



<u>Committee and Date</u>	<u>Item</u>
Cabinet	
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ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES 2018-24

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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 2019/20 revenue budget at £20.400m, noting that the projected balance will be below this for 2019/20;
- B Note the projected recommended level of general reserves for the following four years at £26.017m in 2020/21, £32.604m in 2021/22, £34.312m in 2022/23 and £34.700m in 2023/24.
- C Note that further consideration will be made of the implications of figures contained within this report and should there be any material change required, this will be reported to Council on 28 February 2019.

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 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 areas in terms of budget size and volatility is Adult Services and Children's Safeguarding. In order to review this, growth models for both service areas have been developed which look at the cost drivers for these service areas. As a result we have a better understanding of the pressures in this area and have used this in the modelling of future costs. This has been successful for some time however, pressures in the 2018/19 monitoring are evident as growth starts to breach original assumptions. Breaches of a small percentage have a significant impact in terms of value.
 - 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.
 - 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;
 - 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 including the impact of Brexit;
 - 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; and
 - Inability to set a sustainable budget with the resources available, resulting in services not being delivered or a legal budget not being set from 2019/20 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 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 2019/20 budget process continues progress in improving the Council's budget preparation, most notably in the creation of a detailed growth model and 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 2019/20 budget, Council Members have had the opportunity to review the available options, implications and impact on outcomes, and these are reflected in the proposed budget.
- 5.3. The development of the 5 year financial strategy is based on the assumption that services need to be delivered and funded through an appropriate level of resources over the next five years and this is demonstrated in the resources and expenditure projections given in Table 1 below. This includes assumptions around savings to be delivered as part of the Financial Strategy.

Table 1: Gross Resources and Expenditure Projections

	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000
Projected Resources	566,073	549,024	548,334	558,992	570,338
Current Projected Expenditure	590,357	583,960	591,243	609,255	627,188
Funding Gap	24,284	34,937	42,909	50,263	56,851
Year on Year Gap		10,652	7,972	7,354	6,588

- 5.4. Savings proposals have been identified for 2019/20 through to 2022/23, however the Council is awaiting further clarity on the Fair Funding Review before formalising savings plans from 2020/21 onwards. The savings identified have been based on raising income, innovation and cutting services. Some of the savings values, whilst achievable, are ambitious and so progress against these proposals will be monitored carefully to consider the impact on the budget strategy. Appendix 1 shows the factors taken into account in developing the draft budget.

6. Capital Budget

- 6.1. The agreed programme is fully funded within a 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 processes 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 the 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 associated with the Capital Programme.

- Firstly, the ability to deliver the capital programme within the agreed timescales. Slippage from 2018/19 is fully funded over the Financial Strategy period but this in itself will increase pressure on the Council to deliver the anticipated 2019/20 programme.
- Secondly, the draft three year programme includes projects funded from anticipated capital receipts. In the current climate these receipts may be lower than anticipated or may not materialise in the expected timeframe which will have to be managed through a robust monitoring process.

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. At the end of the year, however, 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 2017/18 there was slippage of £10.140m which represents 17% of the revised capital programme. Action has already been taken during the course of 2018/19 to reprofile budgets to future years to reflect latest data on project delivery.

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

	2017/18	2018/19	2019/20
Capital Programme	+66,058	+53,398	+68,336
Reprofile Budgets	+2,978	+25,598	-
Revised Capital Programme	+69,036	+78,996	+68,336
Slippage	-9,288	-10,140	-
Actual Capital Programme	+59,748	+68,856	+68,336

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.

