

## **REVENUE BUDGET RISKS AND ROBUSTNESS**

In pursuance of Section 25 of the Local Government Act 2003 the Council's Head of Finance (Chief Finance Officer) is required to make a statement on the robustness of estimates and the adequacy of Reserves in relation to the Council's budget calculations.

The relevant issues in relation to this are as follows:

### **Estimates**

1. The formulation of the budget has allowed for best estimates of the commitments necessary to maintain service levels and these have been reviewed and refined throughout the process. Service Areas have engaged in a robust challenge of, and determination of, the 2020/2021 budgets being tabled for their respective service areas. This has enabled a greater understanding of budget issues faced, thus improving the prospects of budget compliance.
2. The determination of the 2020/2021 revenue budget has been informed by established and effective budget monitoring arrangements that have created a sound foundation for the management of the Council's financial resources. This provides the basis for the monitoring of compliance with the efficiency assumptions built into the revenue budget and has also enabled budget pressures to be identified, managed and appraised as part of the 2020/2021 budget setting process.
3. The budget has been prepared in accordance with the Council's Medium Term Financial Strategy and the following financial objectives, as part of the Revenue Budget Strategy, have helped guide the budget proposals:
  - (a) A sustainable medium term financial plan that allows the achievement of the Council's key objectives;
  - (b) Realistic levels of year on year spending which are supportable via annual income streams and do not require the use of general reserves to support recurring expenditure;
  - (c) General reserves should be maintained at all times at or above the agreed minimum level;
  - (d) Constraining annual Council Tax increases to an acceptable level;
  - (e) The pursuance of "invest to save" opportunities with a financial return on the investment in transforming activities over an acceptable payback period;
  - (f) A commitment to explore income generation opportunities and to maximise income from fees and charges;
  - (g) A commitment to maximising efficiency savings.

4. As part of the overall budget strategy, the Council has sought to protect front line service budgets. This has included a review of service delivery options and emphasis on reducing corporate budgets and the establishment of an ongoing modernisation programme agenda as part of a 4 year plan to transform service quality, improve organisational productivity and improve customer services. This Transformation Programme is aimed at delivering Council services more efficiently and in a more convenient way for the public.
5. The formulation of the budget has allowed for best estimates of inflation, and applied at a level to reflect efficiency requirements. In this regard, general inflation has been provided at 2% on certain budgets (such as contract costs) and, in relation to staff costs, an allowance has been made for incremental shift. An inflationary allowance of 2% has been made for transport costs, 2% for non-domestic rates and up to 1.7% for energy costs.
6. It is important to acknowledge that there are risks inherent in the budget estimates and these include specific areas set out below, with an attempt to quantify them where possible:
  - (a) Pay inflation for local government employees in 2020/2021 has been constrained in line with Government expectations, and an allowance of 2% has been made. Should the final employers settlement be in excess of this, and the Council reviews its local scheme, an additional cost would be incurred (every 0.5% on pay would equate to around £130,000 on staffing costs);
  - (b) Inflation on specific contracts has been allowed at a rate of 2% and, in some cases, this will require robust contract negotiations. The timely review of business requirements in relation to contracted services should, however, reduce the risk of an increase in some contract values in excess of the budgetary allocation made;
  - (c) Interest is allowed for as both an income item (on daily balances for example) and as an expense (on borrowing for capital for example). A change in the base rate will, therefore, have a potential impact on income from investments and on any borrowing not at fixed rates or not yet undertaken;
  - (d) Given the current economic outlook there is a risk that the forecast level of income budgeted in 2020/2021 in some areas (e.g. planning income, land charge fees) may not be achieved. The determined budget has, however, been prepared having regard to income trends which should reduce the risk involved. There has also been additional work within the Planning Service to ensure that the level of fees and Charges levied represent full cost recovery. With any downturn in the economy there is a possibility that benefit caseload will increase and though an increase in numbers receiving Universal Credit would see cases transfer to the Department of Work and Pensions Council income could still be impacted and debts become more difficult to collect.

