Shropshire Council

Committee and Date

Cabinet
10 February 2016

STATEMENT OF CHIEF FINANCIAL OFFICER ON THE ROBUSTNESS OF THE ESTIMATES AND ADEQUACY OF RESERVES 2015-19

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1. Summary

1.1. Under Section 25 of the Local Government Act 2003, the Authority’s Chief Financial Officer is required to report on the robustness of the estimates made for the purposes of the budget calculations and the adequacy of the proposed reserves.

2. Recommendations

Members are asked to:

A Approve the recommended level of general balances to support the 2016/17 revenue budget at £28.20m, noting that the projected balance will be below this for 2016/17;

B Note the projected recommended level of general reserves for the following two years at £26.45m in 2017/18 and £20.13m in 2018/19.

3. Background

3.1. Each year council considers a Statement of the Robustness of Estimates. Budget estimates are estimates of spending and income made at a point in time. This statement about the robustness of estimates cannot give a guaranteed assurance about the budget, but in an objective and systematic manner gives members reasonable assurances that the budget has been based on the best available information and assumptions.

3.2. In order to meet the requirements for the robustness of estimates a number of key processes were put into place, including:

- Review of expenditure and resources for the entire council for next five years under a new Sustainable Business Model to identify the underlying viability of the council’s resource envelope when compared to cost.
- Review of existing budgets and focus on key risk areas as part of the budget setting and budget monitoring process. For example, our key risk area in terms of budget size and volatility is Adult Services. Over the last twelve months, key personnel have been gaining a better understanding of cost drivers within the

new operating model for this service area. As a result we have a better understanding of the pressures in this area and have used this in the modelling of future costs.

- Identification of the in-year and the full year impact of any variations compared to budget. This ensures that the underlying budget and any pressure can always be separately identified and arrangements to manage pressures (for example by the use of one-off resources) is undertaken in an open and transparent mechanism, approved by Cabinet.
- The Financial Strategy and Budget Monitoring Reports are updated and reported to Cabinet on a quarterly basis. In this period of unprecedented uncertainty in terms of Local Government funding and spending pressures, the latest position is always reported transparently even though this position can change significantly from one reporting period to the next.
- Separation of roles within the Finance Team in setting budget control totals, identifying budget requirement and inputting into the Finance System which is subject to review by Internal Audit as part of the Council's Internal Audit Plan.
- Review by Finance Staff with Service Managers to understand the achievability, deliverability and timescales for all proposed service redesign.
- Reporting of the business planning and budget setting process including savings proposals to the relevant Scrutiny Committees to enable review and challenge.
- Notwithstanding these arrangements, which are designed to test the budget throughout its various stages of development, considerable reliance is placed on Senior Managers having proper arrangements in place to identify issues, project demand data, performance information and to consider value for money and efficiency.

3.3. On an annual basis the Council also considers the level of reserves held, including the General Fund Balance, to assess whether they are adequate. There are two main approaches for deciding the optimum level of the general balances. One method is to set an arbitrary percentage of expenditure, however this generally has little reflection of the potential contingencies that the Council may need to draw on. An alternative, preferable, method is an approach based on a risk assessment of the budget.

3.4. This paper sets out the framework for a risk assessment approach. The issues the framework considers include strategic, operational and financial risks that the authority is facing. This includes, for example, changes in external funding or the council's ability to deliver savings; the effectiveness of budget monitoring to identify variances from spending plans and trigger timely remedial action; the availability of other funds to cover costs – for example, from an insurance policy, or from the government under the Bellwin Scheme for emergency financial assistance; and the extent to which contingency is built into individual departmental budgets and the council's overall budget.

4. Risk Assessment

4.1. On an annual basis the Council will undertake a formal review of risks associated with the budget and Financial Strategy and identify balances at appropriate level compared to the risks. The development and introduction of this risk assessment is not intended to replace the Council's existing Risk Registers, rather that they should inform any revision of these Risk Registers.

4.2. The Risk Assessment is intended to form part of the onward budgetary control framework and used at budgetary control meetings with service area personnel and reviewed annually by the authority.

4.3. Throughout the budget process Members are able to challenge and assess the robustness of budgets and the achievability of savings, income and budget reductions. The key financial risks that remain are:

- Changes to staffing arrangements through redundancy, restructure or remodelling of services or the overall Council Structure;
- The delivery of service redesign proposals, savings and income targets and efficiency measures within the required timeframe;
- Changes to the Capital Programme, to achieve the policy objective of eliminating Prudential Borrowing, unless it is self-funding or internal borrowing;
- Improvements in budgeting and/or associated IT systems, the implementation of which may throw up funding challenges;
- The impact of changes on a national or regional basis that do not fall within the existing budget process; and
- Lack of clarity from Central Government on the future funding levels and changes to Local Government powers and financing, plus increased uncertainty re: local resources, which inhibits the ability to calculate future budgets.
- Inability to set a sustainable budget with the resources available, resulting in services not being delivered or a legal budget not being set from 2017/18 and beyond.

4.4. These assumptions and potential changing circumstances will require the forecasts for future years to be reviewed in each financial year leading to more detailed budgets being prepared for the next financial year and for the Medium Term Financial Strategy. Impacts within year are reported to Members within the existing monitoring reports for both revenue and capital.

5. Robustness of Revenue Estimates

5.1. The 2016/17 budget process continues progress in improving the Council's budget preparation, most notably in the process of medium term forecasting due to information and trend data drawn from the monitoring of the budget and associated systems, reported as a minimum to Cabinet on a quarterly basis.

5.2. As part of developing the 2016/17 budget, Council Members have had the opportunity to consider available options, implications and impact on outcomes, and these are reflected in the proposed budget.

