

Appendix G

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 annual improvements to the corporate budget process. This has enabled a greater insight into trends over time as the amount of robust historical information continues to grow.
- 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 for existing services.
- 3) However, the Budget for 2018/19 and current MTFP is set against a rapidly changing environment for local government. There is still uncertainty over changes to the New Homes Bonus system, the Retained Business Rates (NNDR) system and also the way in which education is funded will be subject to continued change over the MTFP period. Financial and economic uncertainty surrounding BREXIT further compounds this.
- 4) This means that there is a greater degree of financial uncertainty for the Council than has been the case for a number of years, and consequently a greater degree of estimation in the Budget and MTFP numbers. Whilst currently relatively well placed to accommodate these changes, the Council will nevertheless have to maintain adequate reserves to respond to unforeseen impacts.

Robustness of Estimates

Overall Approach

- 5) The 2018/19 Budget setting process formally commenced with the approval of the process and Budget Strategy at the Executive meeting in August 2017. The Strategy assessed the assumptions in the existing Medium Term Financial Plan (MTFP), approved by Council in February 2017, in light of the continued challenging economic situation and the Government's commitment to reduce overall public spending.
- 6) The 2018/19 Budget process was based on a refinement of the process undertaken for 2016/17 and 2017/18. This included a series of reviews at Directorate level at an early stage during the process.
- 7) Also as part of the MTFP process for 2018/19 – 2021/22 in developing the strategy for efficiencies over the next four years, the Council

continued with a thematic approach and also a focus on key specific issues. These are covered in detail in the main Budget report.

- 8) These reviews involved each Director making a presentation to the Corporate Management Team at which they:
 - 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 and;
 - outlined potential options for further savings;
- 9) As a result, the budget process allowed for full consideration of where savings could be made. Relevant Portfolio Holders were involved in each of the Directorate reviews to provide direction on political priorities.
- 10) The baseline position for the budget reviews was the 2017/18 agreed budget.
- 11) This process allowed for savings proposals to be developed across the late summer and early autumn. During January 2018 the Corporate Resources Overview & Scrutiny committee reviewed the Revenue Budget, including savings proposals and pressures, the Capital Programme and the Landlord Services Business Plan (Housing Revenue Account).
- 12) The latest position is being presented to the Executive, together with the Budget and the most up to date information on funding available at that time, on the 6th February 2018. Public consultation commenced with the residents of Central Bedfordshire on the 4th January 2018. Staff have also had the opportunity to input into the savings proposals as they have been assessed within Directorates.
- 13) The Chancellor of the Exchequer delivered the Autumn Budget on the 22 November 2017 with the subsequent announcement of the Provisional Finance Settlement on the 19th December 2017.
- 14) The implications arising from last years Settlement, the November 2017 Autumn Budget and the Provisional Financial Settlement 2017 are covered in detail in the Budget report.

Budget Assumptions

- 15) The headline assumptions within the Budget cover the levels of funding received 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

- 16) The main funding sources are Council Tax , Retained Business Rates (NNDR), specific grants and Revenue Support Grant (RSG).
- 17) Last years Settlement provided figures for the next four years with an offer to councils of a four year settlement should they wish to take advantage of that. CBC successfully applied. This gives some certainty over the medium term, but RSG is due cease for in its entirety CBC in 2019/20.
- 18) Last year DCLG consulted on a number of proposed changes to the way in which New Homes Bonus (NHB) is administered and awarded. The outcome of this consultation was that the current six year payment mechanism would reduce to five years for 2017/18 and then to four years thereafter. In addition there were other changes including the introduction of a 0.4% housing growth threshold to exclude organic growth from the calculation in order to only reward those Councils that pursued a growth agenda.
- 19) In line with currently announced intentions, Central Bedfordshire is expecting to continue to benefit significantly from the New Homes Bonus for the next two years.
- 20) However, in light of this uncertainty, the MTFP takes the prudent approach of capping the level of grant assumed to be received at the 2014/15 level (£6.95M). Where any additional amounts are received, these will be held in a reserve that will be used to fund costs incurred as a result of growth and to mitigate budget pressures. The MTFP assumes the loss of NHB funding over the final three years of the MTFP.
- 21) Historically, Central Bedfordshire Council had frozen Council Tax, however, the Financial Settlement of two years ago was based on an assumption by Government that all upper tier local authorities would increase Council Tax by 2% as an adult social care precept (ringfenced) and a further 1.75% general Council Tax increase to make up for the reduction to RSG. This assumption continues with Government giving local authorities the options to raise an adult social care precept of 6% over three years (to be spread 2% each year, or 3% for two years).
- 22) The Council elected for 3% for two years and so 2019/20 is the second year of this precept.
- 23) The Provisional Financial Settlement also advised an Increased Council Tax referendum principle from 2% to 3% for 2018-19 and 2019-20. CBC is proposing to increase Council Tax by 1.494% for general fund purposes in 2018/19.

