

## **Report on the Robustness of Estimates and on the Adequacy of Reserves 2017/18**

### **SUMMARY**

- 1.1 The Council's Medium Term Financial Plan – MTFP – has been prepared with consideration to the resources available to the Council and to the demands and priorities included within the Council Plan. The current medium term financial plan is evidence that the Council can no longer provide the range of services it has done historically. Services will have to stop unless they are provided at no further cost to the Council.
- 1.2 The MTFP process incorporates a review of current levels of reserves to ensure there is adequate cover for current and future planned needs and unforeseen eventualities and it identifies any reserves which can be released to support the delivery of a three year MTFP.
- 1.3 The purpose of this report is to provide an opinion under Section 25 (1) of the Local Government Act 2003 which requires the Chief Finance Officer to report to Council on the robustness of the estimates made for the purposes of the budget calculations and the adequacy of Council reserves.
- 1.4 The report is split into; Section 4 detailing the MTFP process and budgetary controls, Section 5 covering the robustness of estimates and Section 6 covering the adequacy of reserves.

### **RECOMMENDATION**

- 2.1 To note the Chief Finance Officer's opinion that the estimates used in the production of the MTFP for 2017/18 are robust.
- 2.2 To note the Chief Finance Officer's opinion that, based on the assessment of the Council's reserves, the key financial risks identified, and the process used for developing the Medium Term Financial Plan, the level of reserves and balances for 2017/18 is adequate.
- 2.3 To recommend to Council that they consider this report in conjunction with the General Fund Revenue Budget 2017/18 report.
- 2.4 To note the Reserves Policy outlined in Appendix 5.

## **REASONS FOR RECOMMENDATION**

- 3.1 Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report to the Council on the robustness of the estimates it makes when calculating its budget requirement under Section 32 of the Local Government Finance Act 1992 and on the adequacy of its proposed financial reserves.
- 3.2 Under Section 26 (2) of the Local Government Act 2003, it is not considered appropriate for the balance of the Council's General Fund reserve to be less than the minimum amount determined by an appropriate person, in this case the Director of Finance as Chief Finance Officer.
- 3.3 Whilst the requirements of the Local Government Act 2003 relate specifically to setting the Budget and Council Tax for the next financial year, these can be more widely interpreted to include the full MTFP period.

## **SUPPORTING INFORMATION**

### **4. THE MEDIUM TERM FINANCIAL PLAN AND BUDGETARY CONTROLS**

- 4.1 Work to develop the revised 2017/18 budget has continued through the development of the 2017/18 Medium Term Financial Strategy. The budget strategy was approved by Council in November 2016 and outlined a number of key principles which would be applied and explored during the budget development stage.
- 4.2 A series of Budget Challenge meetings were held between the Leader of the Council and appropriate Cabinet Members and Chief Officers during the Summer and Autumn of 2016 to challenge base budgets, scrutinise budget savings, pressures and financing.
- 4.3 The Council carried out a detailed consultation exercise from 12 December 2016 to 9 January 2017 with Councillors, key stakeholder groups, members of the public, Trade Unions and the business community. Further details of the consultation process and feedback are included in the General Fund Revenue Budget 2017/18 report presented as a separate item to Cabinet. The Council ensures it pays due regard to its Public Sector Equality duty during the planning process by completing Equality Impact Assessments. Proposals are assessed to understand the potential impact on any particular group that could result in direct or indirect discrimination.
- 4.4 In recent years close control of the Council's budget has been achieved despite some very challenging budget pressures in a number of key service areas. Regular budget monitoring provides an overview of the forecast financial outturn for the current year and provides financial information to ensure budgets are well managed throughout the year.
- 4.5 In order to smooth the effects of the £28.5m cuts to the Council budgets over the next three years, the use of £5.982m of reserves has been included in the MTFP. It is

proposed that £5.982m of funding continues to be set aside in a specific reserve for this purpose.