5.3. The development of the 3 year financial strategy has reported on the Council's need for services to be fully funded from sustainable resources over the next five years and the move towards this is demonstrated in the resources and expenditure projections given in Table 1 below. This is reflected in the Council's Business Plan and Financial Strategy, which has identified a funding gap of £61 million over the three years to 2018/19.

Table 1: Gross Resources and Expenditure Projections (£'000s)

	2016/17	2017/18	2018/19
Projected Resources	565,377	568,152	568,440
Current Projected Expenditure	596,902	616,121	629,456
Funding Gap	**31,526**	47,969	61,017
Year on Year Funding Gap		**16,443**	**13,047**

5.4. In addition to the £61 million funding gap, the Financial Strategy includes plans to resolve non-delivery of 2015/16 savings by applying one off resources in 2016/17. These will then be added to the funding gap for 2017/18 in addition to any savings funded through one off resources in 2016/17 and thereby will increase the savings delivery required in 2017/18. Savings proposals have been identified for 2016/17 and 2017/18 however more than half of these are RAG rated as Red in terms of deliverability and so progress against these proposals will be monitored carefully to consider the impact on the budget strategy.

5.5. To improve the medium term financial planning for the authority it is proposed to undertake mid-term reviews of the medium Term Financial Strategy every two years (with a refresh in intervening years), extending the existing plan by two years at each review. Annex 1 shows the factors taken into account in developing the draft budget.

5.6. The impact of pressures identified in Adult Services has resulted in a number of changes being made to the Council's budget very shortly before the Council's budget is set. This reflects the increasingly dynamic variations seen within this service area, and with reduced resources elsewhere, the sharpening of the impact of these changes on the overall position of the Council. The robust procedures in place and the clear understanding of how reliance is placed on different funding streams across the authority (for example the use of one off resources and the continued retention of a risk assessed General Fund Balance) ensure that the Council is able to set a legal budget. This in itself allows greater time for consideration of these issues, in this case 12 months before the 2017/18 budget is set.

6. Capital Budget

6.1. The agreed programme is fully funded within the 3 year timescale however this is heavily dependent on the Council generating significant levels of capital receipts. Projects have been costed at current year prices but may be subject to tender process after inclusion in the programme which may lead to a variance in the final cost. In some areas, the design brief may not be finalised, again giving rise to potential price variance.

6.2. The risk of the Council being unable to fund variations outside of the programme is minimal mainly due to phasing of projects. If necessary the Council can choose to freeze parts of the programme throughout the year to ensure spend is kept within the agreed budget.

6.3. There are two main risks.

- Firstly, the ability to deliver the capital programme within the agreed timescales. Slippage from 2015/16 is fully funded over the Financial Strategy period but this in itself will increase pressure on the Council to deliver the anticipated 2016/17 programme.
- Secondly, the draft 3 year 2015-18 programme has an amount set aside for new starts based on the availability of capital receipts. In the continuing, difficult financial climate, these receipts may be lower than expected, which will have to be managed.

6.4 The capital programme will be actively managed and reprofiled during the course of the financial year to reflect scheme delivery timescales and revisions to funding agreements for projects. However at the end of the year, slippage within the programme normally occurs which had not previously been anticipated. This will be due to delays in delivery of schemes and the net of underspends and overspends against specific projects. As shown in Table 2 below, in 2014/15 there was slippage of £12.180m which represents 18.3% of the revised capital programme. Action has already been taken during the course of 2015/16 to reprofile budgets to future years to reflect latest data on project delivery.

Table 2: Three Year Capital position (£000's)

	2014/15	2015/16	2016/17
Capital Programme	+58,347	+51,543	+55,868
Reprofile Budgets	+8,086	-153	-
Revised Capital Programme	+66,433	+51,390	+55,868
Slippage	-12,180	-	-
Actual Capital Programme	+54,253	+51,390	+55,868

6.5 The capital programme includes a target for capital receipts to be delivered to ensure the programme is fully funded and removing the necessity for prudential borrowing to be undertaken to meet a funding gap. This target generally decreases during the course of the year to reflect the reprofiled budget, however the full capital receipt target will still be required to fully fund the capital programme. In 2014/15 capital receipts of £4.4m was generated and in addition to those brought forward from previous years, the level of receipts were over the value required to fund the re-profiled capital programme.

6.6 Over the last 2 years (2014/15 and 2015/16) the level of capital receipts have been sufficient for a balance of capital receipts to be carried forward to offset any requirement for funding in the next financial year. This has been managed by natural slippage in the programme which has enabled other sources of funding to be used initially. In 2016/17 the level of capital receipts required is £27m and a shortfall of £13m currently exists within receipt projections. Whilst every effort will be made to bring this level of resources in to the Council, should there be a delay in the delivery schedule of capital receipts it is anticipated that this will again be controlled through natural and potentially managed slippage in the capital programme.

7. The Framework for the General Balance

7.1 A Framework has been developed to identify areas of risk with an appropriate budget amount, an assessed level of risk (high, medium and low) and a percentage factor which will vary according to the level of risk. This process produces a value from which a risk assessed optimum level of general balance can be created.

7.2 There are six main areas that the General Fund Balance is required to cover and the individual risks within these areas have been considered. These risks are detailed, with explanatory text, in Appendix 1, while Appendix 2 provides a summary of the calculation for the general balance.