- 24) The Council Tax Freeze Grants from Central Government provided for previous years has now been rolled into the RSG baseline and so is lost as RSG is removed. The same treatment has been applied to the Care Act funding of £1.2M
- 25) 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. The MTFP takes a prudent approach to recognising NNDR growth over and above the Government's baseline estimate, based on modelling of planning data and anticipated business expansion.
- 26) The financial estimates are complicated by a series of grants received from Government to compensate for nationally imposed restrictions and discounts (reliefs). Prudent assumptions relating to the value of these grants in future years have been made.
- 27) The Council's plans for NNDR are backed up by detailed working based on known development activity. However, the Business Rates Revaluation due in 2017 and also the NNDR consultation add significant risks to this funding source.
- 28) All of the above potential volatility surrounding funding adds uncertainty to financial estimates and makes long term planning more difficult. Appendix I sets out the funding anticipated to be received from various sources, showing year on year movements to each source.

Inflation

- 29) The key assumptions are set out in the main body of the report and cover pay award and non pay inflation.
- 30) The outlook for the economy is still uncertain, however, Government have removed the general pay restraint for the Public Sector. A 2% pay award for 2018/19 and 2019/20. This has been reflected in the MTFP.
- 31) Two years ago the Government introduced a National Living Wage from April 2016 with the aim to achieve a minimum hourly rate of £9 by 2020. The Autumn Budget in November 2017 increased the rate for 2018/19 by £0.33 to £7.83. This will put further pressure on Council costs.
- 32) Following the practice adopted in previous years, a general percentage uplift on non-pay items has not been allocated for 2018/19. Instead, specific inflation was provided only on a case-by-case basis where contractual conditions or similar factors necessitated an uplift. This ensures that inflation provisions are better targeted to the right areas. Specific contract inflation is allocated in line with the latest Office of Budget Responsibility forecast in force at the time the MTFP is prepared (3.0% for 2018).

- 33) The November 2017 Quarterly Inflation Report issued by the Bank of England advised that inflation is at 3% (September 2017) and projected to rise above 3% in Q4 2017.
- 34) The Bank does not expect inflation to return to its 2% target until 2021.
- 35) The Bank's prediction for economic growth as measured by Gross Domestic product (GDP) in 2018 is 1.75% compared to 0.4% in Q3 2017 (note the Autumn Budget cites growth of 1.4% for 2018 and 1.3% for 2019).
- 36) The Bank of England Monetary Policy Committee voted by 7-2 on the 1st November 2017 to increase interest rates from 0.25% to 0.5% but advised that any future increases in interest rates would be at a gradual pace and to a limited extent.
- 37) The Council's treasury management advisers, Arlingclose Ltd, also expects interest rates to remain low for the foreseeable future.

Service Expenditure

- 38) 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.
- 39) The Base Budget build provides assurance that budget and activity are aligned and that budgets are at the correct level for 1 April 2018. A core part of the budget strategy has been to ensure that additional resources are allocated to those areas experiencing continuing pressures. These are detailed in the body of the report.
- 40) There is an Efficiencies Implementation Group in place, chaired by the Director of Resources (and s151 Officer), which will oversee the delivery of all efficiencies; ensuring plans are in place to secure the required savings. 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 £13.8M of savings in 2018/19, is a significant challenge.
- 41) This successful track record demonstrates a sound corporate approach to the delivery of budgeted savings and gives a measure of confidence that the 2018/19 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.

- 42) The Revenue budget for 2018/19 also includes a contingency of £2.6M which will help to mitigate any unforeseen pressures, or risks that might materialise.

Risk Assessment

- 43) The above assessment of the robustness of estimates has identified a number of risks in the budget.
- 44) The Efficiencies Implementation Group chaired by the Director of Resources (and s151 Officer), risk assesses all planned efficiencies using a Red/Amber/Green status at the beginning of each year and tracks their achievement throughout the year. In the event of any shortfall against an efficiency, a compensatory saving is sought.
- 45) Risks and opportunities are also tracked monthly as part of budget monitoring and migrating action taken where necessary.

