

**SECTION 151 OFFICER'S STATEMENT ON ADEQUACY OF BALANCES AND  
THE ROBUSTNESS OF THE BUDGET – BUDGET YEAR 2016/17**

**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 2016/17, 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 2016/17 and consider them to be challenging but achievable. There are three specific areas within the General Fund budget that cause concern and will require strong officer and political management to achieve them:
  - a) During the 2015/16 budget setting meetings, service related savings of £3.3m were agreed for the 2016/17 financial year and some of these are still in the process of being delivered;

- b) The level of Public Health Grant (PHG) for 2016/17 was only published on 11 February 2016 and resulted in a reduction of £924k over the original 2015/16 budget. As this spend is based on 12 month contracts, it is not yet certain whether this reduction can be contained without a call on the General Fund; and
  - c) Over the course of the last year, Cabinet have received a number of reports on the performance against budget for 2015/16. Pressures have been identified and reported on the following:
    - (i) Environmental Services: not implementing the decision to charge for green bins, the closure of the Sita recycling facility and the decision to finance additional cleaning rounds during the Summer; and
    - (ii) Children's Social Care: pressures have been reported in the cost of placements, an increased number of social workers due to caseloads and Unaccompanied Asylum Seekers.
2. The gross pressures from the above have been reported at £6m and, since that date, further pressures in Children's Services have been identified and are in the process of being costed.
  3. Whilst provision has been made within these budget proposals for considerable growth in these areas, there remains the challenge of reducing and managing these increasing pressures to remain within the agreed budget envelope.
  4. Confidence in achieving this comes from having consistently managed in-year pressures since 2010/11 and coming within budget for each of those years. However, as budgets and discretionary spend reduces, the ability to make in-year reductions to other areas of the budget reduces also.
  5. With regards to the HRA, the 1% rent reduction has reduced resources in 2016/17 by £1m and is forecast to have lost a total resource of £14.6m over the life of the MTFs. Whilst a significant reduction to the Council's housing aspirations for both current and new stock, these reductions can be managed through deferring and slowing down current programmes although the impact on residents is obviously considerable.
  6. The key process risks in making the above statement is the availability of timely and relevant financial information to the services. This is two-fold:
    - a) The reporting ability of the Council's financial system, Oracle, is still inadequate and requires considerable manual intervention before being of use to service managers; and
    - b) A number of the service specific systems, notably housing and Social Care, do not interface with the Oracle system in a way that allows the identification of future commitments.

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

7. My statement is also conditional upon:

- Council acknowledging the need to increase the Council's income base, specifically through Council Tax increases;
- A budget for officers to plan for and implement change to meet the financial challenges over the medium term;
- The agreement of a Medium Term Financial Strategy and Plan for 2017/18 to 2019/20 that will require significant reductions in net revenue expenditure to deliver a balanced budget for the financial years 2017/18 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 2016/17 (and future years covered by the Medium Term Financial Strategy and Plan);
- Taking every opportunity to meet the Reserves Strategy as a first call on windfall under spends or receipts;
- Not considering further calls on reserves other than for those risks that have been identified, those that could not have been reasonably foreseen and that cannot be dealt with through management or policy actions. The exception to this is where the Reserves Strategy (reviewed annually) is met. Even in those circumstances, it is not prudent to finance ongoing spending from one-off reserves. Any excess reserves should be targeted towards one-off 'invest to save', supporting the transition that is required for future service delivery and contributions to fund the Council's capital programme;
- Where there is a draw-down on reserves, which causes the approved Reserves Strategy to be off target, that this is paid back within a maximum of three years; and
- That the Council has arrangements and resources in place to consider value for money in preparation for future years' budgets.

8. 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 £7.0m that is maintained throughout the period between 2016/17 to 2019/20;
  - An optimal level of reserves of £8.0m over the period 2016/17 to 2019/20 to cover the absolute minimum level of reserves, in-year risks, cash flow needs and unforeseen circumstances;
  - A maximum recommended level of reserves of £10.0m for the period 2016/17 to 2019/20 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 maintained at £1.7m.
9. The estimated level of unallocated General Fund reserves at 31 March 2016, based on current projections is £8.0m, depending on final spending. Therefore:
- The absolute minimum level of reserves of £7.0m is currently being achieved.
  - The optimal level of reserves of £8.0m will be maintained by the end of the current year.
  - The recommended maximum level of reserves of £10.0m will not be reached during 2016/17.
10. 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 2016/17 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.
11. 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 2017/18 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;
- Any shortfall against the expected value of assets identified for disposal; and
- The lack of contingency funds to meet demographic and economic pressures, especially at this time of significant change.

12. In relation to the General Fund and HRA Capital Programme 2016/17 (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
- The strategic schemes identified in the Capital Programme will be closely monitored in-year.

13. 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
- It is recognised that there are a number of schemes in discussion, especially in terms of town centre regeneration, health centres and theatre provision, that are not yet included within the agreed programme but will require significant resource in the medium term.

### **Assurance**

Given all these factors I consider the estimates for 2016/17 to be sufficiently robust for approval by the Council but they are challenging and dependent on the Council Tax being increased by 3.99% and strong financial management from officers and Members. I advise the Council that both the General Fund and HRA Reserves are

currently at the optimum level required to ensure financial stability over the medium term and recommend that the Reserves Strategy be maintained in 2016/17 and the medium term.