8. Review of Earmarked Reserves and Provisions

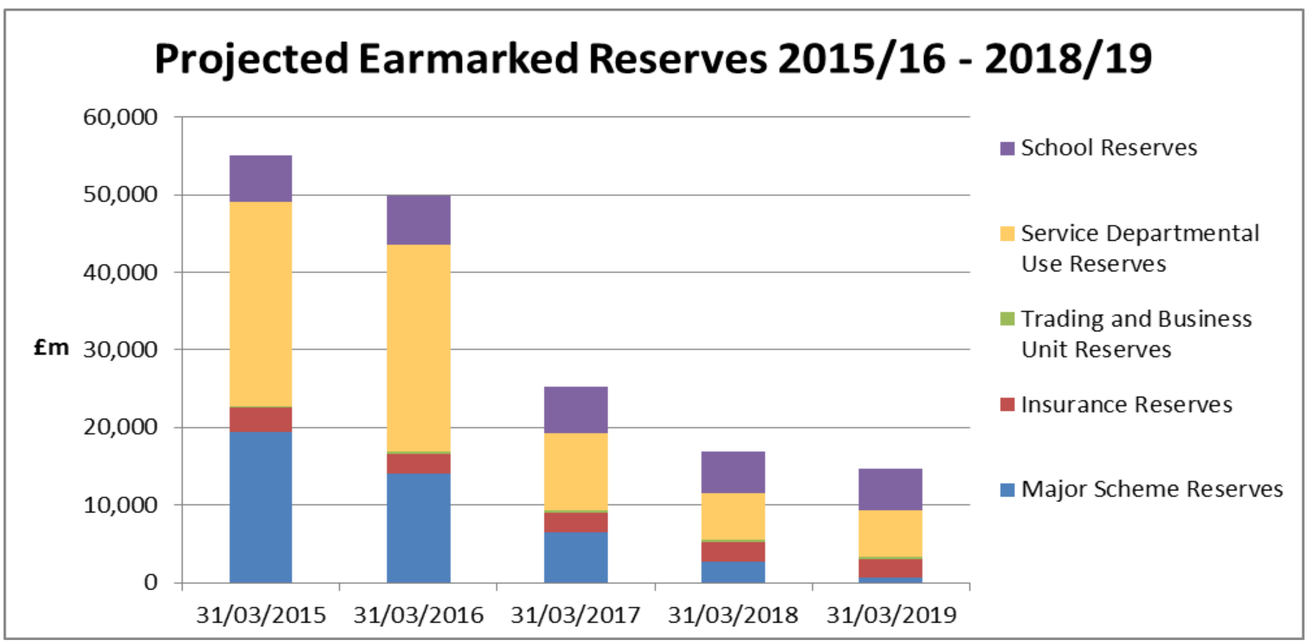
8.1 A review of the earmarked balances held by the Council has also been performed to establish the purpose of the reserves and the likely timescale that these reserves will be utilised.

8.2 Earmarked reserves are created to meet known or predicted requirements in the future. There are 5 main categories of earmarked reserves that the Council holds:

- Sums set aside for major schemes, such as capital developments, or to fund major reorganisations
- Insurance Reserves
- Reserves of trading and business units
- Reserves retained for service departmental use
- School Balances

8.3 The Council held balances of £55.026m in earmarked reserves at 31 March 2015 which includes schools budget balances of £5.892m. During the course of 2015/16 it is anticipated that a net £14.903m will be released from earmarked reserves to fund known commitments, however this will be offset by a contribution of £9.8m to fund savings proposals in 2016/17 as agreed in the Financial Strategy paper to Cabinet in December 2015. A full breakdown of the earmarked reserves is attached at Appendix 3 with details of the purpose of each reserve.

8.4 A projection has been made on the level of earmarked reserves that will be held over the next 3 years of the financial strategy based on likely timescales of when these balances will be used to fund known commitments, investment in service redesign and help to smooth the impact of savings proposals. Overall a reduction of 73% is anticipated in the earmarked reserves held and this is shown in the graph below.



9. General Fund Balance

9.1 It is essential in setting a balanced budget that the Council has money available in the event of unexpected spending pressures. The "balances" need to reflect spending experience and risks to which the Council is exposed.

9.2 The revenue monitoring reports have provided members with an updated projection on the General Fund and the projected General Fund Balance is provided below:

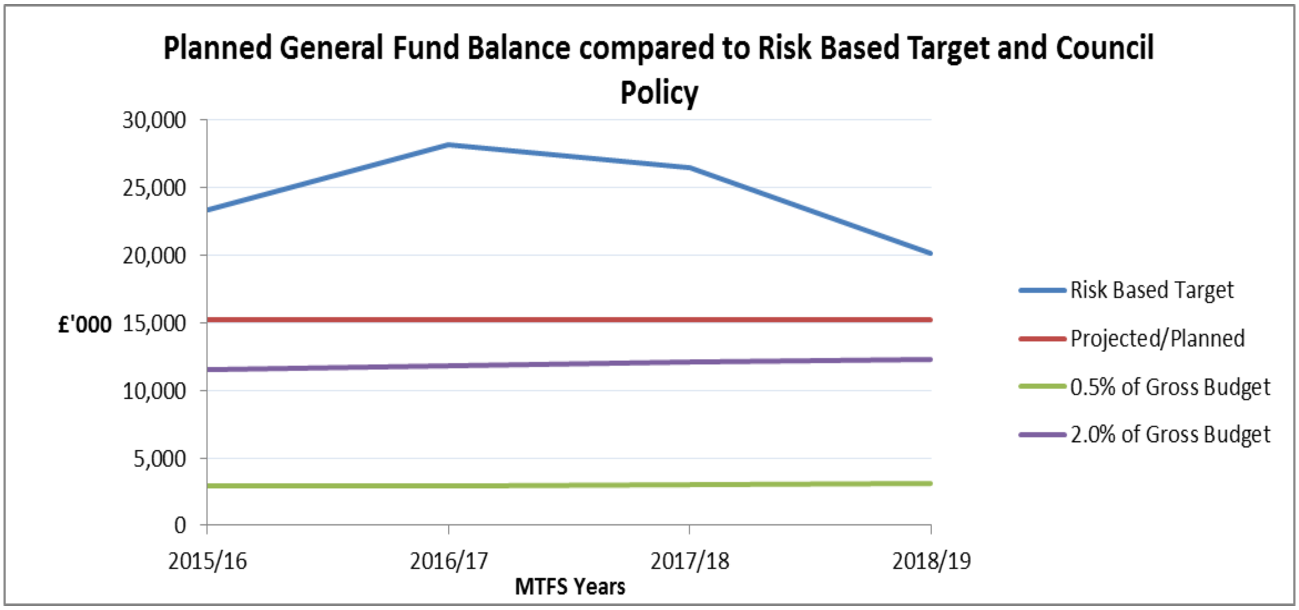
	Projection as per Quarter 3 (£'000)
General Fund Balances as at 31 March 2015	15,206
Budgeted contribution to General Fund Balance	409
Projected outturn as at Quarter 3	(403)
Projected General Fund Balance as at 31 March 2016	**15,212**