General Fund Balances and Reserves Analysis

Background	
1.1	The s151 Officer has a statutory duty under Section 25 of the Local Government Finance Act 2003 to comment annually on the adequacy of the Council's General Fund (GF) Reserves. This is reported as part of the annual budget papers to Executive and Full Council and the analysis within this document supports the s151 Officer's opinion.
1.2	<p>The purpose of General Fund reserves are to act as:</p> <ul style="list-style-type: none"> • A working balance to help cushion the impact of volatility in net expenditure or income across financial years*. • To smooth the flow of funds e.g. when faced with funding cuts a GF Reserve enables the Council to draw down on reserves whilst a permanent efficiency saving is implemented. • A contingency to cushion the impact of unexpected events or emergencies; • A means of building up funds to meet known or predicted requirements. Funds can also be set aside in the form of specific earmarked reserves, which are accounted for separately but legally form part of the General Fund balance. <p>* This ability of reserves to react to volatility in income or expenditure is different from the availability of physical cash. The Council can maintain low liquidity balances, as set out in its Treasury Management Strategy, as it has sufficient and immediate access to debt finance.</p>
1.3	When considering whether the level of General Fund reserves is both adequate and necessary, the s151 Officer considers the strategic, operational and financial risks facing the Council and balances this against utilising the maximum resources available to the Council to achieve its objectives and ensuring that current resources are used to the benefit of the current tax payer.
1.4	<p>The Chartered Institute of Public Finance and Accountancy (CIPFA) released a Local Authority Accounting Panel (LAAP) Bulletin 99 (July 2014) outlining key areas to consider when assessing the adequacy of reserves including:</p> <ul style="list-style-type: none"> • The robustness of the financial planning process (including treatment of inflation and interest rates, estimates of locally raised income and timing of capital receipts) • How the Council manages demand led service pressures • The treatment of planned savings / productivity gains • The financial risks inherent in any major capital project, outsourcing arrangements or significant new funding changes • The strength of the financial monitoring and reporting processes • Cash flow management and the need for short term borrowing

	<ul style="list-style-type: none"> • The availability of reserves, Government grants and other funds to deal with major contingencies • The general financial climate to which the Council is subject and its previous record in budget and financial management.
1.5	<p>In November 2013 the Audit Commission stated that: <i>“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:</i></p> <ul style="list-style-type: none"> • <i>examine routinely how much they hold in reserves, and the purposes for which reserves are held; and</i> • <i>ensure their decisions on reserves are clearly explained to local taxpayers to promote accountability.”</i>
1.6	<p>The analysis in Table 1 examines the Council’s balances against the criteria outlined in LAAP Bulletin 99 and is based on the Council’s procedures and structures. However, the assessment necessarily includes an element of subjectivity and, in acknowledgement of this, incorporates a range of possible balances. The calculated range for recommended general fund balances remains at £11.5M to £25M. The upper end of the range includes the maximum unallocated balances the Council could justify holding, and if balances were at this level, the s151 Officer may recommend that plans were developed to use balances to enhance the Council’s expenditure plans in the current year.</p>
1.7	<p>The expected GF reserve closing balance for 2017/18 is £15.6M which is 4% of gross income and within the recommended range. Additionally it is expected that c£42M will be set aside as General Fund earmarked reserves for specific identified purposes (October 2017 forecast). Appropriate use of these reserves 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.</p>
1.8	<p>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 budget outturn position for the year. The reserves position is therefore transparent to all Members.</p>

Table 1 Assessment of Required General Fund Reserve Balances

Area of Risk	Details	Minimum	Maximum
<p>The general financial climate to which the Council is subject</p>	<p>Local Government will see sustained reductions in Central Government Funding beyond 2018/19.</p> <p>As part of the Financial Settlement for 2017/18, councils were made an offer of a four year settlement subject to certain conditions. CBC applied for this offer which was accepted.</p> <p>The MTFP has been updated against a background of significant challenges. On the 23rd June 2016, the United Kingdom (UK) voted to leave the European Union (EU). Article 50 of the Treaty on European Union was invoked in March 2017.</p> <p>Having triggered Article 50, the exit process is expected to last for up to two years although the political and economic ramifications will probably be felt for many years.</p> <p>Locally, Central Bedfordshire Council has included identified Central Government funding reductions within its Medium Term Financial Plan (MTFP).</p> <p>In addition, there are financial risks to the Council as a result of decision taken by schools to change their age range from a three tier system to a two tier system. This could result in the Council having to pick up significant redundancy costs and deficits from schools that close as a result.</p>	<p>£2M</p>	<p>£4M</p>
<p>The overall financial standing of the authority</p>	<p>From commencing with reserves of £5.1M on 31 March 2010, Central Bedfordshire Council has steadily increased reserves to £15.6M as at 31 March 2017, which is 4% of gross income. This reflects continuous improvement in the financial strength of the Council. Additionally the Council is expected at 31 March 2018 to have c£42M in General Fund earmarked reserves set aside for specific purposes. A balanced budget has been set for 2018/19.</p>	<p>£0M</p>	<p>£1M</p>
<p>Estimates of level of locally raised income</p>	<p>In 2013/14 the administration of Council Tax Support Scheme was localised with a 10% reduction in funding and National Non-Domestic Rates (NNDR) moved to a retention system, where Councils keep an element of business rates raised.</p> <p>Retention of an element of Business Rates by Councils means the organisation would benefit from higher Rates income than expected, but also suffer the consequences if Business Rates income was to</p>	<p>£1M</p>	<p>£3M</p>