- 4.6 Due to the level of savings required in the 2017/18 – 2019/20 MTFP, there will be a large amount of service reviews. There may be one-off costs required to support the delivery of these changes. A specific Delivering Differently Reserve was set up in 2016/17 and will continue to be used to support this process.

## **5. THE ROBUSTNESS OF ESTIMATES**

- 5.1 In order to satisfy the legislative requirements of Section 25 of the Local Government Act 2003, there are a number of issues which have been taken into account to enable the Director Finance as Chief Finance Officer to make a positive statement on the robustness of estimates. These include:
- the process undertaken in developing the 2017/18 Medium Term Financial Plan
  - the financial risks that the Council is exposed to
  - the reserves available to offset unplanned expenditure, and the level of the Council's reserves and balances
  - the past performance of the Council in respect of budgetary control.
- 5.2 There are a number of key controls built into the MTFP process to ensure that the budget is accurate and robust. Proposals are subject to several tiers of formal peer review and independent challenge with Cabinet members to ensure that they are accurate and deliverable.
- 5.3 The Council also identifies and considers the key financial risks it is facing over the period of the MTFP. Detailed estimates are developed to mitigate identified budgetary pressures. The key service pressures identified through this process include inflation, demographic growth, transferred service liabilities, increasing costs and a reduction in the level of income received from fees and charges due to market conditions.
- 5.4 The Council has identified a number of potential future financial risks. It is not considered appropriate to create a formal budget for these risks as this would 'ring-fence' resources that might not be required. An assessment of material risks has therefore been made as part of determining the adequacy of reserves for 2017/18.
- 5.5 All estimates of pressures, savings and inflationary increases are produced by professional staff in the relevant service that assess the financial implications in detail, before being reviewed by the Chief Officer Group and Cabinet Members. The accuracy of these estimates is a vital part of ensuring that the budget is robust.
- 5.6 A number of key judgements have been made in arriving at the anticipated levels of pressures, savings and inflation included within the MTFP. These include:
- detailed analysis of appropriate inflationary indices, based on type of spend and current national forecasts.
  - service analysis of demographic changes based on the latest information available and expert knowledge of individual services.
  - review of savings proposals and supporting financial assumptions and

calculations.

- 5.7 Appendix 2 provides a sensitivity analysis of specific budgetary risks identified, including details of the current mitigating actions in place to help ensure the risk is appropriately managed. In previous years the Council has maintained a corporate contingency to manage movements in estimates and uncertainties; this was removed in the 2015/16 budget setting process. As a result the Council has no permanent funding available to respond to unforeseen pressures.
- 5.8 To mitigate the increased risk of no longer holding a corporate contingency the Council holds an increased level within the budget risk reserve. The balance held will need to be sufficient to meet the risk associated in Appendix 2 during the MTFP. This will allow time for alternative solution to be identified. Any release of budget risk reserve to support such pressures will be carried out in line with the Council's Financial Procedure Rules.

## **6. THE ADEQUACY OF RESERVES**

- 6.1 The Council's financial environment is subject to volatility, as are the demands on services and the needs of the City's population and environment. The Council updates its priorities in response to these issues. Reserves, therefore, are an important part of the Council's financial strategy. They are held to help manage the long-term budgetary stability and allow the Council to be able to change without undue impact on Council Tax. The adequacy of the Council's General Fund Balance is also a key indicator for the robustness of the budget as a whole, as it provides assurance that potential financial impact of variations to budgets can be managed.
- 6.2 Reserves are set at a level that recognises the financial risks facing the Council. The greater the level of uncertainty, the more likely reserves will be needed. The Council prepares its budget using the best information available at the time but inevitably includes some uncertainty. In setting the budget, it is important that Members take account of the uncertainties involved, both in establishing a suitable level of balances and contingencies, and in setting an overall strategy for the budget.
- 6.3 A careful balance needs to be maintained between holding too much and too little money in reserves. If reserves are too low, this increases the Council's exposure to risk and endangers its capacity to deliver priorities in a planned and prudent fashion. Demand led services and an environment of ever changing legislative requirements, combined with reducing funding from Government, all threaten financial stability. However, money held unnecessarily in reserves is not being spent on front line services and the public may not receive full value for money. The Council therefore reviews the reserves position to ensure reserves remain adequate.
- 6.4 In coming to a view on the adequacy of the reserves, it is necessary to take into account a number of issues that are discussed more fully in Appendices 3 and 4. In summary they include:
- the purpose of holding reserves
  - the risks and uncertainties that may have financial consequences
  - the potential financial impact of these risks and uncertainties

- the likelihood of the risks and uncertainties arising.

