

Adequacy of reserves and robustness of budget estimates report by the Assistant Director (Resources and Performance) (Section 151 Officer)

1. Introduction

- 1.1 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 23 February 2021.

2. Financial controls

- 2.1 West Suffolk 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 our project management framework ,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 (transformational programmes meet monthly), which include capital and revenue 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. The Councils general fund balance played a significant role in managing the in-year (2020 to 2021) financial impact of the COVID-19 pandemic, enabling the Council to focus its efforts on mobilising and supporting the response phase to our communities.
- 3.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued a notification from the 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:
- Specific risks such as the continued impact of COVID-19 pandemic, taking into account the financial provisions already set out in the general fund budget
 - 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 West Suffolk 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 50 per cent business rates retention scheme, such as 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 (for example floods) 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
 - other earmarked reserves, specific to managing the financial planning risks associated with the West Suffolk medium term plans, such as the business rates equalisation reserve

- other risks detailed in the scenario planning and sensitivity analysis provided at Attachment D, Appendix 5.

3.5 As a consequence, it is recommended that the general fund reserve is set at a minimum of £5 million.

3.6 If an event occurs that is so serious, as with COVID, that it depletes the council reserves to below the limit of £5 million, then the council will take appropriate measures to raise the general fund reserve to the desired level as soon as possible, as it has done in the 2021 to 2022 budget, without undermining service provision.

Other reserves

3.7 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 2021 to 2025 budget setting process are:

- Reserves expected to be utilised/committed to support the strategic objectives and medium-term financial strategy (MTFS) of the council:
 - 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 to 2019. To be utilised against projects as agreed by the West Suffolk Leaders (County/Districts).
- Housing benefits equalisation reserve – available to assist with significant impacts of housing benefit subsidy rates/overpayment income fluctuations.
- Capital project financing and interest equalisation reserve – available to assist with significant impacts of interest rate and borrowing cost fluctuations.
- Invest to save reserve - to be utilised/committed to support the delivery of saving and efficiency requirements of the council.
- Building repairs reserve – utilised to fund the council's asset management plan.
- Vehicle, plant and equipment reserve - utilised to fund the council's replacement plan for these assets.
- Business rates equalisation reserve – available to cover appeals by businesses under Material Change of Circumstances due to COVID-19.

3.8 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

The treatment of inflation, interest and borrowing rates

- 4.1 The pay award for staff from 1 April 2021 has not yet been agreed, however a 2 per cent increase has been included in the estimates for 2021 to 2022. 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.
- 4.2 The average rate of return on council investments for 2021 to 2022 has been assumed at 0.25 per cent. Borrowing rates have been assumed in line with business case assumptions.

Budget and financial management

- 4.3 West Suffolk has a good record of budget and financial management and is expecting a balanced position for April 2021 to March 2022. 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.
- 4.4 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.

Adequacy of insurance and risk management

- 4.5 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.
- 4.6 Projects will be subject to business case challenge on financial and risk matters and, to reflect their importance in the achievement of the balanced Medium Term Financial Strategy (MTFS).
- 4.7 Income assumptions will be continually subject to review through project monitoring and regular finance reviews and reporting.

5. Risk assessment

- 5.1 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 Assistant Director (Resources and Performance), but they are the culmination of individual managers' responsibilities and combine to establish overall corporate responsibility.
- 5.2 A significant risk to the Council that, if crystallises, could significantly impact the Council's reserves and financial standing is if there is a national failure to mobilise and roll out an effective immunisation programme to eradicate the spread and impact of COVID-19 and reduced financial support for the continuing local implications of a lockdown or tiering system due to the pandemic. This risk in particular will be monitored carefully over the coming months, however is currently deemed low risk given the progress to date on the immunisation programme.

6. Conclusion

- 6.1 **Overall, the estimates are robust, taking into account known risks and mitigating strategies and the reserves are adequate for the 2021 to 2022 budget plans.**
- 6.2 **Cabinet and Council are asked to have regard to this report when making their decisions on the 2021 to 2022 budget.**

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