- (e) In terms of benefits, the increased stringency of the subsidy claim audit increases the risk of subsidy being withheld and this may require additional resources to be deployed on quality assurance.
  - (f) There are a number of budget reductions proposed within the budget as part of the Transformation programme over the next four years, every attempt is being made to prioritise services, and to streamline processes to avoid an adverse impact on service delivery, there is a risk that there will be as yet unpredicted impacts on services;
  - (g) It is possible that some of the proposed reductions may not be achievable, or may not be achievable in the time frame anticipated, potentially leading to the need for other reductions, budget overspends, or the use of contingency funding. These areas will be kept under review as part of the established budget monitoring arrangements;
  - (h) It is proposed to maintain a Contingency of £250,000 as part of its risk mitigation strategy reflecting (i) the challenges faced by local government at this time and (ii) general appreciation of budget risks.
7. In determining the 2020/2021 revenue estimates, regard has been given to its ongoing sustainability and the observance of a number of overarching principles. This has involved:
- (a) A overall commitment to endeavour to increase annual income sources and reduce annual expenditure without materially reducing front line services provided by the Council;
  - (b) A preparedness to consult service users and providers to ensure that services can be remodelled and tailored within acceptable tolerances;
  - (c) A comprehensive review of the base budget to provide greater assurance for the future. The review has been based upon regular established monitoring processes, and has incorporated a review of the alignment between the original budget and service activity;
  - (d) The identification, as a result of (c) above, of service pressures and endeavours to make adequate provision in the 2020/2021 base budget.
  - (e) The provision of funding to support Business Plan priorities;
  - (f) Continued review and tight control of the capital programme given the impact of borrowing costs on the revenue budget.
8. In terms of the capital programme, regular assessments need to be made to ensure that schemes and costs meet the test as to what can be classified as Capital Expenditure. In addition, the long term affordability of the capital programme has been reviewed and this has resulted in proposals for a revised and reprofiled programme, including priority for invest to save proposals and prudent allocation of grant and other income to reduce borrowing costs.

9. In submitting the 2020/2021 revenue budget for approval, regard has also been given to issues of affordability (having regard to Council Tax implications), prudence (having regard to Council policies/strategies) and overall sustainability (having regard to forecast annual expenditure and income).

## **Reserves**

1. The Council's Revenue Reserves and Provisions are held to fund specific initiatives or held to cover unforeseen events within the Council's prudent financial management arrangements;
2. The Council, as at 1 April 2019, held a Bad Debt Provision to a value of £2.9 million and Revenue Reserves of £41.2 million of which £28.2 million was earmarked. The balance of £13.0 million represents the General Reserve and working balance. A review of Reserves has been carried out as part of the budget process and a number have been re-aligned or combined. The overall level is significant and accords with the optimum level required calculated on a risk basis. A process exists to regularly refresh the risk assessed level of General Fund Reserve having regard to the needs and risks of the Council on an ongoing basis.
3. The Council's MTFs requires that the Revenue Reserves and Provisions are reviewed on an annual basis. A detailed review of each Reserve and Provision has, therefore, been undertaken to determine whether they are still needed for the purposes outlined and they are at the correct level to meet this requirement;
4. Consideration has also been given to future service needs and risks as part of the 2020/2021 revenue budget determination process and this has identified a number of Reserves that need to be released, replenished or combined. This includes a number of existing Reserves where the balances remaining at 31 March 2020 can be released and transferred to the General Reserve.
5. In reviewing Reserves, due regard has been given to professional guidance. Since 1992 the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Authority Accounting Panel (LAAP) has issued LAAP Bulletins to local authority practitioners. These Bulletins provide guidance on topical issues and accounting developments and when appropriate provide clarification on the detailed accounting requirements.
6. Based on an assessment of the risks facing the Council, including transformation, demographic and transition factors and past experience of budget pressures, the schedule of Reserves that are proposed to be retained is considered appropriate, but should be subject to review to ensure that excessive balances are not maintained. Some of these reserves can only be used for specific purposes, but others could be called upon if necessary and so provide additional flexibility.

7. In view of the unsettled economic background, and significant changes that will have an impact upon medium term finances (such as the localisation of business rates), it is recognised that there is an ongoing need to review and establish a level of reserves which allows the Council to withstand the financial impacts of future developments, unanticipated or otherwise, at a local or national level.

## **Conclusions**

1. The process for the formulation of budgets provides a reasonable assurance of their robustness.
2. The level of the Council's total Reserves is sufficient to provide a working balance to cushion the impact of unexpected events or uneven cash flows (general reserves) and funds to meet known or anticipated liabilities (earmarked reserves).
3. It is recognised that the financial pressures facing the Council are not going to ease over the medium term. Initial indications are that the downward funding trajectory of the Deficit Reduction Plan will continue beyond the current spending review period requiring the Council to put in place sustainable budget proposals in order to set a balanced budget.
4. In addition, there are going to be a number of changes in how local government is funded over the medium term, in particular the Business Rates Retention Scheme and the Fair Funding Review. This reshaped funding landscape has the effect of increasing financial uncertainty and risk and the Council's financial resilience will depend upon appropriate mitigating actions ranging from effective financial control, a clear financial strategy and strong financial governance. The ongoing assessment of the Council's financial resilience, including the sufficiency of Reserves, will form a major element of the Council's response to this new financial landscape.