9.3 The Financial Strategy recognised that balances need to be increased to the risk assessed level and additional base budget contributions have been made over the last 4 years to increased the balance to its current level. 2015/16 is the final year that the budget includes any base budget contribution and so the projected level as per the Financial Strategy will now remain at £15.212m. The risk based calculation for the General Fund Balance is significantly higher than this value over the course of the 3 year Financial Strategy as shown below:

Table 3: Comparison of Risk Based Calculation to Projected General Fund

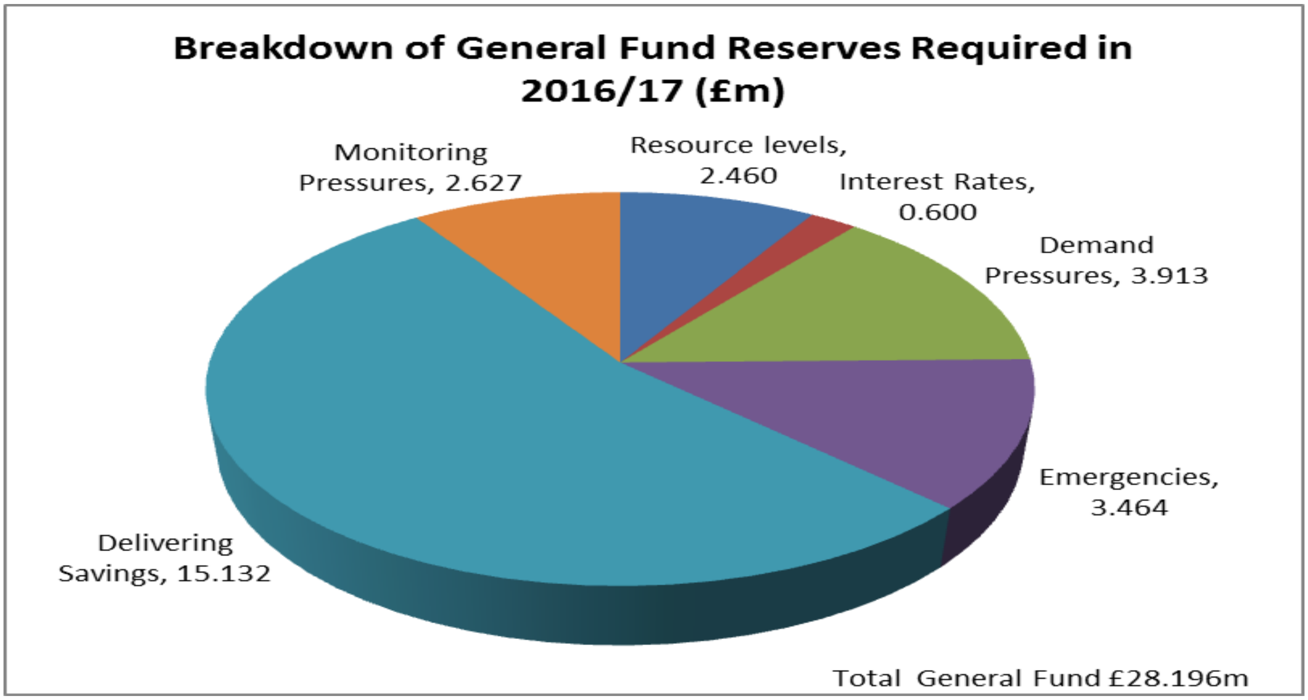
	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Risk assessed level of General Fund Balance	23,374	28,196	26,454	20,132
Projected level of General Fund Balance as per Financial Strategy	15,212	15,212	15,212	15,212

9.4 Whilst the projected General Fund Balance will be lower than the risk based target in 2015/16, as shown in the graph below, the risk based target reduces in 2018/19 to reduce the gap between the two figures. At this time, there is insufficient available funding to provide any additional contributions into the General Fund Balance to achieve the risk based target, and therefore this risk will need to be tolerated with mitigating actions as listed below.



9.5 The potential gap between the Risk Based Target and Projected General Fund balance will be closely monitored over the year and action will be considered and reported through to Cabinet if it becomes apparent that the projected balance is insufficient. Should the situation arise where a General Fund Balance at the risk based target is likely to be required, the Council will have to review commitments against other Earmarked Reserves such as the New Homes Bonus Reserve to de-commit funding where necessary to bridge the gap.