6.6 Over the last 2 years (2017/18 and 2018/19) the level of capital receipts has 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 2019/20 the level of capital receipts required is £22.8m and a shortfall of £6.7m currently exists within receipt projections. There are currently £3.1m of further

assets being considered for disposal which partially address this shortfall. 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.
- 7.3 The risk based assessment of the General Fund Balance was examined in detail by a Task and Finish Group of the Performance Management Scrutiny Committee in 2016, to confirm that the method for calculating the indicative risk based General Fund Balance was a sound basis. It was agreed that this method does cover and appropriately measures the potential financial risks that the Council needs to provide for and so should continue to be used in future years.
- 7.4 The risk calculation used to estimate the required General Fund Balance has been expanded this year to take into account risks associated with Brexit. The impact is unknown at the present time, but there is the potential to see an economic slowdown, impacting on capital receipts generation, construction and a reduction in business rates; increased unemployment and homelessness could reduce discretionary income generation, Council Tax collection and impact on Council Tax Support; across the wider economy general inflation could be impacted and supply chain implications could affect contract prices. The financial impact on the Council is difficult to estimate and to untangle for impacts across the wider economy, but has been estimated where possible.

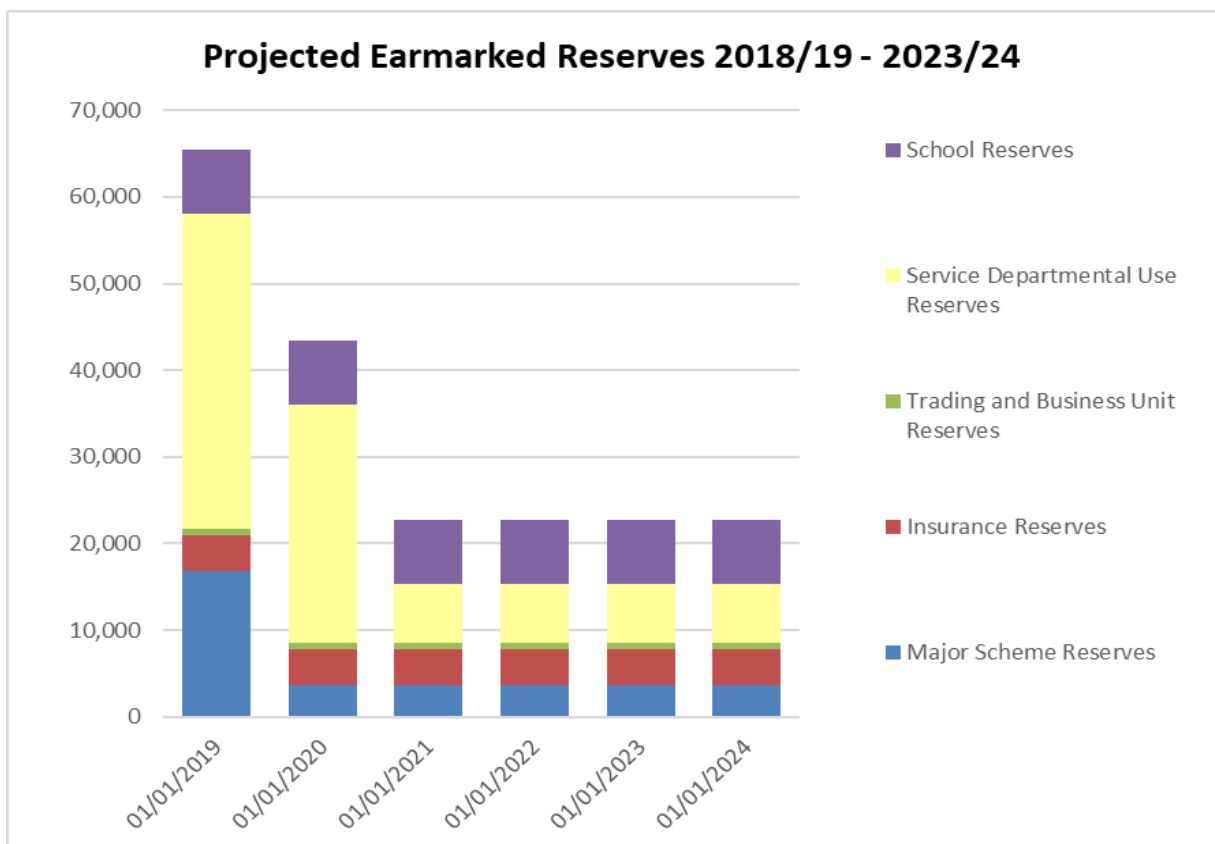
8. Review of Earmarked Reserves and Provisions