	<p>reduce. The Government has introduced a safety net payment to prevent excessive losses and a levy on gains and Central Bedfordshire Council would be funded for NNDR losses above £2.3M in a financial year and would have to pay 24% of their share of any gains above their baseline funding as a levy back to Central Government.</p> <p>The new NNDR retention system requires Councils to determine a provision for NNDR appeals in future years, where individuals may successfully challenge their NNDR rating. Councils have had to set this provision which directly affects NNDR income and necessarily involves an element of subjectivity. There is a risk that NNDR could be further impacted by the Rebasing of Rateable Value in 2017.</p> <p>Both NNDR and Council Tax income forecasts are based on the estimation of property bandings and rateable properties by valuation professionals in each respective area.</p>		
<p>The treatment of planned efficiency savings/productivity gains</p>	<p>The Council has set a balanced budget for 2018/19 which includes £13.8M of efficiencies. A further £32.1M of efficiencies are required over the subsequent 3 years to achieve the Medium Term Financial Plan (MTFP).</p> <p>The Council has a successful track record of achieving efficiency savings. Efficiencies are monitored in the Council by the Efficiencies Implementation Group (EIG) chaired by the Director of Resources (s151 Officer).</p>	<p>£1M</p>	<p>£2M</p>
<p>The treatment of inflation and interest rates</p>	<p>2% pay inflation and 3.0% non pay for specific contract is include in the MTFP for 2018/19.</p> <p>The November 2017 Quarterly Inflation Report issued by the Bank of England advised that inflation is projected to rise above the 3% within Q4 2017</p> <p>Low interest rates have been in place for a number of years, with the Bank of England base rate at 0.25%, for a record period, however, the base rate was increased to 0.5% on the 1st November 2017. Any further increases are expected to be gradual.</p> <p>As at 31 March 2017 the Council's total borrowing was £347.8M. Of this amount, £262.0M was with the Public Works Loan Board (PWLB), £72.3M was Short-Term Temporary Debt from other local authorities and £13.5M was market debt from banks.</p> <p>To manage interest rate risk, the profile of debt is split</p>	<p>£2M</p>	<p>£3M</p>

	<p>so that overall the Council has 62.4% fixed rate PWLB debt, 12.9% variable rate PWLB debt, 20.8% short-term temporary debt, and 3.9% fixed rate market (LOBO) debt.</p> <p>An increase in interest rates would therefore have a direct and immediate cost on variable borrowing. Where amounts which have been internally borrowed are required to be spent, external borrowing may be required at that time to fund these and this would be at a cost to the organisation at that time depending on the rate of interest.</p> <p>The Council has a significant Capital Programme which forecasts £123M of borrowing over the next 4 years. At present the MTFP has calculated revenue implications on current interest rates and debt taken out on a short term basis. If interest rates were to increase, the revenue implications of this debt would increase when borrowing or refinancing the debt in future years.</p>		
The financial risk inherent in any major outsourcing / insourcing arrangements	<p>The Council has a number of high value contracts with external providers. The largest of these are contracts for: waste management, highways, passenger transport, social care for residential and nursing care provision, temporary accommodation, agency staff and grounds maintenance.</p> <p>Some of these suppliers are reliant on private finance linked to asset values for their viability. In the current financial climate this poses an increased risk of service failure to the Council.</p> <p>The Council has also engaged with a supplier to run its leisure centres, in a contract which creates a residual risk to be managed by the Council.</p> <p>The Council is now also a co-owner in LGSS Law and as such is subject to a share of gains and losses resulting.</p>	£1M	£2M
The treatment of demand led pressures	<p>There are significant social and economic drivers of change within Central Bedfordshire across the medium term and beyond, particularly Central Bedfordshire's population has increased at a faster rate than nationally at 19.4% since the 2001 census and a further 7.2% increase is forecast between 2016 and 2021.</p> <p>Population growth will be highest in the 85 + age group, 22% growth by 2021. Significant growth is also anticipated in the 65 + age group of 13%.</p> <p>The Council has a robust Medium Term Financial Plan (MTFP) process embedded across the organisation.</p>	£1M	£2M

