow needs and unforeseen circumstances – an increase of £1.26m to be achieved within three years;

   - A maximum recommended level of reserves of £12.0m for the period 2017/18 to 2020/21 to provide additional resilience to implement the Medium Term Financial Plan; and

   - In relation to the Housing Revenue Account (HRA) my recommendation is that reserves be set at a minimum £1.7m as previous years but with a target of £3m to be achieved within three years.

6. The estimated level of unallocated General Fund reserves at 31 March 2017, based on current projections is £8.0m, depending on final spending. Therefore:

   - The absolute minimum level of reserves of £8.0m is currently being achieved;

   - To achieve the optimal level of reserves of £9.26m, annual contributions over a maximum of three years are required;

   - The recommended maximum level of reserves of £12.0m will not be reached during 2017/18.

7. These recommendations are made on the basis of:

   - The detailed discussions that have taken place at Directors' Board, including the regular review of the high risk proposals;

   - 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 2017/18 and the foreseeable future being used <u>only</u> where planned and if risks materialise <u>and</u> 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 having a clear plan on how to meet the financial challenges of 2018/19 and the medium term;

- 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;

- 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; and

- The lack of contingency funds to meet demographic and economic pressures, especially at this time of significant change.

9. In relation to the Capital Programme 2017/18 (including commitments from previous years and new projects):

- 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

- Capacity to deliver the schemes in both time and budget.

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; and

- Developing the future and aspirational schemes to a viable business case stage.

Assurance

Given all these factors I consider the estimates for 2017/18 to be sufficiently robust for approval by the Council but they are challenging and dependent on the Council Tax being increased as proposed and strong financial management from officers and Members. I advise the Council that both the General Fund and HRA Reserves are currently at the minimum level required to ensure financial stability over the medium term though both budgets, if agreed as proposed, put the plans in place to achieve the optimum level and recommend that the Reserves Strategy be maintained in 2017/18 and the medium term.