- 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 £69.839m in earmarked reserves at 31 March 2018 which includes schools budget balances of £7.372m. During the course of 2018/19 it is anticipated that a net £4.236m will be drawn down from earmarked reserves to fund commitments during the year. Balances taken forwards include contributions of £20.096m to fund the known funding gap in 2019/20 and future years as agreed in the Financial Strategy paper to Cabinet in December 2018. 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 5 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 65% is anticipated in the earmarked reserves held with the most significant reduction coming within the Financial Strategy Reserve in the next two years, 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:

	£'000
General Fund Balance as at 31 March 2018	15,311
Brexit Funding	105
This Report – Projected Outturn Under/(Over)spend	(72)
Projected Balance at 31 March 2019	15,344

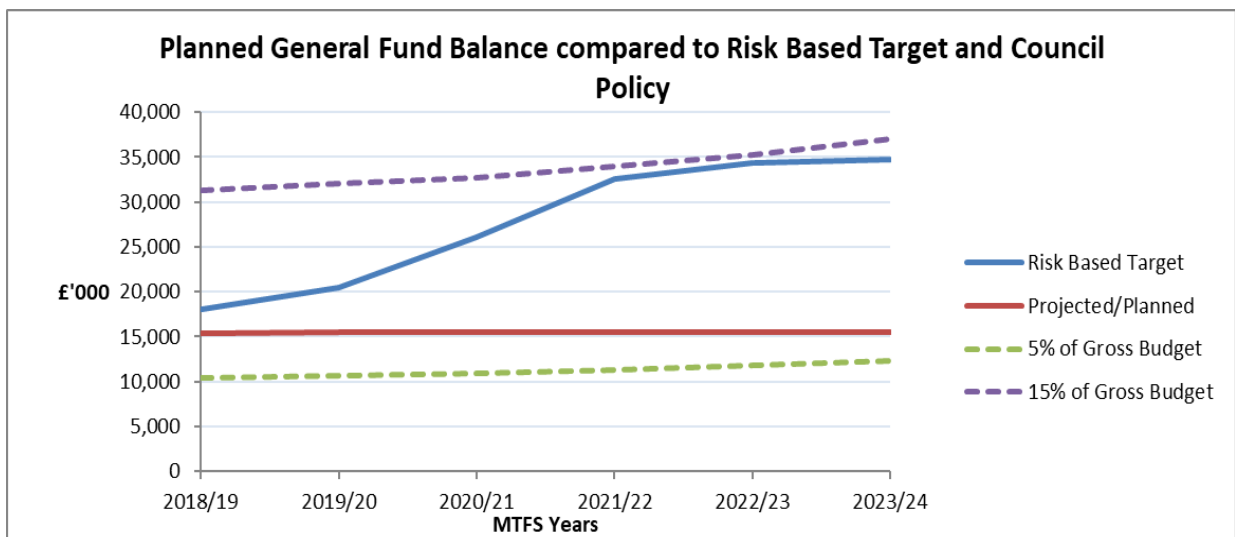
- 9.3 The Financial Strategy previously recognised that balances needed to be increased to the risk assessed level and additional base budget contributions were made over the previous 4 years to increase the balance to its current level. The budget no longer includes any base budget contribution however the Government has recently advised that they are providing £105,000 in 2018/19 and 2019/20 and as the Brexit risks are considered within the General Fund Balance, this funding will be contributed to the General Fund Balance in the two years. The risk-based calculation for the General Fund Balance is significantly higher than this value over the course of the 5 year Financial Strategy as shown below:

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

	2019/20	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000	£000
Risk assessed level of General Fund Balance	20,400	26,017	32,604	34,312	34,700
Projected level of General Fund Balance as per Financial Strategy	15,344	15,449	15,449	15,449	15,449

- 9.4 The anticipated General Fund Balance for 2019/20 is below the risk assessed level for that financial year. A significant proportion of this shortfall, however, relates to the financial exemplification of Brexit risks arising from a no-deal exit from the EU. While this remains a material risk, it is very difficult to assess whether the financial estimates identified in the calculation are accurate and realistic, and consequently it is unwise to use this element of the calculation as a robust basis for taking action that could have unnecessary and significant financial implications on the wider Council. It is, of course, anticipated that the UK position in relation to Brexit will be clarified before the end of the Financial Year. Considering the authority as a whole, given this timescale and the potential to decommit earmarked reserves in the short term under an emergency situation, it is acceptable, in this scenario, for the General Fund Balance to remain below the risk assessed level.

