

**READING BOROUGH COUNCIL**  
**REPORT BY DIRECTOR OF RESOURCES**

<b>TO:</b>	<b>COUNCIL</b>		
<b>DATE:</b>	<b>26 FEBRUARY 2019</b>	<b>AGENDA ITEM</b>	
<b>TITLE:</b>	<b>CHIEF FINANCE OFFICER'S REPORT ON THE ROBUSTNESS OF THE COUNCIL'S 2019/20 BUDGET</b>		
<b>SERVICE:</b>	<b>DIRECTORATE OF RESOURCES</b>	<b>LEAD OFFICER: JACQUELINE YATES</b>	
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### **1. PURPOSE OF THE REPORT AND EXECUTIVE SUMMARY**

- 1.1 Under Section 25 of the Local Government Act 2003 there is a requirement for the Council's Chief Financial Officer (Director of Resources) to report to Council on:
- a. The robustness of the estimates made for the purposes of the calculations of the budget; and
  - b. The adequacy of the proposed level of financial reserves.

Council in considering its Budget should have regard to this advice.

### **2. RECOMMENDED ACTION**

- 2.1 That Council notes this report in setting its budget for 2019/20 and indicative budgets for the subsequent two financial years 2020/21 and 2021/22.

**APPENDICIES:** Appendix 1 Statement of Reserves and Balances

### **3. POLICY CONTEXT**

- 3.1 As outlined in the Medium Term Financial Strategy and budget report which appears elsewhere on the Agenda, the Council faces a number of significant uncertainties going forward in relation to the outcomes of the Fair Funding Review, Business Rates retention post 2019/20 and Brexit. Their impact on income streams and service costs could be significant.
- 3.2 As a Unitary authority the Council provides the broadest possible range of services and hence has an inherently higher level of risk than many other authorities simply due to the complexity and nature of the services it provides. Additionally, the Council has taken policy decisions to establish a number of alternate delivery models including wholly owned companies and PFI arrangements which whilst having advantages also have the potential to increase the Council's risk profile.

3.3 Whilst positive progress is being made towards the completion of the Council's 2016/17 and 2017/18 accounts the audits have not yet concluded. It is not anticipated that this work will have an impact on either the 2019/20 budget or the MTFS.

#### 4. ROBUSTNESS OF THE ESTIMATES

##### Approach to and Assumptions within the 2019/20 Budget and Medium Term Financial Strategy

4.1 The Council has taken a prudent approach to developing its Medium Term Financial Strategy (MTFS). All savings and pressures previously identified within the February 2018 MTFS have been reviewed and where appropriate have been amended.

4.2 All aspects of the Council's budget, efficiency savings, additional income, service reductions and pressures have been subject to review, with Service Heads being required to review the plans they put forward in previous years and confirm delivery of the proposals. Budget proposals have subsequently been reviewed by:

- The Finance Team
- Corporate Management Team
- Lead Councillors

4.3 The Council's HRA and Capital Programme have been through similar review processes.

4.4 The assumptions on which the MTFS is based are contained within the main budget report presented elsewhere on the agenda, however, key assumptions include:

- **Council Tax increase**- 2.99% per annum for 2019-20 with 1.99% thereafter. This is below the 2019/20 referendum level of 3%
- **Finance Settlement** - The figures are as per the Governments Final Settlement announcement
- **Pay Assumptions** - 2% per annum
- **Inflation** - Non pay budgets have been increased where necessary in order to maintain service levels by either CPI (assumed at 2%) or as contractually specified
- **Provisions** - There are adequate provisions for bad debts and appeals against business rates valuations

4.5 To deliver the Council's policy priorities and a balanced budget in each year of its MTFS 2019/20 - 2021/22 savings of £30.1m are required over the period (£13.6m to be delivered in partnership with Brighter Futures for Children and £16.5m from retained Council services). To facilitate the delivery of service efficiencies and ongoing revenue savings transformation funding of £6.4m has been provided for within the General Fund Capital Programme funded from the 'flexible use of capital receipts'. In addition, Brighter Futures for Children have secured a further £5m of transformation funding from Government over the two years 2019/20 and 2020/21.

- 4.6 The continued need to deliver a high level of savings poses an inherent risk to the delivery of a balanced budget position as over time they become more complex and difficult to deliver. Consequently it is important there is continued focus on savings delivery to ensure they are delivered as planned. Contingency sums of circa £4m have been allowed for in both 2019/2020 & 2020/21 and £3.5m in 2021/22 to mitigate any potential shortfall or slippage in the delivery of higher risk savings.
- 4.7 The Council has an ambitious Capital Programme over the next three years totalling £463.9m (£366.5m General Fund and £97.4m Housing Revenue Account). The net cost of which (after the application of specific grants and contributions) is predominantly funded from borrowing. The Council's external borrowing is projected to increase to £713million over the period. The associated capital financing costs together with the revenue implications of the specific schemes are provided for within the relevant revenue accounts.
- 4.8 It is imperative that close monitoring of the Capital Programme takes place to ensure projects are delivered to time and budget so that borrowing costs do not increase beyond what is provided for within revenue budgets.
- 4.9 For a second year the Council will have the benefit of being part of a Berkshire Business Rates Pilot. The additional funding arising is one off. Therefore it is essential it is used to increase the Council's financial resilience going forward.