9.6 The risk based calculation shows a significant balance is required in 2016/17, which is mainly due to risk around the level of savings required in the budget strategy and the level of slippage and non-delivery that has been funded from one off balances. As shown in the graph below, the delivery of savings represents over half of the risk based level of General Fund Balance to be held. This has been the case for a number of years, but has been mitigated by the use of underspends elsewhere, alternative proposals or one-off resources. This situation continues to dominate the risk assessment in 2016/17 and any need to utilise these balances would seriously diminish the Council's ability to fund other contingencies or similar pressures in future years. It is important to re-emphasise that this is a general reserve that we need to maintain as a Council for now and future years. It is not something that we should expect, nor plan, to actively access as part of our Financial Strategy.



9.7 Careful management and monitoring of the savings delivery is therefore required in order to ensure that Balances are maintained at an appropriate level to meet any contingencies or other demand pressures over the period of the Financial Strategy.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Cabinet Member (Portfolio Holder) Malcolm Pate - Leader
Local Member All
Appendices Appendix 1: Analysis of Budget Assumptions and Financial Risks, including the Council's Financial Management Arrangements and Appropriate Mitigation Appendix 2: Risk Based Calculation of General Fund Balances Appendix 3: Earmarked Reserves

Analysis of Budget Assumptions and Financial Risks, including the Council's Financial Management Arrangements and Appropriate Mitigation

Budget Assumption	Explanation of Risk	Financial Standing and Management and Mitigating Action
1. The treatment of inflation	There are two key issues in relation to inflation. • There may be some items of expenditure – fuel or energy costs for example - where any estimate of inflation is a 'best guess'. The risk assessment puts a figure to the higher level of inflation that would seem to be unreasonable to include in a budget, but might come to pass. • Information is less accurate for years 2 and 3; the risk assessment covers the higher range. It is difficult to predict the direction that the wider economy will take and thus the level of inflation required.	Pay – 1% has been provided in the 2016/17 budget to reflect the pay award for staff with 1% thereafter. Funding has also been provided for increments due to be awarded for 2016/17based on existing staffing levels. Pension contribution rates are anticipated to remain at the same level for the period of the MTFP, however inflation has been provided for the lump sum element of the pension contribution. Price inflation has been provided on contractually or quasi-contractually committed budgets at the rate stated in the relevant agreement.
2. Interest rates on borrowing and investment	This issue here are similar to those in 1 above, but for a specific area. The Council's policy of generating capital receipts to prevent new borrowing, and allowing existing borrowing to mature has resulted in a reduction in available cash balances to invest. The level of interest rates on investments has also dropped to record lows resulting in reduced returns on cash balances. In the past it was possible for the Council to lend money and get a better interest rate than it was paying for borrowed money. The Council's borrowing has been undertaken at fixed rates of interest and so the level of interest payable is not considered as a risk to variable rates. However if borrowing should be required, there is a potential risk that any new borrowing may not be secured at similar interest rates to those currently budgeted for.	Interest receivable budgets have been set based on 2015/16 profile of the interest gained on cash balances held. These range from investments for 12 months gaining 2% to short term call accounts which gain only 0.25%. The average interest rate of the total debt portfolio (excl. HRA) is calculated at 5.32% for 2016/17 and this is used for all borrowing costs.
3. Estimates of the level and timing of capital receipts.	The Council has developed an asset management strategy and has a policy of reducing borrowing costs around the capital programme where possible. Therefore the capital programme is dependent on the delivery of capital receipts. The planned receipts estimated to the Council are made more difficult due to reducing market values and problems for potential procurers in obtaining finance.	Capital receipts are monitored monthly in the capital monitoring report and are RAG rated in terms of their anticipated delivery against target.

Budget Assumption	Explanation of Risk	Financial Standing and Management and Mitigating Action
4. The treatment of demand led pressures	There are long standing areas of risk due to volatility, where we budget for demographic changes in future years, but might find the actual is at the higher end resulting in a shortfall, particularly in the short term. Two areas specifically affected by demography are adult social care and children's social care, where we have seen significant budget pressures due to increasing numbers of clients receiving care packages.	Managers review their base budgets including demand led pressures. Services are expected to put forward management and policy actions to manage the additional demand within the relevant legislation either within the relevant budget or reprioritising within their Service budgets. If this is not possible and under-spending management action or policy actions in other Services are not sufficient to cover the additional demand, then reserves may have to be used to address the additional expenditure temporarily. Such an eventuality has been considered in future years' budgets and it is assumed that general fund reserves are restored to an appropriate prudent level over the course of the MTFP. The 2016/17 budget has been based upon specific demand levels identified during budget monitoring in 2015/16 and projections made by Heads of Service of demand levels in future years.
5. The treatment of efficiency savings	The budget includes improvement programmes that will deliver savings; the risk is that they may be delivered at a slower rate. This includes total savings targets of £41m over the three year period projected in the MTFS which will have risks involved in terms of delivery, and also the delays in delivery.	All Managers have a responsibility to ensure the efficient delivery of services and when efficiency savings are proposed that those savings are both realistic in terms of the level of savings and timing. Should the level and timing of such savings vary due to unforeseen events and under-spending, management action or policy actions within the relevant Service Area and corporately will be implemented where appropriate. Alternatively the General Fund Balance will be utilised as a temporary funding mechanism until the full savings are achieved.
6. The financial risks inherent in any significant new funding partnerships, major outsourcing deals or major capital developments	The Council has set up a wholly owned company which it plans to be a vehicle for greater service delivery in the future. Other delivery vehicles will also be considered by service areas. Full business cases are required for any services being considered for transfer to an alternative service vehicle.	The sharing of risk is in accordance with the principle of the risks being borne by the party best placed to manage that risk. Inherent risks include any guarantee or variation of service throughput (service volumes). If risks materialise the expectation is that such an eventuality will be considered in future years' budgets. Business cases for any new delivery vehicles will fully investigate any financial risks that the Council may face in the future and the MTFS updated accordingly.