9.5 The gap between the general fund balance and the risk assessed level grows significantly in 2020/21 and increases further in future years. This is reflective of the remaining funding gap in these years as set out in the Financial Strategy. Furthermore, there are a number of funding sources that have not yet been confirmed as part of the multi-year settlement that the Council has signed up to. Whilst it is anticipated that the Council will pursue savings and efficiencies or even increase council tax to help reduce this gap, there is a risk that a significant funding gap will still remain that may fall on the General Fund Balance. It should be noted that 2020/21 is the year that a new fair funding formula will be implemented. It is not known at this point whether this will be favourable or present the Council with a further funding pressure. In light of this combined additional risk the Council should consider planning for future contributions to the General Fund Balance in order to bring the balance in line with the risk based assessment.



9.5 Research undertaken by CIPFA show that generally upper tier councils hold a general fund balance of approximately 10% of the net revenue budget. Shropshire Council is currently holding a balance which represents 7% of the Net Revenue Budget. Using the CIPFA research as a basis for agreeing a benchmark to evaluate the level of General Fund Balance held, it is considered appropriate that the balance held should be somewhere between 5% and 15% of their net revenue budget. If this benchmark was implemented, it would be necessary for the General Fund Balance to be between £10.438m and £31.315m in 2019/20. This can be seen as a blunt tool for calculating an appropriate balance to hold, but does give a standard to compare to when considering if the risk calculated approach used by this Council is appropriate. As the graph above shows, in 2018/19 and 2019/20, when funding is stable and earmarked reserves have been established to address funding gaps, the risk assessed level is nearer the lower end of the spectrum with values of around 8% of the Council’s net budget. However, as the funding position becomes more uncertain and earmarked reserves such as the Financial Strategy Reserve are no longer available, the risk assessed balance moves to around 14% of the Council’s net budget. This would suggest that the current methodology used to calculate an appropriate general fund balance to hold is appropriate.

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)

Peter Nutting - 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	<p>There are two key issues in relation to inflation.</p> <ul style="list-style-type: none"> 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 considers the average level of inflation experienced over a 5 year period and so reflects the higher levels of inflation that may seem to be unreasonable to include in a budget, but might come to pass. Information is less accurate for years 2 onwards; the risk assessment covers the higher range. <p>It is difficult to predict the direction that the wider economy will take and thus the level of inflation required.</p> <p>The risk on inflation resulting from Brexit has been included based on government projections off a Brexit deal and a no deal Brexit.</p>	<p>Pay – 2% has been provided in the 2019/20 budget to reflect the pay award (pending) for staff with 2% thereafter. Funding has also been provided for increments due to be awarded for 2019/20 based on existing staffing levels.</p> <p>Pension contribution rates are at the increased rate of 14.8% introduced in 2018/19</p> <p>Price inflation has been provided on contractually or quasi-contractually committed budgets at the rate stated in the relevant agreement.</p>
2. Interest rates on borrowing and investment	<p>This issue here are similar to those in 1 above, but for a specific area.</p> <p>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.</p> <p>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.</p>	<p>Interest receivable budgets have been set based on 0.75% interest receivable. These range from investments for 12 months gaining 1% to short term call accounts which gain between 0.53% and money market funds achieving rates of 0.7%</p> <p>The average interest rate of the total debt portfolio (excl. HRA) is calculated at 5.1% for 2019/20 and this is used for all borrowing costs.</p>
3. Estimates of the level and timing of capital receipts.	<p>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</p>	<p>Capital receipts are monitored monthly in the capital monitoring report and are RAG rated in terms of their anticipated delivery against target.</p>

