Appendix G

S151 officer statement on the robustness of reserves and the robustness of estimates

Section 25 of The Local Government Act 2003 includes the following statutory duty in respect of the budget report to Council:

"the Chief Financial Officer (CFO) of the authority must report to it on the following matters:

> *a) the robustness of the estimates made for the purpose of the calculations; and b) the adequacy of the proposed financial reserves."*

The Council is required to take this report into account when making that decision. Section 26 of the same Act, places an onus on the CFO (The Director of Resources) to ensure the Council has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget.

This report has been prepared by the CFO to fulfil this duty and gives the required advice relating to the 2019/20 financial year including a consideration of the budget proposal as a whole and all the financial risks facing the Council. It identifies the Council's approach to budget risk management and assesses the particular risks associated with the 2019/20 budget to inform the advice on robustness.

Overall Budget and Medium Term Financial Strategy 2019/20 – 2021/22

In the opinion of the CFO the 2019/20 estimates are robust but the proposed level of financial reserves is near the absolute bare minimum and will need to be increased in the medium term.

Robustness of Estimates

The treatment of inflation and interest rates

The 2019/20 pay award for staff has been included at an average of 2% in line with the Government's pay announcements. Non pay related budgets have been inflated at the contractually committed rate of inflation or where services can demonstrate a requirement to do so to maintain service delivery levels.

Efficiency saving and productivity gains

The budget contains proposals to deliver £12.4m of savings during 2019/20. The medium term financial strategy includes a four year savings programme to ensure that future revenue budgets remain in financial balance to ensure the council has adequate resources to deliver its Council Strategy outcomes. The savings programme will also help to ensure that Council Tax increases are kept to as low a level as possible and deliver efficient local services. The proposals continue to set high levels of required savings and there are inherent risks to the delivery of a balanced budget at the end of the 2018/19 financial year. Given the year on year reductions in Government funding, the Council's risk profile for savings is increasing as more transformational activity and income generation schemes are brought forward. Though these will endeavour to drive additional income and reduced costs, they are by their very nature more difficult and complex to deliver, and are at greater risk of market conditions.

The Council has introduced a 10% contingency factor against all Transformation Savings (ie those achieved via the Government's direction concerning the Flexible Use of Capital Receipts) to provide some further protection against the possibility of n0n-delivery of savings.

Overall Level of Savings

The Council's budget includes £12.4m of savings in 2019/20, 12% of its net budget and £20.3m in the MTFS. Savings of this scale in addition to those already delivered will be extremely challenging and will be monitored closely during the year.

Budget and Financial management

The level of audited underspends in recent years is as follows:

- 2011/12 – £1,736k underspend – 1.7% of budget
- 2012/13 - £23k underspend – 0.0% of budget
- 2013/14 - £150k underspend – 0.1% of budget
- 2014/15 - £224k underspend - 0.1% of budget
- 2015/16 - £42k overspend – 0.0% of budget
- 2016/17 – £26k underspend – 0.02% of budget
- 2017/18 – £224k underspend – 0.21% of budget

All relevant reports to Members have their financial effects identified and the Corporate Management Team keep any emerging budget pressures under review during the year. Monthly reports are received by Corporate Management Team and quarterly reports to the Cabinet detail both budgetary and performance indicators. A traffic light system of indicators is used.

The Council has a number of demand led budgets and has historically been able to manage changes to demand to ensure a sound financial standing at the end of the financial year.

The 2019/20 revenue budget includes the following Growth Proposals to address significant overspends facing the Council identified in the Quarter 3 Revenue Monitoring Report:

2018/19 PRESSURES	**£'000**
Temporary Accommodation	750
Schools PFI	700
Educational Pyschologists	100
Waste Contract - Contractual Price Increase	1,550
Home to School Transport	500
	3,600

Adequacy of insurance and risk management
Strategic risk management is being embedded throughout the Council to ensure that all risks are identified and managed appropriately. The Council's insurance arrangements are a balance of external insurance premiums and internal funds to self insure some areas. As well as an internal risk manager the Council also make use of an external consultant (Arlingclose) to advise on the level of funds required to underpin those risks not externally insured.

Other factors to take into account
Aside from delivering services within its overall budget the Council needs to consider other factors that may have an impact on its overall financial standing:

Slough Children's Trust
The Trust is an independent company that provides Children's Social Care to the Council. The Trust has accumulated a deficit of £4.2m at 31.03.18 which is predicted to increase in 2018/19. The Council has agreed additional funding for the Trust in the 2019/20 budget that will put it in a balanced position going forward. The Council as a major creditor of the Trust is working with the Trust to ensure it can meet its commitments going forward and continues to provide services. The DfE are also supporting the Trust to ensure it's continued viability.

