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**Report of Don McLure, Corporate Director Resources**

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**Purpose of the Statement**

- 1 To provide Members with information on the robustness of the estimates and the adequacy of reserves in the Cabinet's Budget for 2016/17, so that all Members have professional authoritative advice available when you make your final budget decisions at this meeting of the County Council on 24 February 2016.

**Background**

- 2 Local Authorities decide every year how much they are going to raise from Council Tax. Decisions are based on a budget that sets out estimates of what the Council plans to spend on each of its services in the forthcoming year.
- 3 The decision on the level of the Council Tax is taken before the financial year begins and it cannot be changed during the year, so allowance for risks and uncertainties that might increase service expenditure above that planned, must be made by:
  - (i) making prudent allowance in the estimates for each of the services;
  - (ii) ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.
- 4 Section 25 of the Local Government Act 2003 requires that an Authority's Chief Financial Officer reports to Full Council when it is considering its Budget and setting its Council Tax for the forthcoming financial year. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that Members will have professional, authoritative advice available to them when they make their decisions.
- 5 Section 25 also requires Members to have regard to this report in making their decisions.

**Robustness of Estimates**

- 6 Service Groupings have been building detailed budgets throughout the year. Transfers between Service Groupings have been made to reflect more accurately the Service structures and responsibilities. In addition, service pressures have been identified. Reports have been presented to Cabinet and

the Overview and Scrutiny Management Board and Corporate Issues Overview and Scrutiny Committee.

- 7 The 2016/17 budget proposals are based on extensive analysis and assurances from Corporate Directors and their finance support staff. Cabinet Members have worked with their respective Directors throughout the process. Overview and Scrutiny Members have been able to question Service Groupings on current budgets, performance and proposals. The public, Trade Unions and Business Ratepayers and their representatives have also been consulted on the proposals.
- 8 Extensive work has also been carried out to produce an indicative balanced Medium Term Financial Plan (MTFP). A range of broad assumptions have been utilised and robustly challenged as part of the MTFP (6) process. More work is needed for years 2017/18 to 2019/20 to identify total additional savings of £67.4m, but in my professional view we have taken all reasonable and practical steps to identify and make provision for the County Council's commitments in 2016/17 in order to achieve a balanced budget.

### **Adequacy of Reserves**

- 9 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Local Authority Accounting Panel (LAAP) has a guidance note on Local Authority Reserves and Balances (LAAP Bulletin 77) to assist local authorities in this process. This guidance is not statutory, but compliance is recommended in CIPFA's Statement on the Role of the Finance Director in Local Government. It is best practice to follow this guidance.
- 10 The guidance however states that no case has yet been made to set a statutory minimum level of reserves, either as an absolute amount or a percentage of the council's budget. Each Local Authority should take advice from its Chief Financial Officer and base its judgement on local circumstances.
- 11 Reserves should be held for three main purposes:
  - (i) A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
  - (ii) A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
  - (iii) A means of building up funds known as 'earmarked reserves', to meet known or predicted funding requirements.
- 12 The CIPFA Guidance highlights a range of factors in addition to cash flow requirements that Councils should consider including:
  - (i) The treatment of inflation
  - (ii) The treatment of demand led pressures

- (iii) Efficiency savings
  - (iv) Partnerships and
  - (v) The general financial climate, including the impact on investment income.
- 13 The guidance also refers to reserves being deployed to fund recurring expenditure and indicates that this is not a long-term option. If Members choose to use reserves as recommended within the 2016/17 Budget, appropriate action will need to be factored into the MTFP (7) to ensure that this is addressed over time.
- 14 The risk assessment process has identified a number of key risks which could impact on the Council's resources. The Council continues to face significant Government funding reductions and ongoing budget pressures. In addition there continue to be risks associated with the Business Rate Retention Scheme and the Local Council Tax Reduction Scheme.
- 15 With these risks in mind, it is recommended that the County Council adopts a policy for reserves as follows:
- (i) Set aside sufficient sums in earmarked reserves as it considers prudent. The Corporate Director Resources be authorised to establish such reserves as are required in line with the Council's Strategy, to review them for both adequacy and purpose on a regular basis reporting appropriately to the Cabinet Portfolio Member for Finance and to Cabinet.
  - (ii) Aim to maintain General Reserves in the medium term of between 5% and 7.5% of the Net Budget Requirement which in cash terms is up to around £30m.
- 16 Earmarked reserves have been established to provide resources for specific purposes. Of these reserves, the use of schools balances is outside of the control of the Council.
- 17 In my professional view, if the Council were to accept the Cabinet's recommended Council Tax increase of 1.99% plus 2% for Adult Social Care Services, funding for unavoidable service pressures and investments, proposals for savings and for capital investment then the level of risks identified in the budget process, alongside the Authority's financial management arrangements suggest that the level of reserves is adequate.

### **Recommendation**

- 18 That Members have regard to this statement when approving the budget and the level of Council Tax for 2016/17.

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**Contact: Don McLure**

**Tel: 03000 261943**

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## **Appendix 1: Implications**

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**Finance** – This report sets out the view of the Council’s Section 151 Officer (as identified in the Local Government Act 1972) in relation to the robustness of estimates and the adequacy of reserves determined in the 2016/17 budget build.

**Staffing** – None.

**Risk** – All relevant risks have been considered by the Section 151 Officer in coming to this view.

**Equality and Diversity / Public Sector Equality Duty** – None.

**Accommodation** – None.

**Crime and Disorder** - None.

**Human Rights** – None.

**Consultation** – None.

**Procurement** – None.

**Disability Discrimination Act** – None.

**Legal Implications** – Section 25 of the 2003 Local Government Act requires the Authority’s Chief Financial Officer to provide assurance upon the robustness of estimates and the adequacy of reserves.