Budget Assumption	Explanation of Risk	Financial Standing and Management and Mitigating Action
	<p>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. The risk around an economic downturn in relation to Brexit has also been factored in.</p>	
<p>4. The treatment of demand led pressures</p>	<p>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.</p> <p>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.</p>	<p>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.</p> <p>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 Financial Strategy.</p> <p>The 2019/20 budget has been based upon specific demand levels identified during budget monitoring in 2017/18 and six months of 2018/19 and projections made by Heads of Service of demand levels in future years. A growth model for both Children's social care and Adults social care is relied upon for setting these budgets.</p>
<p>5. The treatment of efficiency savings</p>	<p>The budget includes improvement programmes that will deliver savings; the risk is that they may be delivered at a slower rate.</p> <p>This includes total savings targets of £27m over the next five years projected in the Financial Strategy which will have risks involved in terms of delivery, and also from delays in delivery. It should also be noted that from year two of the Financial Strategy the Council has a funding gap of £13.7m which rises to £54.2m will require compensatory savings to be identified. The savings whilst achievable are ambitious and this should be reflected in the risk factor applied.</p>	<p>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.</p> <p>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.</p> <p>If the funding gap remains unresolved by future savings plans the council will need to consider making further efficiencies and/or potentially increasing council tax.</p>

Appendix 1

Budget Assumption	Explanation of Risk	Financial Standing and Management and Mitigating Action
<p>6. The financial risks inherent in any significant new funding partnerships, major outsourcing deals or major capital developments</p>	<p>The Council may decide to establish separate delivery vehicles in order to improve service delivery in the future. Full business cases are required for any services being considered for transfer to an alternative service vehicle.</p>	<p>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.</p> <p>Business cases for any new delivery vehicles will fully investigate any financial risks that the Council may face in the future and the Financial Strategy updated accordingly.</p>
<p>7. The availability of other funds to deal with major contingencies</p>	<p>Were a disaster to occur, we have to have a reserve in place to pick up costs that will fall to the Council.</p> <p>The impact of flooding within the Council area based on present experience is that it is limited to localised pockets.</p> <p>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.</p> <p>Other disasters such as those relating to ICT could occur on a one off basis.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

Appendix 1

Budget Assumption	Explanation of Risk	Financial Standing and Management and Mitigating Action						
<p>8. Impact on council funding of announcements of national changes</p>	<p>Council funding is always subject to change, especially in the current economic climate. However the Financial Strategy takes account of projected changes in the Revenue Support Grant and specific government grants.</p> <p>In recent years the Dedicated Schools Grant allocation to the Council has come under pressure, in relation to the costs of supporting High Needs Pupils and the centrally retained share due to the academisation process.</p>	<p>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.</p> <p>The risk around a shortfall in the Dedicated Support Grant arising from High Needs costs and academisation programme has been quantified as any overspend in this area would need to be picked up within the General Fund Balance.</p>						
<p>9. The overall financial standing of the authority (level of, debt outstanding, council tax collection rates etc.)</p>	<p>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.</p> <p>An allowance for budget pressures has been built in to accommodate any corrective action that needs to be taken if the assumptions about changes in service delivery should change.</p> <p>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.</p> <p>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.</p> <p>The impact of Brexit and a further economic downturn also needs to be factored in as a key risk to income collected by the Council.</p>	<p>The level of aged debt within the sundry debtors figure is monitored reported to management regularly 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.</p> <p>The assumed Council Tax collection rate for 2019/20 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 2019/20.</p> <p>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 2019/20 budget.</p>						
<p>10. The authority's track record in budget and financial management.</p>	<p>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.</p>	<p>The Council's recent track record in budget and financial management 2013 to 2019 shows potential variations from a £0.1m overspend to a £2.8m underspend (a range of £2.9m).</p> <table border="1" data-bbox="1003 1780 1479 1898"> <thead> <tr> <th>Financial Year</th> <th>(£'000)</th> <th>Underspend/ Overspend</th> </tr> </thead> <tbody> <tr> <td>2013/14</td> <td>(390)</td> <td>Under</td> </tr> </tbody> </table>	Financial Year	(£'000)	Underspend/ Overspend	2013/14	(390)	Under
Financial Year	(£'000)	Underspend/ Overspend						
2013/14	(390)	Under						