- 6.5 The Council's main revenue reserve for general purposes is the General Fund Balance. This is set aside to support the management of risks in the Revenue Budget and could be used for any purpose if required. However, the General Fund Balance represents the minimum level of reserves that the Council should hold and any planned use of this reserve would be considered to undermine the robustness of the Council's budget.
- 6.6 The Council's target range for the General Fund Balance is between £7,406,000 and £11,169,000. This target level is reviewed on an annual basis with regard to the Council's strategic and operational risks. The projected value of the Council's General Fund balance at 31 March 2017 is £7,143,000 and is therefore within the recommended target range.
- 6.7 Each individual Council-controlled school in Derby has its own financial reserve, collectively known as 'School Balances'. Schools balances are delegated directly to schools and are not available to the Council for general use. The uses of any surplus balances are considered by the Council's Schools Forum on an annual basis. The projected value of the Council's School Balances at 31 March 2017 is £10m.
- 6.8 The Council also holds a number of earmarked reserves to fund specific projects, or to manage risks or uncertainty in specific areas. Appendix 4 shows the projected balance as at 31 March 2017 of the Council's more significant earmarked reserves, along with a narrative explanation of the purposes for which each reserve is held.
- 6.9 In the unlikely event of a significant financial loss which cannot be addressed through the Council's budget risk reserve, the Council could look to reallocating its other Revenue Earmarked Reserves (except for the General Fund, Reserves with restrictions and school balances) which taken together are projected to amount to £21.842m by 31 March 2020, as shown in Appendix 4.

<b>OTHER OPTIONS CONSIDERED</b>
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- 8.1 Not Applicable

**This report has been approved by the following officers:**

<b>Legal officer</b>	Janie Berry (Director of Governance and Monitoring Officer)
<b>Financial officer</b>	Toni Nash (Head of Finance)
<b>Human Resources officer</b>	David Cox (Head of HR)
<b>Estates/Property officer</b>	n/a
<b>Service Director(s)</b>	Martyn Marples (Director of Finance and s151 Officer), Jill Craig (Director Of Digital Services)
<b>Other(s)</b>	

<b>For more information contact:</b>	Elly Tomlinson 01332 642789 elly.tomlinson@derby.gov.uk
<b>Background papers:</b>	Budget consultation documents and strategy reports
<b>List of appendices:</b>	Appendix 1 – Implications Appendix 2 – Budget Risk Reserve Risk Assessment Appendix 3 – Reserves Risk Assessment Appendix 4 – Reserves Summary Appendix 5 – Reserves Policy

<b>IMPLICATIONS</b>
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**Financial and Value for Money**

- 1.1 As described in the report.

**Legal**

- 2.1 Under Section 25 (1) of the Local Government Act 2003 the Chief Finance Officer is required to report to Council on the robustness of the estimates made for the purposes of the budget calculations and on the adequacy of proposed financial reserves.

**Personnel**

- 3.1 None directly arising.

**IT**

- 4.1 None directly arising.

**Equalities Impact**

- 5.1 Under Section 149 of the Equality Act 2010, the Council must, as part of exercising its functions, including decision making, have due regard to:
- eliminating discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act,
  - advancing equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
  - fostering good relations between persons who share a relevant protected characteristic and persons who do not share it

Section 4 of the Equality Act 2010 prescribes protected characteristics as:

- Age
- Disability
- Gender reassignment
- Marriage and civil partnership
- Pregnancy and maternity

- Race
- Religion or belief
- Sex
- Sexual orientation

All Members of the Council must, as part of their individual and collective decision making responsibilities, have full consideration of, and due regards to the contents of the Equality Impact Assessment relating to the budget proposals which is attached to the General Fund Revenue Budget report.

