

**SECTION 151 OFFICER'S STATEMENT ON THE ADEQUACY OF BALANCES  
AND THE ROBUSTNESS OF THE BUDGET – BUDGET YEAR 2018/19**

**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 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 2018/19 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) 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;

- b) Increased housing waste disposal costs and lower recycling rates are creating additional pressures and new contracts, plant and recycling campaigns will need to target greater impacts in these areas;
- c) Whilst the MTFs is now balanced for the next four years, there are efficiencies of £2.6m identified for 2018/19 and a further £3.1m for 2019/20 to 2020/21 that have to be delivered through the CSR transformation board;
- d) As the Council continues moving towards a more commercial approach, income targets will have increasing parity with the market. 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 have been implemented;
- e) There are targeted reductions in additional employee costs through areas such as agency, overtime and consultancy. Confidence is taken from the increased management and targeted approach in these areas, including delivering similar savings throughout 2017/18, but a high level of monitoring will be required;
- f) The impact of welfare reform and specifically Universal Credit continues to evolve and may increase demands on services and provide a challenge to the collection of council tax and rents;
- g) There have been a number of contract failures within Adult Social Care by third party providers and the market remains fragile. Whilst the impact on those receiving care could be significant if not managed properly, action has been taken to stabilise domiciliary care services through a new procurement exercise. Work continues within the service to minimise this risk but a financial impact is likely should the risk materialise;
- h) The level of Public Health Grant (PHG) continues to reduce whilst the expectation of delivery remains the same. There is a reduction of £0.291m between 2017/18 and 2018/19 and further reductions are planned over the remaining life of this parliament. The recent procurement exercises have mitigated these reductions to a degree;
- i) Financing of schools is a national pressure and Thurrock schools are no exception. Increased demand for the High Needs element of the Dedicated Schools Grant has led to overspends in this area that are in the process of being mitigated. Whilst this does not impact on the General Fund, it does put additional pressure on the borough's schools and could impact indirectly on the council;
- j) 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 have been put at risk through not generating additional income; and
- k) By following an Investment Strategy the Council becomes more open to interest rate fluctuations with higher rates reducing the net benefit of an

investment. Officers manage these cash flows on a daily basis and will take action as necessary.

2. A key process risk in making the above statement is the availability and understanding of timely and relevant financial information to the services. This is three-fold:
  - a) The reporting ability of the Council's financial system is being improved to further meet service needs. Significant progress is being made through the new reporting software in 2018/19 and this will link to the upgrade of Oracle in 2019/20;
  - 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 upgrade considerations; and
  - c) The services' ability to interpret and forecast from a range of information and sources. The reporting upgrade and related training will go some way to mitigating this.
3. Demands on the senior leadership group and services to deliver core services, support the growth and infrastructure challenges throughout the borough, including the proposed Lower Thames Crossing, and implement the transformational change required means that capacity is a risk to delivery. The Chief Executive has recently restructured elements of the senior leadership team to create increased capacity for the Place functions and there has been greater investment in the Transformation team. Directorate Management Teams and Directors' Board will have to manage this risk and redirect resource where necessary.
4. My statement for both 2018/19 and the medium term is also conditional upon:
  - Members supporting the need for the Council to become more commercial, including the need to increase the Council's income base, in both the General Fund and the Housing Revenue Account, through core business, a balanced investment approach and council tax increases to make for a sustainable base;
  - The agreement of a Medium Term Financial Strategy to support the financial sustainability of the Council over the next 3-5 years;
  - 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 has shown a commitment to increase reserves to a level which provides adequate cover for most identified risks during the planning period. 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 Assistant Directors managing within their cash limits for 2018/19 (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 £9.0m – an increase of £1.0m - that is maintained throughout the period between 2018/19 to 2021/22;
  - An optimal level of General Fund reserves of £11.0m over the period 2018/19 to 2021/22 to cover the absolute minimum level of reserves, in-year risks, cash flow needs and unforeseen circumstances;
  - A maximum recommended level of reserves of £12.0m for the period 2018/19 to 2021/22 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 four years.
6. The estimated level of unallocated General Fund reserves at 31 March 2018, based on current projections is £11.0m, depending on final spending. Therefore:
- The absolute minimum level of General Fund reserves of £9.0m is currently being achieved;

- The optimal level of General Fund reserves of £11.0m is currently being achieved; and
  - The recommended maximum level of General Fund reserves of £12.0m is unlikely to be reached during 2018/19.
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 2018/19 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 having a clear plan on how to meet the financial challenges over the medium term, especially in the replacement of existing investments;
  - A failure to raise the council tax base to ensure sustainability;
  - Unforeseen impacts arising from the implementation 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 and the financing of investments;
  - The failure of major regeneration schemes throughout the borough where the council has an interest;
  - The failure of Thurrock Regeneration 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 2018/19 (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;
  - The increased support and focus on the work of Thurrock Regeneration Ltd will bring both capacity challenges and a different risk profile from most other schemes; and
  - Developing the future and aspirational schemes to a viable business case stage.

### **Assurance**

Given all these factors, especially given the delivery of similar savings during 2017/18 and the forecast surpluses, I consider the estimates for 2018/19 to be sufficiently robust for approval by the Council but there are challenges and is 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 above the minimum level required, indeed at or progressing towards optimum levels, to ensure financial stability over the medium term.