Budget Assumption	Explanation of Risk	Financial Standing and Management and Mitigating Action
7. The availability of other funds to deal with major contingencies	Were a disaster to occur, we have to have a reserve in place to pick up costs that will fall to the Council. The impact of flooding within the Council area based on present experience is that it is limited to localised pockets. The geographical area covered by the Council has resulted in budget pressures in some years due to extreme weather conditions and additional costs such as snow clearance. Changes to the base budget provision has been made in previous years to help mitigate this, but overspends in previous years have, at times, been in excess of this growth level. In more recent years it has not been necessary to utilise all available funding, but a risk remains. Other disasters such as those relating to ICT could occur on a one off basis.	The level of reserves assumes that management and policy actions will be taken to address major contingencies. Should these be insufficient, the general fund balance may have to be used. An earmarked reserve has been established for Severe Weather however any pressure not covered by this reserve would need to be funded from the general fund balance. A risk based approach in calculating the general fund balance takes into consideration the types of incidents and costs associated and this is reviewed annually. The Council's insurance arrangements are a balance between external insurance premiums and internal funds to "self-insure" some areas. Premiums and self-funds are reactive to external perceptions of the risks faced by the Council which includes both risks that are generic to all organisations and those specific to the authority. Therefore the values of Insurance Reserves are reviewed each year to ensure that the optimum balance is held based on the level of outstanding liabilities. Any major incident or emergency may result in significant costs to the Council. Depending on the incident concerned, the Council may be able to recover such costs through the Bellwin Scheme however the Council would need to cover any expenditure up to the agreed threshold level. This level is fully included within the Council's general fund balance.
8. Impact on council funding of announcements of national changes	Council funding is always subject to change, especially in the current economic climate. However the Business and Financial Strategy takes account of projected changes in the Revenue Support Grant and specific government grants.	The major risk factor included is in relation to the Housing Benefits grants which the Council receives. Changes are planned for welfare benefits which may increase the Council's exposure to costs over and above the grant that is received. This has been factored into the General Fund risk based calculation.
9. The overall financial standing of the authority (level of, debt outstanding, council tax collection rates etc)	Changes may mean doing things in a way for which we have no ready evidence and any assumptions made may be wrong. Additionally, the areas of change will alter over time. An allowance for budget pressures has been built in to accommodate any	The level of aged debt within the sundry debtors figure is monitored reported to Directors on a monthly basis so that the appropriate action may be taken. Bad debt provisions are maintained to protect the budget against any such pressures, but should these not be sufficient, the general fund would be used.

<table>
<tr><th>Budget Assumption</th><th>Explanation of Risk</th><th>Financial Standing and Management and Mitigating Action</th></tr>
<tr><td></td><td>corrective action that needs to be taken if the assumptions about changes in service delivery should change.

In the current economic downturn the risk of collecting all income due to the Council is enhanced, which includes all sundry debt, and charges relating to Council Tax and Business Rates. Any such pressure identified should be evaluated and provided for.

Income from fees and charges is also vulnerable to change based on the current economic climate. This is likely to continue and is adjusted for within the Financial Strategy, but is subject to short term negative variations from year to year.</td><td>The assumed Council Tax collection rate for 2016/17 onwards is 98% and is judged to be achievable based on previous experience. Legislation states that any Collection Fund surplus/deficit be corrected through the Council Tax in the next year. The surplus is distributed in 2016/17.

An income review is produced for Cabinet covering income from fees and charges. This review considers the level of income as monitored in the quarterly revenue monitors to Cabinet, and considers the impact of increases in charges, or the freezing of charges on the 2016/17 budget.</td></tr>
<tr><td>10. The authority's track record in budget and financial management.</td><td>Any overspend realised in a financial year would result in the use of the general fund balance. The Council has identified that general fund balances need to be in place in order to protect the Council against specific financial risks, and so any general overspend due to weaknesses in budget management, undermine any planned action being taken on the General Fund Balance.

Financial management needs to be considered across all service areas of the Council. If a particular service area is unable to manage a particular overspend pressure, this may present a need to use general fund balance in the current financial year. Also this may have implications on future level of balances if no action is taken to reduce the spending pressure for the service area in future years or offset by compensating savings.</td><td>The Council's recent track record in budget and financial management 2011 to 2016 shows potential variations from a £0.4m overspend to a £2.7m underspend (a range of £3m).

<table><tr><th>Financial Year</th><th>(£'000)</th><th>Underspend/ Overspend</th></tr><tr><td>2011/12</td><td>(2,709)</td><td>Under</td></tr><tr><td>2012/13</td><td>284</td><td>Over</td></tr><tr><td>2013/14</td><td>(390)</td><td>Under</td></tr><tr><td>2014/15</td><td>(300)</td><td>Under</td></tr><tr><td>2015/16*</td><td>403</td><td>Over</td></tr><tr><td>Total 2011 to 2014</td><td></td><td>Under</td></tr></table>
* As projected at Quarter 3 monitoring

This has been achieved by considerable management and policy actions to ensure spending is in line with the budget each year.

Ultimately, financial performance relies on all budget holders actively managing their budgets and complying with financial regulations, including not committing expenditure if there is no budget provision available.