### **Health and Safety**

6.1 None directly arising.

### **Environmental Sustainability**

7.1 None directly arising.

### **Property and Asset Management**

8.1 None directly arising.

### **Risk Management**

9.1 None directly arising.

### **Corporate objectives and priorities for change**

10.1 There is a close relationship between the budget and the Council's corporate outcomes. This report supports this relationship through the MTFP process.



**BUDGET RISK RESERVE RISK ASSESSMENT**

<b>Risk Description</b>	<b>Controls in Place</b>	<b>Proposed Management Actions</b>	<b>Calculation</b>	<b>Estimated Risk Value (mid point)</b>
Variation from Estimates – Inflation	The Council bases its inflation provisions on multiple indices, which are regularly monitored for accuracy and relevance. A large proportion of the inflation increase is due to contractual arrangements, many of which include known inflationary indices.	Inflation levels are monitored, with assumed future levels built into the MTFP process. The Budget Risk reserve is available to offset minor variations.	5% - 15% variation in assumed levels of inflation	£263,400
Variation from Estimates – Other Pressures	MTFP pressures accurately show levels of pressures and related risks and effects. Early budget-setting allows services to better plan savings into their forward budgets.	Pressures are continually monitored and Directorates will seek to contain emerging pressures. Any additional financial impact, and supporting explanations, would be reported to Members.	5% - 10% variation in other pressures	£635,400
Variation in Assumptions - Achievability of Savings	MTFP savings proposals show levels of savings achievable and related risks and effects. These are based on the latest information available. Early budget-setting allows services to better plan savings into their	Directorates are required to find alternative savings proposals or take alternative mitigating actions. Any undelivered savings, and supporting explanations, would be reported to Members.	5% - 15% variation in savings	£1,469,600

	forward budgets.			
<b>Risk Description</b>	<b>Controls in Place</b>	<b>Proposed Management Actions</b>	<b>Calculation</b>	<b>Estimated Risk Value (mid point)</b>
Funding Risk – Variations from assumptions	Technical assessment via expert external advisors and work with Sigoma.	Regular reviews through settlement working group, LGA and Sigoma etc.	0.5% to 1.5% variation in funding	£431,420
<b>Total MTFP risks with assumed 2 year time delay to reach permanent solution</b>				<b>£5,599,640</b>
Estimated slippage of specific savings targets (3 months delay on 75% of savings targets)				£2,755,500
Unidentified future pressures/Emergency pressures including Property Maintenance	Early warnings through horizon scanning and monthly revenue monitoring.	The ability to address these issues has been limited because global pressures and corporate contingencies have been removed from the MTFP. They will therefore have to be addressed in year, as they arise. The number and financial impact of such occurrences has been rising each year.	Nominal Allocation	£2,000,000
<b>Minimum level of Budget Risk Reserve required</b>				<b>£10,355,140</b>

## RESERVES RISK ASSESSMENT

Area of Risk	Risk Description	Controls in Place	Calculation	Estimated Risk Value (£m)
Treasury Management (Deposits)	Risk of an institution where the Council has deposits going bankrupt	Only financially sound institutions with high financial standing are included within the Council's approved lending list. Maximum lending limits are applied. A series of management controls are in place to ensure lending limits are not breached. The Treasury Management team also carries out regular reviews of approved institutions, in conjunction with the Council's advisors, Arlingclose Ltd.	10% of £12m maximum deposit in any one institution	£1,200,000
Civil Emergencies	The risk of significant floods or fires etc, to cover immediate cash flow requirements prior to possible Bellwin Scheme payments	In practice such events are outside of the scope of management control. However, in the event of a civil emergency or disaster, the Council may be eligible for some relief funding from Central Government through the Bellwin Scheme.	Nominal Allocation	£1,000,000 to £2,000,000
Contract Compliance & Retendering	Risk of challenge post contract award	Detailed contract procedure rules in place and the Council has a dedicated procurement team to provide robust internal challenge to contracting and tendering processes.	Contract value based on £100m x 1% risk x 20% fine. Plus £0.1m retendering cost	£300,000