Appendix 1

Budget Assumption	Explanation of Risk	Financial Standing and Management and Mitigating Action		
	<p>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.</p>	2014/15	(300)	Under
		2015/16	(2,816)	Under
		2016/17	(894)	Under
		2017/18	(613)	Under
		2018/19*	72	Over
		Total 2013 to 2019		Under
		<p>* As projected at Quarter 3 monitoring</p> <p>This has been achieved by careful management and policy actions to ensure spending is in line with the budget each year.</p> <p>Ultimately, financial performance relies on all budget holders actively managing their budgets and complying with financial rules, including not committing expenditure if there is no budget provision available.</p> <p>The most recent three years outturn (estimated outturn for 2018/19) position suggests that variances are underspends or a minor overspend.</p> <p>The authority needs to continually improve its ability to manage in-year budget pressures. The following steps are already in place:</p> <ul style="list-style-type: none"> • Accuracy of projections has improved over the year, but further work is required. • The monitoring system continues to be improved in terms of accuracy, the frequency of reporting and the challenge process. <p>Collaborative Planning budget monitoring tool is now used within the Council to improve the financial information provided and the consistency of financial reports produced. For future years this will be managed within the ERP system</p> <p>The Council's virement and carry forward rules are clear and detailed in the Constitution.</p>		