The most recent three years outturn (estimated outturn for 2015/16) position suggests that variances do not exceed £0.4m

The authority needs to continually improve its ability to manage in-year budget pressures. The following steps are already in place:</td></tr>
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Budget Assumption	Explanation of Risk	Financial Standing and Management and Mitigating Action
		• Accuracy of projections has been improved over the year, but further work is required, particularly in light of redesign work being undertaken. • The monitoring system continues to be improved in terms of accuracy, the frequency of reporting and the challenge process. Collaborative Planning budget monitoring tool is now used within the Council to improve the financial information provided and the consistency of financial reports produced. The Council's virement and carry forward rules are clear and detailed in the Constitution.

APPENDIX 2

Risk Based Calculation of General Fund Balances

2015/16			AREA OF RISK	2016/17			2017/18			2018/19		
Budget £000	**Risk Level**	**Value £000**		**Budget £000**	**Risk Level**	**Value £000**	**Budget £000**	**Risk Level**	**Value £000**	**Budget £000**	**Risk Level**	**Value £000**
			Inflation									
89,009	0.25%	223	Salaries	85,671	0.25%	214	83,889	0.25%	210	82,731	0.25%	207
23,646	2.00%	473	Premises	22,759	2.00%	455	22,286	2.00%	446	21,978	2.00%	440
26,809	1.00%	268	Transport	25,803	1.00%	258	25,267	1.00%	253	24,918	1.00%	249
51,862	0.25%	130	Supplies & Services	49,917	0.25%	125	48,879	0.25%	122	48,204	0.25%	121
150,844	0.25%	377	Third Party Payments	145,188	0.25%	363	142,168	0.25%	355	140,206	0.25%	351
78,453	0.25%	196	Transfer Payments	75,511	0.25%	189	73,940	0.25%	185	72,920	0.25%	182
420,622		**1,666**		**404,848**		**1,604**	**396,428**		**1,571**	**390,957**		**1,549**
			Interest Rates									
254,418	0.00%	0	Borrowing	245,618	0.00%	0	240,618	0.00%	0	234,218	0.00%	0
5,000	1.00%	50	PWLB	5,000	1.00%	50	6,400	1.00%	64	6,000	1.00%	60
110,073	0.50%	550	Investment	110,073	0.50%	550	110,073	0.50%	550	110,073	0.50%	550
		600				**600**			**614**			**610**
			Capital Receipts									
-8,554	0.00%	0	Land Sales	-8,554	0.00%	0	13,426	5.00%	671	2,400	5.00%	120
		0				**0**			**671**			**120**
			Demand led Pressures									
63,113	6.32%	3,991	Adult Social Care	83,147	3.16%	2,627	93,056	3.16%	2,941	103,332	3.16%	3,265
14,349	5.88%	843	Childrens Social Care	15,287	2.94%	449	15,451	2.94%	454	15,667	2.94%	461
517	161.75%	836	IT Licensing	517	161.75%	836	517	161.75%	836	517	161.75%	836
		5,670				**3,913**			**4,231**			**4,562**
			Efficiency Savings									
20,615	35.35%	7,287	15/16 non achievement of savings	20,615	0.00%	0	20,615	0.00%	0	20,135	0.00%	0
20,615	12.98%	2,676	15/16 slippage of savings	20,615	0.00%	0	20,615	0.00%	0	20,135	0.00%	0
0	0.00%	0	16/17 non achievement of savings	31,526	35.00%	11,034	31,526	0.00%	0	31,526	0.00%	0
0	0.00%	0	16/17 slippage of savings	31,526	13.00%	4,098	31,526	0.00%	0	31,526	0.00%	0
0	0.00%	0	17/18 non achievement of savings	0	0.00%	0	25,800	35.00%	9,030	25,800	0.00%	0
0	0.00%	0	17/18 slippage of savings	0	0.00%	0	25,800	13.00%	3,354	25,800	0.00%	0
0	0.00%	0	18/19 non achievement of savings	0	0.00%	0	0	5.00%	0	13,047	35.00%	4,566
0	0.00%	0	18/19 slippage of savings	0	0.00%	0	0	10.00%	0	13,047	13.00%	1,696
		9,963				**15,132**			**12,384**			**6,263**
			Partnerships, Outsourcing arrangements									
90	Quantum	90	IP&E	-	Quantum	0	0	Quantum	0	0	Quantum	0
		90				**0**			**0**			**0**
			Insurance and Emergency Planning									
3,595	0.00%	-	Provision	3,651	24.00%	876	3,651	24.00%	876	3,651	24.00%	876
3,002	0.00%	-	Reserve	3,040	24.00%	730	3,040	24.00%	730	3,040	24.00%	730
500	Quantum	500	ICT Disaster	500	Quantum	500	500	Quantum	500	500	Quantum	500
500	Quantum	500	Other Incident	500	Quantum	500	500	Quantum	500	500	Quantum	500
458	Quantum	458	Bellwin	458	Quantum	458	458	Quantum	458	458	Quantum	458
2,495	10.00%	250	Severe Weather	2,000	20.00%	400	2,000	20.00%	400	2,000	20.00%	400
		1,708				**3,464**			**3,464**			**3,464**
			Funding Changes									
69,257	0.25%	173	Housing Benefits	69,257	0.25%	173	69,257	0.25%	173	69,257	0.25%	173
758	Quantum	758	Academy School transfer leaving deficit budget	1,100	50.00%	550	1,100	50.00%	550	1,100	50.00%	550
		931				**723**			**723**			**723**
			General Financial Climate									
7,341	5.00%	367	Debt Collection	7,341	5.00%	367	7,341	5.00%	367	7,341	5.00%	367
119,281	0.50%	596	Council Tax	127,069	0.50%	635	133,196	0.50%	666	139,619	0.50%	698
39,166	1.00%	392	Business Rates	40,269	1.00%	403	41,403	1.00%	414	42,569	1.00%	426
15,570	2.00%	311	Discretionary Income	16,573	2.00%	331	16,573	2.00%	331	16,573	2.00%	331
		1,667				**1,737**			**1,779**			**1,822**
215,843	0.50%	1,079	Additional Budget Pressures	204,527	0.50%	1,023	203,410	0.50%	1,017	203,704	0.50%	1,019
		1,079				**1,023**			**1,017**			**1,019**
		23,374	**TOTAL**			**28,196**			**26,454**			**20,132**