#### **Financial Management**

- 4.10 All reports to members have the associated financial implications identified within the report. Monitoring of the budget throughout the year is undertaken by Financial Services in conjunction with Heads of Service and Cost Centre Managers. During 2018/19 improvements have been made to the revenue monitoring process to improve the quality of reporting and ensure that variations are reported and acted on at an early stage. When budget pressures do emerge it is the responsibility of the service area to contain them in the first instance, failing that they should be managed within the Directorate and ultimately at a corporate level. If pressures remain at year end reserves will reduce and subsequently need to be replenished.
- 4.11 Monthly monitoring reports are considered by the Council's Corporate Management Team and quarterly performance reports are presented to the Council's Policy Committee.
- 4.12 Recognising the significant level of savings required to deliver a balanced budget and MTFs a series of Programme Boards; each chaired by a member of the Corporate Management Team have been set up to manage and track savings delivery.
- 4.13 In recent years the Council has experienced significant overspends in demand led budgets. In 2017/18 these overspends reduced significantly with Adult Social Care (ASC) delivering to budget and Children's services reducing its overspend by half. In the current year the latest outturn forecast is similar, with ASC projecting a small underspend at year end and Children's services a similar level of overspend to 2017/18.

- 4.14 As a result of containing pressures and the delivery of savings which enabled the release of contingency budgets the Council underspent against budget in 2017/18. This meant the Council only had to draw down £1m from reserves rather than the £4.3m budgeted.

### **Insurance and Risk Management**

- 4.15 The Council's Insurance arrangements are a mix of external premiums and internal self insurance funds. An external review of the Council's Insurance Reserve has recently been undertaken; it concluded the reserve was sufficient.
- 4.16 The Council has an internal risk manager and strategic risk management is being embedded across the Council.

## **5. ADEQUACY OF RESERVES AND BALANCES**

- 5.1 The prudent level of reserves a Council should maintain is a matter of judgement. The consequence of not having adequate reserves can be significant. In the event of a serious problem or a series of events, the Council could run the risk of a deficit or be forced to cut expenditure in a damaging or arbitrary way should reserves not be available.

- 5.2 CIPFA (Chartered Institute of Public and Finance and Accountancy) have stated that there should be no imposed limit on the level or nature of balances required be held by an individual Council. However, in light of recent high profile failures and funding concerns being raised by authorities they are about to launch a financial resilience index which uses a basket of 15 indicators to measure individual authorities financial resilience compared to their comparator group. Key indicators include:

- The level of reserves held as a percentage of net revenue expenditure
- The average change in reserves over the last three years
- The reserve "burn rate"
- The cost of adult social care as a percentage of net revenue expenditure
- The average cost of children's social care as a percentage of net revenue expenditure
- OFSTED rating
- Auditors value for money conclusion

It is anticipated that the requirement to formally report on these indicators will be incorporated into a new Financial Management Code.

- 5.3 The Council drew heavily on its reserves in 2016/17 (£12.5m) and as stated in paragraph 3.12 did not have to draw on them as heavily as planned in 2017/18. Going forward the Council faces significant financial uncertainty in terms of Business Rates Retention, the Fair Funding Review and Brexit. In addition, there is an ongoing need to manage the considerable demand pressures on Children's services and Adult Social Care. Consequently, for this authority the Section 151 Officer recommends that the level of working balance for the General Fund should be in the region of £7million or 5% of net revenue expenditure which will bring the authority more into line with the unitary average.
- 5.4 In total the Council's General Fund reserves and balances are forecast to be in the region of £26.6 million at 31st March 2019. A full schedule of reserves and

balances including those which are ring fenced to the Housing Revenue Account and Schools is attached at Appendix 1 together with an explanation as to their intended use.

## **6. CONCLUSIONS**

6.1 The Council has taken a prudent approach to setting its budget and I would conclude that:

- The process for the formulation of General Fund, HRA and Capital budgets provides for a reasonable assurance of their robustness;
- The level of contingencies provided for slippage in, or non-delivery of higher risk savings is prudent;
- The provision of a transformation fund funded from the 'flexible use of capital receipts' facilitates the ongoing delivery of required savings; and
- The level of the Council's total reserves whilst below the average of similar types of authority are increasing and sufficient to provide for:
  - A working balance to cushion the impact of unexpected events or uneven cash flows; and
  - The setting aside of funds to meet known or anticipated liabilities (earmarked reserves).

## **7. LEGAL IMPLICATIONS**

7.1 The Council has a legal requirement to set a balanced budget. In agreeing its' budget Council is required to take into account the report of its S151 Officer as set out in paragraph 1.1 above.

## **8. FINANCIAL IMPLICATIONS**

8.1 These are set out in the body of the report.

## **9. EQUALITIES IMPLICATIONS**

9.1 There are no Equalities Implications arising directly from this report.