	<p>Through this process, reasonable assumptions about demand and funding pressures have been made and a prudent view of volatile areas has been taken. All known pressures across the Council are included as funded items in the MTFP, with additional funding in future years linked to forecast demand. The budget contingency is largely to take account of potential demand led pressures on key expenditure and income streams.</p>		
<p>The financial risks inherent in any major capital developments</p>	<p>The Capital Programme includes expenditure over the next 4 years of £314M with substantial investment in schools places £48M, Dunstable Leisure Centre £14M, Information technology £10M, integrated Care & Health Hubs £28M.</p> <p>A further £26M of expenditure is on the capital reserve list, to be included in the main programme if the project can be accommodated within the Council's financing constraints. There is also expected to be significant investment through the Housing Revenue Account.</p> <p>Increased capital activity and development will result in a corresponding increase in financial risk.</p>	£0.5M	£1.5M
<p>Estimates of the level and timing of capital receipts</p>	<p>Capital Receipts are forecast to be £36.0M over the next four years, based on a schedule of land and properties that have been identified for disposal and form an important source of financing for the capital programme. If disposals are lower than projected then alternative options to achieve disposals or compensatory improvements to asset utilisation will be considered.</p>	£2M	£3M
<p>The availability of reserves, Government grants and other funds to deal with major contingencies and the adequacy of provisions</p>	<p>In the event of a major emergency it is possible that aside from general reserves, Central Government may provide funding to support the Council via the Belwin scheme. However Councils will only be able to access this funding if they have already spent 0.2% of their budget on repairs and thus may incur direct costs as a result.</p>	£0M	£0.5M
<p>The Council's capacity to manage in year budget pressures, and its strategy for managing both demand and service delivery in the longer term</p>	<p>There is a well-developed monthly budget monitoring process in place, ensuring adverse variations are identified promptly by service managers. The monthly challenge and review process ensures the early identification and resolution of issues. Additionally the 2018/19 budget includes a £2.6M contingency to potentially support any in year issues.</p>	£0M	£1M
<p>Miscellaneous</p>	<p>There are a number of risks that face the Council which</p>	£1M	£2M

	<p>have a low likelihood of occurring but would have a high impact if the risk was actualised. This includes risks of substantial flooding, disease outbreak or a serious service failure for example in Children's Services or Adult Social Care. There is also the risk of widespread ICT failure. The Council has strong internal mechanisms for identifying, monitoring and reporting risks on a regular basis.</p> <p>Recent changes in legislation have brought about new community rights and alternative methods of delivering services traditionally provided by the Council. This has led to more and different supply chain partnerships being entered into, sharing risks across private, public and voluntary organisations.</p> <p>The Council may also face from time to time potential legal actions. Funds in excess of budgetary provision may be required to defend the Council against such actions.</p>		
Total		£11.5M	£25M

Table 2 Use of Earmarked Reserves 2018/19 –

The following use of earmarked reserves is contained in the MTFP. All use of reserves have been reversed back out during the Plan. Their use is to enable the time for efficiencies activity to be developed, particular for Special Education Needs Transport. The reversing back out is in line with the approach of not having a plan that relies on the use of reserves as a source of longer term funding.

Table 2

Directorate	Detail of pressure	2018/19	2019/20	2020/21	2021/22	Total
		£'000	£'000	£'000	£'000	£'000
Children's Services	School Improvement Team	(321)		321		-
Children's Services	Locality Working	(100)	100			-
Community Services	Highways / Environment: Staffing	(245)	245	-	-	-
Community Services	Educational Transport	(1,200)	1,200			-
Community Services	Highways / Environment: Emergency Services	(150)	150			-
Community Services	Highways / Environment: Steet Lighting	(150)	150	-	-	-
Regeneration	Without this additional resource it is not possible for enforcement activity to match the level of service sought by members.	(200)	-	200		-
SCHH	Release of SCHH Reserves	(711)	(1,109)	1,532	288	-
	Total Use of Reserves	(3,077)	736	2,053	288	-