

**Robustness of Estimates and Adequacy of Reserves
(Incorporating the Reserves Policy)****Background**

- 1) Since coming into being on 1 April 2009 Central Bedfordshire has made continuing improvements to the corporate budget process. This has enabled a greater insight into trends over time as the amount of robust historical information grows.
- 2) Past experience combined with an assessment of future risks and opportunities provides a sound basis for determining the robustness of estimates and appropriate levels of reserves.

Robustness of Estimates**Overall Approach**

- 3) The 2014/15 Budget setting process formally commenced with the approval of the process and Budget Strategy at the Executive on 13 August 2013. The Strategy assessed the assumptions in the existing Medium Term Financial Plan (MTFP), approved by council in February 2013, in light of the continued adverse economic situation and the Coalition Government's commitment to reduce overall public spending.
- 4) The 2014/15 Budget process was based on a continuation of the process undertaken for 2013/14. This included a series of "Head of Service Reviews" at an early stage during the process. These reviews involved each Head of Service making a presentation to senior management which:
 - provided an overview of the service;
 - split the budget into activities and explained the basis for the total budget for each activity;
 - identified pressures and efficiencies, both existing in the previous MTFP and new items;
 - outlined potential options for further savings; and
 - provided benchmarking information on performance and cost.
- 5) As a result, the budget process allowed for full consideration of where savings should be made. Relevant Portfolio Holders were involved in each of the above reviews to provide direction on political priorities.
- 6) The baseline position for the budget reviews was the 2013/14 agreed budget.
- 7) This process allowed for savings proposals to be developed across the late summer and early autumn. The high level budget position was presented to the Corporate Resources Overview and Scrutiny

Committee in October, to which all Members were invited. This presentation covered the known and anticipated changes in Government funding, the budget process and the high level MTFP figures as they then stood. During January all Overview & Scrutiny committees reviewed the Draft Budget, including savings proposals and pressures, Draft Capital Programme and Fees & Charges.

- 8) The latest position was presented to the Executive, together with the Draft Budget and the most up to date information on funding, on 14 January. This enabled consultation to commence with the residents of Central Bedfordshire when the papers were published on 2 January. Staff have also had the opportunity to input into the savings proposals as they have been assessed within Directorates.
- 9) The Chancellor of the Exchequer did not deliver the Autumn Statement until 5 December with the subsequent announcement of the Finance Settlement on 18 December. This followed the timetable of the previous year, but constituted a significant delay to normal practice in previous years. As a result there was a very short time in which to assess and incorporate changes to assumptions following the Settlement.
- 10) The Settlement figure for 2014/15 was very close to the planning assumption, so that changes required for that year on the MTFP were minimal. However, for 2015/16 there was a very substantial reduction on the funding, beyond the reductions already anticipated. This has resulted in a budget shortfall where additional savings will have to be identified in order to present a balanced position. This is not new, as previous MTFPs have also not balanced over the medium term and it does not represent any immediate risk, but rather emphasises the need for further financial planning in the medium term.

Budget Assumptions

- 11) The headline assumptions within the budget concern the levels of external support and inflationary pressures, as well as the consideration of Directorate pressures and efficiencies outlined above. All of this has been considered in the context of the national economic conditions, and those specifically relating to Central Bedfordshire.

Funding sources

- 12) The main funding sources are Formula Grant, Retained Business Rates (NNDR), specific grants and Council Tax.
- 13) The Local Government Financial Settlement repeated the '4-block model' and used the floor damping methodology introduced for 2011/12, which groups authorities into four separate floor bands.
- 14) The Settlement covers only two financial years, the second of which is provisional. This naturally gives less certainty over the medium term. It

reflects changes announced in Budget 2013 and the outcome of the Government's Spending Review 2013, which covered 2015/16 only. Amounts for future years of the MTFP may therefore be subject to significant change. There is increased risk associated with these future years given the state of the economy, Central Government's commitment to reduce public spending and the General Election in May 2015. This potential volatility adds uncertainty to financial estimates and makes long term planning more difficult. Central Government has indicated an intention to return at some stage in the future to an earlier practice of providing indicative funding for a four year period, which would be a welcome move. Appendix F to the budget report sets out the funding anticipated to be received from various sources, showing year on year movements to each source,

- 15) Central Bedfordshire will continue to benefit significantly from the New Homes Bonus over the course of the MTFP. The grant is built into the overall resources in the budget and is predicated on tax base growth over the medium term. Clearly any slowing of growth is a risk but there has been a detailed assessment of the significant value of this grant to the Council, which may amount to as much as £12.0m by 2017/18.
- 16) Council Tax is frozen for 2014/15, although the loss of potential additional income is partially compensated by Council Tax Freeze Grants from Central Government across the spending review years up to 2015/16. The Budget includes the 2010 Grant plus the 2012 Grant both of which have now been 'baselined' and form part of continuing funding.
- 17) Central Bedfordshire has, since 2013/14, been able to keep a portion of National Non-Domestic Rates (NNDR) income under the Business Rates retention scheme. For 2014/15 the MTFP takes the prudent approach of not recognising NNDR growth over and above the Government's baseline estimate, until more experience is gained in how this scheme will operate in practice. However some growth has been recognised for future years based on modelling of planning data and anticipated business expansion.