Risk Based Calculation of General Fund Balances

Calculation of Risk Assessed General Fund Balance

2018/19					2019/20			2020/21			2021/22			2022/23			2023/24		
Budget/ Value £000	Risk Level	Risk Assessed General Fund £000	Budget Assumption	Area of Risk	Budget/ Value £000	Risk Level	Risk Assessed General Fund £000	Budget/ Value £000	Risk Level	Risk Assessed General Fund £000	Budget/ Value £000	Risk Level	Risk Assessed General Fund £000	Budget/ Value £000	Risk Level	Risk Assessed General Fund £000	Budget/ Value £000	Risk Level	Risk Assessed General Fund £000
Treatment of inflation and interest rates																			
102,900	0.10%	103	Inflation	Salaries	100,054	0.10%	100	97,215	0.10%	97	96,714	0.10%	97	96,215	0.10%	96	95,719	0.10%	96
24,968	0.56%	140		Premises	24,278	0.56%	136	23,589	0.56%	132	23,467	0.56%	131	23,346	0.56%	131	23,226	0.56%	130
29,241	2.94%	860		Transport	28,432	2.94%	836	27,626	2.94%	813	27,483	2.94%	809	27,341	2.94%	804	27,201	2.94%	800
60,370	0.10%	60		Supplies & Services	58,700	0.10%	59	57,034	0.10%	57	56,740	0.10%	57	56,448	0.10%	56	56,157	0.10%	56
172,940	0.10%	173		Third Party Payments	168,157	0.10%	168	163,385	0.10%	163	162,542	0.10%	163	161,704	0.10%	162	160,871	0.10%	161
68,644	0.10%	69		Transfer Payments	66,745	0.10%	67	64,851	0.10%	65	64,517	0.10%	65	64,184	0.10%	64	63,853	0.10%	64
459,063	0.00%	0		Brexit effect on inflation	446,367	0.30%	1,339	433,700	0.30%	1,301	431,464	0.30%	1,294	429,239	0.30%	1,288	427,026	0.30%	1,281
83,841	0.00%	0		Pension triennial valuation unaffordable	83,841	0.00%	0	83,841	1.00%	838	83,841	1.00%	838	83,841	1.00%	838	83,841	1.00%	838
1,405			Total Inflation		2,705			3,467			2,615			2,601			3,426		
258,368	0.00%	0	Interest rates	Existing Borrowing	254,368	0.00%	0	242,368	0.00%	0	237,368	0.00%	0	237,368	0.00%	0	231,868	0.00%	0
0	0.00%	0		New Borrowing	0	0.00%	0	0	0.00%	0	0	0.00%	0	0	0.00%	0	0	0.00%	0
4,000	1.00%	40		PWLB	4,000	0.50%	20	12,000	0.50%	60	5,000	0.50%	25	0	0.50%	0	5,500	0.50%	28
100,526	0.50%	503		Investment	100,526	0.50%	503	100,526	0.50%	503	100,526	0.50%	503	100,526	0.50%	503	100,526	0.50%	503
543			Total Interest Rates		523			563			528			503			530		
Level and timing of capital receipts																			
-11,499	1.38%	-159	Capital Receipts	Land Sales	6,721	1.38%	93	8,928	1.38%	123	0	1.38%	0	0	1.38%	0	0	1.38%	0
13,342	1.38%	184		Required for new Powers to use for Revenue	13,342	1.38%	184	13,342	1.38%	184	13,342	1.38%	184	13,342	1.38%	184	13,342	1.38%	184
0	0.00%	0		Economic slowdown resulting from Brexit	6,721	1.00%	67	8,928	1.00%	89	0	1.00%	0	0	1.00%	0	0	1.00%	0
25			Total Capital Receipts		344			397			184			184			184		
Treatment of demand led pressures																			
136,738	1.68%	2,293	Demand Led Pressures	Adult Social Care	136,450	1.68%	2,288	137,692	1.68%	2,309	138,945	1.68%	2,330	140,209	1.68%	2,351	141,485	1.68%	2,373
19,617	15.68%	3,076		Childrens Social Care	15,958	15.68%	2,502	16,452	15.68%	2,579	16,961	15.68%	2,659	17,486	15.68%	2,741	18,028	15.68%	2,826
5,369			Total Demand Led Pressures		4,790			4,888			4,989			5,093			5,199		
Treatment of planned efficiency savings/productivity gains																			
15,541	16.36%	2,543	Efficiency Savings	18/19 non achievement of savings															
15,541	2.75%	428		18/19 slippage of savings															
				19/20 non achievement of savings	15,947	8.18%	1,305												
				19/20 slippage of savings	15,947	1.38%	220												
				20/21 non achievement of savings				2,897	25.00%	724									
				20/21 slippage of savings				2,897	25.00%	724									
				20/21 funding gap requiring savings				12,433	25.00%	3,108									
				21/22 non achievement of savings							3,850	25.00%	963						
				21/22 slippage of savings							3,850	25.00%	963						
				21/22 funding gap requiring savings							39,146	25.00%	9,787						
				22/23 non achievement of savings										4,469	25.00%	1,117			
				22/23 slippage of savings										4,469	25.00%	1,117			
				22/23 funding gap requiring savings										46,780	25.00%	11,695			
				23/24 slippage of savings													0	25.00%	0
				23/24 funding gap requiring savings													0	25.00%	0
				23/24 funding gap requiring savings													57,157	25.00%	14,289
2,971			Total Efficiency Savings		1,524			4,557			11,712			13,929			14,289		

Continued...