Council Tax Collection
Slough Borough Council borrows money to support the Council's capital Programme. It has calculated its capacity for borrowing within the provisions of the prudential framework and budgeted accordingly. The assumed Council Tax collection rate is 98.4% and this is an achievable if demanding target. Each 1% uncollected amounts to approximately £0.585m and any surplus or deficit on the collection fund is apportioned between the Council and its major precepting bodies the Royal Berkshire Fire and Rescue Authority, and the Office of the Police and Crime Commissioner (OPCC) for Thames Valley.

Budgetary Control
The balance of the in-year budgetary position against the proposed budget will be managed against the general reserve. As and when budget pressures emerge then it is first for the service to contain, then the directorate and finally a corporate issue. If there is still a pressure at year end then General Reserves will reduce and will need to be replenished up to a level in future years as noted above. This helps ensure that the Council is in a position to maintain its service provision without drastic actions.

If an event occurs that is so serious it depletes the Council reserves to below the limit set, then the Council will take appropriate measures to raise general fund reserves to the recommended level as soon as possible without undermining service provision.

Adequacy of Reserves

Reserves are set aside to fund risks and one-off pressures over a number of years. If the Council minimises the level of reserves future financial planning is hampered. It should be noted that reserves can only be spent once and the possibility of creating new reserves is now very limited.

When assessing the minimum level of reserves required, there are some important considerations. Firstly, the reserve for budget setting purposes is the general fund reserve. This is the Council's reserve which is not allocated to specific risks, policy decisions or under legislative or accounting requirements. The general fund reserve can be spent on any activity and there is no restriction on its deployment.

The Council's General Fund working balance stands at £8.1m and non HRA ring-fenced reserves at £11.3m.

The level of reserves compares to the required savings in the Council's budget for 2019/20 of £12.4m.

There is also a current deficit on the Dedicated Schools Grant reserve of £5.4m, a cumulative position from a number of over-spends in the high needs block. Although there is a plan to reduce the ongoing overspend it does not address the current deficit that appears on the Council's balance sheet and is taken into account to determine whether it is running at a deficit.

The current level of General Fund reserve is therefore considered to be the absolute minimum on the basis that the budget balances in 2019/20.

It is crucial to bear in mind that the reserves are the only source of financing to which the council has access to fund risks and one-off pressures over a number of years. It should be noted that reserves can only be spent once and the possibility of creating new reserves in an era where budgets are tight and can become overspent, not just individually but corporately, is now very limited.

Councils use two main approaches to determine the required minimum level of its General Fund; either a percentage of the Council's current spending, or an assessment of risks and the impact they will have on the council's overall financial position.

When compared to other unitary authorities across the country at 31.03.18 excluding insurance, Public Health and School reserves Slough are in the bottom three at 13% of net revenue expenditure whereas the average level is 38%. This situation initially arose following Slough's creation as a Unitary Authority and the subsequent division of the Berkshire County's reserves across the six new Berkshire authorities. However, the current analysis clearly indicates that the Council should seek to increase its reserves to the same extent as similar councils. A level of below 25% has been highlighted by CIPFA as one of the warnings of poor financial resilience. Ideally the Council would therefore look to double its reserves in the MTFP period using one-off benefits arising and potentially front-loading savings. This will be difficult given the pressure caused by rising costs and reducing grants.

As a Unitary Council, with a number of complex services and transactions, the Council has an inherently higher risk than a number of other local authorities. The Council provides a much wider scope of services compared to a County Council or District Council; each different service comes with a different level of risk. The Council has made policy decisions which have engaged the Council into a wide range of service provision e.g. significant outsourcing of services, PFI arrangements, and the creation of the Slough Urban Renewal ('the LABV'). Some of these mitigate the Councils financial risk whilst other arrangements increase the level of risk.

The Council is also facing a period where demand is increasing in key areas, namely:

- Increased population increases demand on 'universal services' i.e. more bins to collect, more Council Tax bills to issue etc.
- Increased volatility from the retention of business rates

- Savings are increasingly based on commercial opportunities and are therefore more subject to fluctuation in the future
- Increased adult social care and children's services pressures due to changes in demography
- The impact of the macro-economic position and the impact on residents and businesses being able to pay for respective fees and charges

Reserves are therefore considered to be sufficient to cover the risks facing the Council going forward however it is planned to increase them over the medium term. The Medium Term Financial Strategy therefore has a number of guiding principles, agreed by Cabinet in June 2018, including:

- SBC will use SUR profits to firstly increase reserves and then to fund one-off growth initiatives.

The Growth Proposals reflect this guiding principle by increasing the General Reserve by £750k, the amount of profits anticipated from SUR, in Year 2 of the Medium Term Financial Strategy