Inflation

- 18) The key assumptions are set out in the main body of the report and reproduced below:

Spend type	2014/15	2015/16 and onwards
	%	%
Pay	1.0	1.0
National Insurance	1.0	1.0
Non-pay	Case-by- case basis	2.0

- 19) The Council Budget includes a provision of £89.3 million for employee costs and an assumption for the annual pay award, as above. The outlook for the economy is continuing to give rise to pay restraint and for this reason a 1% increase only is provided for in future years of the plan. All pay awards are subject to national negotiations.
- 20) In a change from previous years, a general percentage uplift on non-pay items was not allocated for 2014/15. Instead, specific inflation was provided only on a case-by-case basis where contractual conditions or similar factors necessitated an uplift. The intention is to make sure inflation is better targeted to the right areas and this approach will be reviewed for 2015/16 onwards.
- 21) Price inflation has remained relatively stable over the last year with rates of 2.4 – 2.9% (CPI) and 2.9 – 3.3% (RPI), although in November these dropped to 2.1% and 2.6% respectively. Interest rates remain very low, with base rate fixed at 0.5%. Most economic commentators, including the Council's treasury management advisors, do not anticipate any increase in base rates until 2016 at the earliest.

Service Expenditure

- 22) The robustness of estimates for each of the Directorates has been considered during the budget setting process, with an assessment of the general robustness of service budgets as well as the impact of pressures, growth and efficiencies.
- 23) The Base Budget build provides assurance that budget and activity are aligned and that budgets are at the correct level for 1 April 2014. A core part of the budget strategy has been to ensure that additional resources are allocated to Children's Services to reflect the continuing pressures in the number of looked after children.

- 24) There is an Efficiencies Implementation Group in place, chaired by the Chief Finance Officer, which will oversee the delivery of all efficiencies with a specific focus on those categorised as 'red' or high risk. This is a continuation of previous years' practice which has successfully overseen the delivery of significant savings. Nevertheless, continued delivery of further savings year on year, including £16 million of savings in 2014/15, is a significant challenge.
- 25) This successful track record demonstrates a sound corporate approach to the delivery of budgeted savings and gives a measure of confidence that the 2014/15 Budget is realistic and achievable. Nevertheless each year it becomes harder to deliver savings whilst maintaining service levels and there will be significant challenges to be faced in the years ahead. This is reflected in the fact that for the years 2015/16 onwards, the MTFP continues to show that additional, as yet unspecified, savings will need to be delivered.

Adequacy of Reserves

Introduction

- 26) In November 2013, the Audit Commission issued its third and final report on financial resilience in local Government. It noted:

"Reserves are an essential part of councils' strategic, financial and risk management. Councils hold reserves either as a contingency fund in the event of unforeseen circumstances, such as unexpected demand for services or a shortfall in income, or to smooth the impact of planned spending requirements over time, for example, setting aside funds for staff redundancies or to invest in large-scale capital projects. Our 2012 report on councils' decision making on reserves encouraged councils to:

- *examine routinely how much they hold in reserves, and the purposes for which reserves are held; and*
- *ensure their decisions on reserves are clearly explained to local taxpayers to promote accountability."*

- 27) Somewhat contrary to the above view, there is continued pressure from Central Government for local authorities to minimise reserve levels to ease financial pressures. There is a view that, nationally, local authority reserve levels suggest that there are excess reserves that could be used to provide services to the public.
- 28) In light of this, the level of reserves this Council should seek to hold is kept under review. It is recognised that this level needs to balance resilience against financial shocks, whilst guarding against unnecessary build up when services are facing pressures to maintain delivery.
- 29) Monitoring of both general and earmarked reserves takes place every month, to ensure these are correctly identified and are being used appropriately. The creation of new earmarked reserves, and transfers to

and from reserves, are subject to approval by Executive as part of the final outturn position. The reserves position is therefore transparent to all Members.

- 30) Central Bedfordshire inherited £14.4 million of reserves from the legacy authorities at 1 April 2009 but a significant element of this was taken up by transition costs in setting up the new authority. Central Bedfordshire's General Fund balance as at 31 March 2010 was as low as £5.1 million.
- 31) One of the key objectives of previous budgets has been to increase General Fund reserves to a risk assessed minimum prudent level. This level was achieved by 1 April 2013, one year ahead of schedule, after making annual planned contributions of £1.4 million in each of the two years 2011/12 and 2012/13. Reserves stood at £14.2 million at 1 April 2013.
- 32) The General Fund planned reserves as at 31 March 2014 are now £13.8 million after allowing for a budgeted one off draw down to manage budget pressures in 2013/14, of £0.4 million.

Policy

- 33) The reserves policy is to have a *minimum* level of reserves which would equate to 3% of gross expenditure. This level is based on the need for greater financial resilience as a result of the changes in funding for local government and the greater variability in the net expenditure.
- 34) This would provide a minimum prudent level of reserves of £11 million based on the 2013/14 budget.
- 35) There are continued downward pressures in funding from Central Government, where the stated aim is to reduce Local Government expenditure even while the economy improves. The changes to NNDR funding from 2013/14 has also introduced greater volatility into Local Government funding. As a result of this increased uncertainty, maintaining an additional reserve of 4% of the Central Government funding element would be a prudent approach to guard against these pressures, at least until more experience is gained of how these funding streams will develop during the MTFP period. This would mean an additional £2.7m of reserves, bringing the total prudent level to hold to £13.7m.
- 36) In addition to General Fund reserves, Central Bedfordshire holds £21.4 million of reserves earmarked for specific purposes. Appropriate use of these is included within the budget estimates presented, although in some cases the use may span more than one year. As an emergency measure these earmarked reserves could provide additional resilience, and therefore assist as a mitigation of risk to the Council.

Risk Assessment

- 37) The above assessment of the robustness of estimates has identified a number of risks in the budget. A risk register is compiled at the start of each financial year to enable these risks to be rated (high / medium / low) and monitored monthly during the new financial year.