Area of Risk	Risk Description	Controls in Place	Calculation	Estimated Risk Value (£m)
Impact of Partner Funding	Pressure on Council budget if partner funding is withdrawn from critical services which require, as a minimum, continuation funding for a short term period.	The Council works closely with key partners to develop forward looking plans, including discussions regarding funding.	6 months funding cover of a range of £0.5m to £1m risk	£250,000 to £500,000
Business Critical Systems	Cost involved in setting up alternative arrangements to ensure legal obligations are met, including emergency payments and additional staffing costs	Detailed emergency plans in place and subject to regular review.	Nominal Allocation	£250,000 to £1,000,000
Impact of Adverse Weather Conditions	Risk of unforeseen costs for potholes, winter gritting, minor flooding etc	In practice such events are outside of the scope of management control. However, the Council does have an ongoing programme of highways maintenance, which includes an element for emergency works.	5% - 10% of highways maintenance budgets	£151,000 to £304,000
Legislative Changes	Changes in legislation may place additional financial burdens on the Council.	Legislative changes are usually accompanied by associated funding changes but this might not be adequate to cover costs.	Nominal Allocation	£100,000 to £250,000
Dedicated	Impact of funding risk not	Rigorous review of current DSG	£215m DSG x1%	£2,150,000

Area of Risk	Risk Description	Controls in Place	Calculation	Estimated Risk Value (£m)
Schools Grant (DSG)	covered by general fund budget risk reserve.	assumptions based on latest information from central government and historic experience.		
Bad Debt Provision	In the current economic climate it is not certain that the Council's provision for bad and doubtful debt would be sufficient.	The Council sets aside a provision for bad and doubtful debts based on the age of debt and historic experience of rates of recovery. Robust debt collection procedures are in place.	5% increase in bad and doubtful debts per 2015/16 debt figures (based on value from 2015/16 Statement of Accounts)	£1,225,000
Current Provisions	Level of current provisions made are insufficient.	Anticipated liability cost calculations are based on the best available information.	Nominal Allocation	£250,000 to £1,000,000
Redundancy Funding	There is a risk of a temporary shortfall in the Council's redundancy funding to cover staff exits for 2017/18 and 2018/19	Anticipated redundancy cost calculations are based on the best available information, including data from the previous redundancy programmes. The funding calculations include a small element of flexibility to allow for changes in the actual costs incurred against budgeted values.	Nominal Allocation	£250,000
<b>Recommended General Reserves Target Range</b>				<b>£7,126,000 to £10,179,000</b>
<b>Level of General Fund Reserve included in 2017/18 MTFP:</b>				<b>£7,143,000</b>

Area of Risk	Risk Description	Controls in Place	Calculation	Estimated Risk Value (£m)

## EARMARKED RESERVES SUMMARY

Reserve	Forecast Balance 31 March 2017 £000s	Forecast Balance 31 March 2018 £000s	Forecast Balance 31 March 2019 £000s	Forecast Balance 31 March 2020 £000s
<b>General Reserve</b>				
Unallocated General Reserve	-7,143	-7,143	-7,143	-7,143
<b>Total</b>	<b>-7,143</b>	<b>-7,143</b>	<b>-7,143</b>	<b>-7,143</b>
<b>Usable reserves (no restrictions) – future liabilities</b>				
Reserve for Asbestos	-1,200	-1,200	-1,200	-1,200
Job Evaluation Reserve	-1,524	0	0	0
Waste Strategy Corporate Reserve	-1,048	-1,048	-1,048	-1,048
MTFP	-5,982	-714	0	0
Delivering Change	-3,000	-1,000	0	0
ICT Reserve	-2,000	-1,983	-1,983	-1,983
Other Corporate Reserves	-1,337	-789	-789	-789
Other Service Reserves	-1,248	-1,248	-1,248	-1,248
<b>Total</b>	<b>-17,339</b>	<b>-7,982</b>	<b>-6,268</b>	<b>-6,268</b>
<b>Usable reserves (no restrictions) – service specific</b>				
Trading Services Reserve	-663	-563	-563	-563
Regeneration Fund Reserve	-2,843	-2,213	-1,879	-2,360
Partnership Reserves	-26	-26	-26	-26
Other Corporate Reserves	-4,795	-4,565	-4,565	-4,565
Other Service Reserves	-8,438	-8,109	-8,059	-8,059
<b>Total</b>	<b>-16,765</b>	<b>-15,476</b>	<b>-15,092</b>	<b>-15,573</b>

