

Chief Financial Officer's Statement on the Soundness of the Budget and the Adequacy of the General Reserve

In considering the Medium Term Financial Plan (MTFP) the Chief Financial Officer needs to consider the level of reserves for which it provides. This will, in part, be governed by known or likely commitments, and, in part, by the appetite for risk.

The County Council as at 31st March 2016 had £13m held as a general reserve, and when compiling the MTFP has taken into account estimates of future expected changes for pay increases, including the national living wage for staff and suppliers.

In setting the level of reserves I would suggest that the following issues should be taken into account:

The possibility of savings targets not being met. I would suggest no provision in reserves for this, but if this approach is taken, it is recognised that any failure to deliver savings will have to be compensated for, potentially, by alternative service reductions.

Possible delays in the delivery of savings. It is recognised that sometimes the delivery of savings are delayed for a variety of reasons. It may be possible to provide cover through withholding expenditure temporarily, from other budgets, although it remains that the savings still need to be delivered, albeit at a later stage.

The County Council's savings profile in the current and future years (including new savings proposed for 17/18 and later years) are rated as follows as at January 2017:-

RAG Rating	2016/17	2017/18	2018/19	2019/20	2020/21	Total
	£m	£m	£m	£m	£m	£m
Red	4.9	11.4	11.6	1.9	0.6	30.4
Amber	2.5	2.2	0.7	0.7	0.0	6.1
Green	20.0	5.0	0.1	0.0	0.0	25.1
New reforms closing the gap	-	1.0	0.4	-	-	1.4
Total	27.4	19.6	12.8	2.6	0.6	63.0

A recent review of Future Fit projects indicated that £6.1m of the 2016/17 savings are likely to be covered by directorate reserves or one-off income in year, and, of these, about £1.2m may need further refinement to programme plans to achieve outcomes. This indicates the likely amount of savings that will be undelivered recurrently at the year-end, and therefore need to be rolled forward into the 2017/18 programme. Given the County Council's experience in forward planning and delivery of savings and reforms, it is considered highly likely that the County Council would be able to plan and achieve alternative savings before any significant impact on general balances.

Most likely, therefore, the red and amber savings risk to be carried forward expressed above would be covered firstly from Directorate's Earmarked Reserves, or through active management of other budgets, before the need to provide funding from General Balances.

Nevertheless, if this were not to happen, then there needs to be sufficient cover from General Balances.

It is therefore concluded that holding £6m in General Balances to cover risk of organisational change continues to be robust and adequate cover considering the amount of financial change, resources available and recent operational experience.

There should also be a general contingency provision for other unknown events. Assessing a prudent level for this is not possible with any degree of accuracy, but would be unlikely to exceed 1% of net revenue expenditure, around £3.5m.

The aggregate cost of these elements is around £9.5m.

The County Council does not necessarily have to provide money in reserves for each of these elements individually, as they may not occur at the same time. One contingency can provide for several possible events. However, it does need to give realistic consideration to the likelihood of them occurring during the period covered by the plan, and it does need to provide explicitly for those which are certain to occur. Given the relative low aggregate sum involved, it is recommended that general balances are satisfactory at £12m.

Provided that this sum is available at all times within reserves, I am satisfied that this budget is soundly based and adequately provides for the risks facing the Authority.

This review has been completed recognising all the financial risks identified in the February 2017 Cabinet Budget Report.

Sean Pearce
Chief Financial Officer
February 2017