APPENDIX 3

Earmarked Reserves

Reserves	Purpose of Balance	Balance as at 31 March 2015	Anticipated movement in 2015/16	Projected Balance as at 31 March 2016
		(£'000)	(£'000)	(£'000)
Sums set aside for major schemes, such as capital developments, or to fund major reorganisations				
Redundancy	Required to meet one-off costs arising from approved staffing reductions, allowing the full approved savings in salaries or wages to reach the revenue account.	10,603	-2,419	8,184
Revenue Commitments for Future Capital Expenditure	Comprises of underspends against budgeted revenue contributions available for capital schemes. The underspends have arisen due to slippage in capital schemes or because other funding streams were utilised during the year so as to maximise time limited grants.	1,027	-453	574
Transformation	Required to fund invest to save projects in order to deliver the service transformation programme.	6,053	-1,299	4,754
University	Required to meet the revenue costs arising from the setup of the university project and student accommodation development.	1,810	-1,209	601
		19,493	**-5,380**	**14,113**
Insurance Reserves				
Fire Liability	Required to meet the cost of excesses on all council properties.	2,135	-500	1,635
Motor Insurance	An internally operated self-insurance reserve to meet costs not covered by the Council's Motor Insurance Policy.	867	0	867
		3,002	**-500**	**2,502**
Reserves of trading and business units				
Shire Catering and Cleaning Efficiency	Built up from trading surpluses to invest in new initiatives, to meet exceptional unbudgeted costs or cover any trading deficits.	300	0	300
		300	**0**	**300**
Reserves retained for service departmental use				
Care Act Reserve	Required to fund the costs of implementing the Care Act requirements within the Council. This will be committed to the costs of one off posts required to implement the changes and training costs for staff within Adult Services.	1,316	-1,316	0
Economic Development Workshops Major Maintenance	Established to meet the costs of major maintenance of Economic Development Workshops.	385	-5	380
Financial Strategy Reserve	Established specifically to provide one off funding for savings proposals in the Financial Strategy	0	9,805	9,805
Highways Development & Innovation Fund	Set aside funds for pump priming the Development and Innovation programme agreed within the Ringway Contract.	437	80	517
Major Planning Inquiries	Required to meet the one-off costs of major planning inquiries, and is a corporate reserve.	592	-310	282
New Homes Bonus	Established from unapplied New Homes Bonus Grant balances.	4,676	-2,211	2,465
PFI Buildings Equipment Replacement	Established in 2007/08 to fund replacement equipment in PFI buildings. This relates to items of equipment not covered by the PFI contract, that the council are responsible for maintaining.	4	-4	0

APPENDIX 3

Reserves	Purpose of Balance	Balance as at 31 March 2015	Anticipated movement in 2015/16	Projected Balance as at 31 March 2016
		(£'000)	(£'000)	(£'000)
Planning Reserve	Set aside funds for investment in planning application processes.	1,285	0	1,285
Public Health Reserve	This reserve includes balances committed and ringfenced to specific public health projects.	2,712	-2,020	692
Repairs & Maintenance Reserve	Set aside for known repairs and maintenance required to Council owned properties.	1,350	-625	725
Resources Efficiency	Established for investment in new developments, particularly information technology, that service area would not be expected to meet from their internal service level agreements for support services.	5,405	-2,102	3,303
Revenue Commitments from Unringfenced Revenue Grants	Established from unapplied unringfenced revenue Grant balances.	4,064	-278	3,786
Severe Weather	Required to meet unbudgeted costs arising from the damage caused by severe weather. The policy of the Council is to budget for an average year's expenditure in the revenue accounts and transfer any underspend to the reserve or fund any overspend from the reserve.	2,839	-500	2,339
Shropshire Waste Partnership (Smoothing)	The PFI smoothing reserve reflects the budgeted contributions in the early years of the Waste PFI contract that will be used to smooth the step up in the Unitary Charge once additional facilities come on line.	602	-213	389
Theatre Severn R&M	Established from underspends within culture and leisure, the reserve will be earmarked towards future capital and revenue expenditure on repairs, maintenance and replacement of essential equipment at the Theatre.	29	-4	25
TMO Vehicle Replacement	Set up to meet the costs of replacement vehicles by the Integrated Transport Unit.	643	0	643
		26,339	**298**	**26,637**
School Balances				
Balances held by schools under a scheme of delegation	Schools' balances have to be ringfenced for use by schools and schools have the right to spend those balances at their discretion.	3,957	0	3,957
Education – Staff Sickness Insurance	Schools' self help insurance for staff sickness with premiums met from delegated budgets.	162	0	162
Education – Theft Insurance	Schools' self help insurance scheme to cover equipment damage and losses.	96	0	96
Schools Building Maintenance Insurance	The schools building maintenance insurance scheme is a service provided by Property Services for schools. In return for an annual sum all structural repairs and maintenance responsibilities previously identified as the "authority's responsibility" are carried out at no additional charge to the school.	1,677	484	2,161
		5,892	**484**	**6,376**
Total Reserves		**55,026**	**-5,098**	**49,928**