Reserve	Forecast Balance 31 March 2017 £000s	Forecast Balance 31 March 2018 £000s	Forecast Balance 31 March 2019 £000s	Forecast Balance 31 March 2020 £000s
<b>Usable reserves (no restrictions) – leadership, budget risk and LAMS</b>				
Leadership Priorities Reserve	-9	-9	-9	-9
Budget Risk Reserve	-11,054	-10,735	-10,735	-10,735
LAMS Reserve	-2	-2	-2	-2
Area Panel Reserve	0	0	0	0
<b>Total</b>	<b>-11,065</b>	<b>-10,746</b>	<b>-10,746</b>	<b>-10,746</b>
<b>Usable reserves (with restrictions) – school balances</b>				
Balances held by schools under a scheme of delegation	0	0	0	0
<b>Usable reserves (with restrictions) – PFI balances</b>				
PFI Reserves	-22,505	-22,892	-23,128	-23,221
Building Schools For The Future Reserve	-966	-966	-966	-966
<b>Total</b>	<b>-23,471</b>	<b>-23,858</b>	<b>-24,094</b>	<b>-24,187</b>
<b>Usable reserves (with restrictions) – year end grant</b>				
Year end grants with restrictions Reserve	-881	0	0	0
<b>Usable reserves (with restrictions) - other</b>				
ISB General Provision	-5,050	-2,926	-2,926	-2,926
Other Corporate Reserves	-314	-114	-114	-114
Other Service Reserves	-2,281	-2,271	-2,271	-2,271
<b>Total</b>	<b>-7,645</b>	<b>-5,311</b>	<b>-5,311</b>	<b>-5,311</b>
<b>TOTAL RESERVES</b>	<b>-84,309</b>	<b>-70,516</b>	<b>-68,654</b>	<b>-69,228</b>
Earmarked Capital Reserves	-1,086	-1,086	-1,086	-1,086



TOTAL RESERVES	-85,395	-71,602	-69,740	-70,314
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## **Reserves Policy**

### **Introduction**

The requirement for financial reserves is acknowledged in statute.

This policy establishes a framework within which decisions will be made regarding the level of reserves held by the Council and the purposes for which they will be used and maintained.

Sections 32 and 43 of the Local Government Finance Act 2003 require local authorities to have regard to the level of resources needed to meet estimated future expenditure when calculating the annual budget requirement.

Reserves are sums of money held by the Council to meet future expenditure. There are two principal types of reserves:

- a) General - non-specific reserves which are kept to meet short term, unforeseeable expenditure and to enable significant changes in resources or expenditure to be properly managed over the period of the Council's MTFP. The Council's General Fund Balance, Budget Risk reserve and MTFP Reserve are held for this purpose.
- b) Earmarked reserves which are held for specific purposes and which are established either by statute or at the discretion of the Council.

A summary of all reserves, including in year movements and year-end balances are contained in the Council's Statement of Accounts.