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Availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions																
3,824	5.00%	191	Insurance and	Provision	3,824	5.00%	191	3,824	5.00%	191	3,824	5.00%	191	3,824	5.00%	191
4,165	5.00%	208	Emergency	Reserve	4,165	5.00%	208	4,165	5.00%	208	4,165	5.00%	208	4,165	5.00%	208
500	Quantum	500	Planning	ICT Disaster	500	Quantum	500	500	Quantum	500	500	Quantum	500	500	Quantum	500
500	Quantum	500		Other Incident	500	Quantum	500	500	Quantum	500	500	Quantum	500	500	Quantum	500
433	Quantum	433		Bellwin	433	Quantum	433	433	Quantum	433	433	Quantum	433	433	Quantum	433
1,070	10.00%	107		Severe Weather	1,099	10.00%	110	1,128	10.00%	113	1,159	10.00%	116	1,190	10.00%	119
		1,940		Total Insurance and Emergency Planning		1,942		1,945		1,949		1,952		1,955		1,955
18,936	5.00%	947		Other Government Settlement Changes	26,297	5.00%	1,315	8,115	25.00%	2,029	9,047	25.00%	2,262	8,909	25.00%	2,227
60,874	1.00%	609		Housing Benefits	60,874	1.00%	609	60,874	1.00%	609	60,874	1.00%	609	60,874	1.00%	609
25,205	5.00%	1,260		DSG pressures - High Needs	25,205	5.00%	1,260	25,205	5.00%	1,260	25,205	5.00%	1,260	25,205	5.00%	1,260
3,160	5.00%	158		DSG pressures - Academisation	3,160	5.00%	158	3,160	5.00%	158	3,160	5.00%	158	3,160	5.00%	158
488	25.00%	122		Academy School transfer leaving deficit budget	488	25.00%	122	488	25.00%	122	488	25.00%	122	488	25.00%	122
		3,096		Total Funding Changes		3,464		4,178		4,411		4,376		4,376		4,376
General Financial Climate																
11,181	5.00%	559	General Financial	Debt Collection	11,181	5.00%	559	11,181	5.00%	559	11,181	5.00%	559	11,181	5.00%	559
145,638	0.50%	728	Climate	Council Tax - General risk	154,427	0.50%	772	163,399	0.50%	817	172,892	0.50%	864	182,936	0.50%	915
145,638	0.00%	0		Council Tax - Brexit risk	154,427	1.00%	1,544	163,399	1.00%	1,634	172,892	1.00%	1,729	182,936	1.00%	1,829
40,310	0.50%	202		Business Rates - General risk	40,055	0.50%	200	40,779	0.50%	204	41,516	0.50%	208	42,267	0.50%	211
40,310	0.00%	0		Business Rates - Brexit risk	40,055	1.00%	401	40,779	1.00%	408	41,516	1.00%	415	42,267	1.00%	423
36,541	0.50%	183		Discretionary Income	37,445	0.50%	187	37,445	2.50%	936	37,445	2.50%	936	37,445	0.50%	187
36,541	0.00%	0		Discretionary Income - Brexit risk	37,445	1.00%	374	37,445	1.00%	374	37,445	1.00%	374	37,445	1.00%	374
		1,671		Total General Financial Climate		4,038		4,932		5,086		4,499		3,508		3,508
208,768	0.50%	1,044		Additional Budget Pressures	213,839	0.50%	1,069	218,128	0.50%	1,091	226,318	0.50%	1,132	235,073	0.50%	1,175
		18,063		TOTAL RISK ASSESSED GENERAL FUND		20,400		26,017		32,604		34,312		34,700		34,700

Earmarked Reserves

Reserves	Balance Brought Forward (£'000)	2018/19 Anticipated Movement (£'000)	Balance Carried Forward (£'000)
Sums set aside for major schemes, such as capital developments, or to fund major reorganisations			
Redundancy	0		0
Revenue Commitments for Future Capital Expenditure	7,191	-19	7,171
Development Reserve	1,703	4,335	6,038
Invest to save Reserve	3,553		3,553
University	197	-197	0
	12,644	4,119	16,763
Insurance Reserves			
Fire Liability	3,072	19	3,092
Motor Insurance	1,093	12	1,105
	4,165	31	4,196
Reserves of trading and business units			
Shire Catering and Cleaning Efficiency	701		701
	701	0	701
Reserves retained for service departmental use			
Building Control	165		165
Care Act Reserve	4,168	-1,388	2,780
Economic Development Workshops Major Maintenance	180		180
External Fund Reserve	556	1,418	1,973
Financial Strategy Reserve	24,556	-4,460	20,096
Highways Development & Innovation Fund	14	92	106
Highways Savings Management	5,625		5,625
New Homes Bonus	3,922	-952	2,970
Planning Reserve	0		0
Public Health Reserve	927	-531	396
Repairs & Maintenance Reserve	1,116	-747	369
Resources Efficiency	422	-225	198
Revenue Commitments from Unringfenced Revenue Grants	1,510	-455	1,055
Severe Weather	1,496	-1,100	396
TMO Vehicle Replacement	300	-38	262
	44,792	-8,386	36,406
School Balances			
Balances held by schools under a scheme of delegation	5,375	0	5,375
Education – Staff Sickness Insurance	2	0	2
Education – Theft Insurance	68	0	68
Schools Building Maintenance Insurance	1,927	0	1,927
	7,372	0	7,372
Total Reserves	69,839	-4,236	65,604