

**Adequacy of Reserves and robustness of budget estimates  
Report by the Assistant Director (Resources and Performance)  
(S151 Officer)**

**1. Introduction**

Section 25 of the Local Government Act 2003 requires the Section 151 Officer/Chief Financial Officer (Assistant Director (Resources and Performance)) to formally report to Council as part of the tax setting report her view of the robustness of estimates and the adequacy of reserves. The Council is required to take these views into account when setting the Council Tax at its meeting on 20 February 2018.

**2 Financial Controls**

- 2.1 St Edmundsbury Borough Council operates a comprehensive and effective range of financial management policies. These are contained in the Financial Procedure Rules, which form part of the Council's Constitution. This Constitution is available on the council's internet and intranet.
- 2.2 The Council conducts an annual review of the effectiveness of the system of internal control and reports on this in the Annual Governance Statement.
- 2.3 The Council continues to implement effective risk management policies, identifying corporate, operational and budget risks and mitigating strategies. Capital projects are subject to a comprehensive work plan which includes detailed risk management strategies. The Council operates a bi-monthly projects review at Leadership Team reporting by exception on corporate projects (placed based and transformational programmes meet monthly), which include capital and revenue projects. We introduced programme management during 2017 to further sophisticate the management of the interdependencies between the various projects.
- 2.4 The internal and external audit functions play a key role in ensuring that the Council's financial controls and governance arrangements are operating satisfactorily.
- 2.5 This is backed up by the review processes of Cabinet, with the Performance and Audit Scrutiny Committee undertaking the role of the Council's Audit Committee.

**3 Adequacy of Reserves**

Unallocated general fund reserve

- 3.1 This statement focuses upon the unallocated general fund reserve. The minimum prudent level of reserves that the Council should maintain is a matter of judgement and cannot be judged merely against the current risks facing the Council as these can and will change over time.

3.2 The consequences of not keeping a prudent minimum level of reserves can be serious. In the event of a major problem or a series of events, the Council would run a serious risk of a deficit or of being forced to cut spending during the year in a damaging and arbitrary way.

3.3 CIPFA (Chartered Institute of Public Finance and Accountancy) have issued a notification from the LAAP (Local Authority Accounting Panel) stating that there should be no imposed limit on level or nature of balances required to be held by an individual Council (except under section 26 where this has been imposed by ministers).

3.4 When setting the minimum level of reserves, the Section 151 Officer has taken into account strategic, operational and financial risks when recommending the minimum level of unallocated General Fund reserves. These include:

- Economy measures and service reductions always contain some degree of uncertainty as to whether their full effects will be achieved;
- The effect of the macro-economy on St Edmundsbury Borough Council, and subsequent loss of income from Council Tax, Business Rates and from fees and charges;
- The delivery of all savings, projects and income targets;
- The new risks placed at a local level under the new business rates retention scheme i.e. appeals;
- The addition of greater income targets linked to 'behaving more commercially' and the selling of council services;
- Unforeseeable events such as major inclement weather (floods etc) which may require urgent, material spending to be incurred;
- Risks in relation to litigation;
- Risks of grants being introduced or removed mid year, requiring authority contributions;
- The need to retain a general contingency to provide for unforeseen circumstances; and
- Other risks detailed in the Scenario Planning and Sensitivity Analysis provided at Attachment D, Appendix 5.

**As a consequence, it is recommended that the general fund reserve continues at a minimum of £3m.**

3.5 If an event occurs that is so serious it depletes the Council reserves to below the limit of £3m, then the Council will take appropriate measures to raise the general fund reserve to the desired level as soon as possible without undermining service provision.

### Other Reserves

3.6 The Council has a variety of other reserves which are earmarked for specific purposes. The significant items to be drawn out as part of the 2018-21 budget setting process are:

- Reserves expected to be utilised/committed to support the strategic objectives and medium term financial strategy (MTFS) of the Council:
  - Delivering the Strategic Priorities and MTFS Reserve
  - Investing in our Growth Agenda Reserve

- Business Rates Pilot: Place-based Reserve – to hold the benefit of the Suffolk 100% business rates retention pilot in 2018/19. To be utilised against projects as agreed by the West Suffolk Leaders (County/District/Borough).
- Housing Benefits Equalisation Reserve – available to assist with significant impacts of Housing Benefit subsidy rates/overpayment income fluctuations
- Business Rates Equalisation Reserve – available to assist with significant impacts of the Business Rates Retention scheme and appeals
- Interest Equalisation Reserve – available to assist with significant impacts of interest rate fluctuations
- Capital Financing Reserve – available to assist with significant impacts of borrowing cost fluctuations
- Invest to Save Reserve - to be utilised/committed to support the delivery of saving and efficiency requirements of the Council.
- Asset Management Reserve - utilised to fund the council's Asset Management Plan.
- Vehicle, Plant and Equipment Reserve - utilised to fund the councils' replacement plan for these assets.

With reference to the Investment Framework all Business Cases will be assessed on the basis of borrowing as capital receipts are reducing in the medium term. Assessment of reserves balances will also be considered as part of any business case.

#### **4 Robustness of Estimates**

##### **4.1 The treatment of inflation, interest and borrowing rates**

A final pay award offer was made by employers on 5 December 2017 covering the period from 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2020 (amounting to a 2% a year increase with additional "bottom loading" for staff at the lower end of the pay scale) and this has been included in the estimates for 2018/19. Non pay related budgets have not been inflated unless there is a contractually committed rate of inflation where services can demonstrate a requirement to do so to maintain service delivery levels. Increases for fees and charges have been set in line with inflation where appropriate.

The average rate of return on Council investments for 2018/19 has been assumed at 0.7%. Borrowing rates have been assumed in line with business case assumptions.

##### **4.2 Budget and Financial management**

St Edmundsbury has a good record of budget and financial management and is expecting a balanced position across the MTFS from April 2018 to March 2021. All relevant reports to Cabinet and Committee have their financial effects

identified and the Leadership Team keeps any emerging budget pressures under review during the year. Monthly reports are received by the Leadership Team and quarterly reports to the Performance and Audit Scrutiny Committee detail both budgetary and performance indicators.

The Council has a number of demand led budgets and historically it has been able to manage changes in demand to ensure a sound financial standing at the end of the financial year.

### 4.3 Adequacy of insurance and risk management

Strategic risk management is embedded throughout the Council to ensure that all risks are identified, mitigated and managed appropriately. The Council's insurance arrangements are in the form of external insurance premiums and internal funds to self insure some items.

Projects will be subject to Business Case challenge on financial and risk matters and, to reflect their importance in the achievement of the balanced MTFS, now have a dedicated Finance Business Partner.

Income assumptions will be continually subject to review through Project monitoring and regular finance reviews and reporting.

## 5 Risk Assessment

A risk assessment is included at Attachment D, Appendix 5 as part of the Scenario and Sensitivity Analysis. All areas will be monitored by the Chief Financial Officer but they are the culmination of individual managers' responsibilities and combine to establish overall corporate responsibility.

## 6 Conclusion

- (1) Overall, the estimates are robust, taking into account known risks and mitigating strategies and the reserves are adequate for the 2018/19 budget plans.**
- (2) Cabinet and Council are asked to have regard to this report when making their decisions on the 2018/19 budget.**

Rachael Mann  
Assistant Director (Resources and Performance)  
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