### **Types of Reserves**

When reviewing medium term financial plans and preparing their annual budgets local authorities should consider the establishment and maintenance of reserves. These are held for 2 main purposes:

- A contingency to cushion the impact of unexpected events or emergencies
- Means of building up funds often referred to as earmarked reserves, to meet known or predicted requirements;

The appropriate level of reserves for this purpose will be determined by the Council's MTFP, which will be reviewed annually and will be subject to approval by a meeting of the Full Council. However, the Council will not maintain levels of General Reserve balances that are excessive compared with appropriate minimum levels. In this context, "excessive" will be assessed and reviewed annually in the MTFP with regard to:

- Ensuring the projected level of General Reserve balance at the end of the MTFP, is within the appropriate range calculated.
- The annual planned use of reserves in each year of the MTFP;
- The impact of sudden large changes in annual use of balances on services or Council Tax levels.
- The adequacy of the General Reserve Balance will be determined by assessing the financial risks associated with meeting continuing obligations to provide services. The risk assessment will be reviewed annually.

## **Guidance**

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance about the factors which should be taken into account in determining the overall level of reserves and balances. These are:

- Assumptions regarding inflation;
- Estimates of the level and timing of capital receipts;
- Treatment of demand-led pressures;
- Treatment of savings;
- Risks inherent in any new partnerships;
- Financial standing of the Authority (i.e. level of borrowing, debt outstanding, etc.)
- The Authority's track record in budget management;
- The Authority's capacity to manage in year budget pressures;
- The Authority's virements and year-end procedures in relation to under and over-spends;
- The adequacy of insurance arrangements.
- An assessment of external risks
- Impact of major unforeseen events; and
- Likely level of Government support following major unforeseen events.

The General Reserve Balance will be reviewed and projections on future earmarked reserve balances will be made at key points during the financial year, namely as part of the budget setting process and update of the MTFP. Only in exceptional circumstances, would the actual level of the Council's balance fall below the level which is considered appropriate. This is consistent with the need to provide to meet short-term unforeseen expenditure. The Council has not previously used its General

fund balance and has contained all unforeseen uses within the Budget Risk Reserve. The actual level will be monitored against balances outlined in the MTFP.

The Reserves report will set out the level of planned balances, as well as confirming acceptable thresholds above or below the balance. If the balance falls outside of the planned tolerance levels, a plan will be agreed by the Council to restore balances to the appropriate levels as assessed by the Director of Finance.

Balances from in year underspends will in the first instance be used to reduce any use of reserves supporting the current year budget. Any amounts in excess of this will be allocated to the general reserve and proposals for their use will be subject to final approval by Council Cabinet.

Balances should be reasonable for the purpose held and must be used for the item for which they have been set aside, if circumstances arise to which the reserve is no longer required for its original purpose, they should be transferred to the General Reserve and any alternative use approved by Council Cabinet.

## **Financial Limits**

The use of reserves and delegated levels of approval are included within the Council's Financial Procedure Rules.

Chief Officer Group may approve the use of an earmarked reserve up to £100,000, per financial quarter, in line with the original intended use, including the general use of the budget risk reserve.

The relevant portfolio member may approve the use of an earmarked reserve up to £250,000, per financial quarterly period, in line with the original intended use.

Any use of Council reserves over £250,000 or where reserves are to be used for an alternative purpose to their original intention must be approved by Council Cabinet.

Movements in reserve balances are to be reported to cabinet on a quarterly basis.

## **Further Legislative Control**

There are also a range of safeguards in place that help to prevent local authorities over-committing themselves financially. These include:

- The balanced budget requirement.
- Chief Finance Officer's duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget requirement.
- Chief Finance Officer's duty to report on robustness of estimates and adequacy of reserves.

- The legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the Chief Finance Officer/Proper Officer has responsibility for the administration of those affairs, section 151 of the Local Government Act 1972.
- The requirements of the Prudential Code.

These requirements are reinforced by section 114 of the Local Government Finance Act 1988 which requires the Chief Finance Officer in England and Wales to report to the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

Whilst it is primarily the responsibility of the local authority and its Chief Financial Officer to maintain a sound financial position, external auditors will confirm that there are no material uncertainties about going concern.