Appendix F - Responsible Financial Officers Opinion

1.1 The 2003 Local Government Act imposes a number of statutory duties on a Councils Responsible Financial Officer (RFO). Guidance on these duties is contained within LAAP Bulletin 55 and the CIPFA Statement on the Role of the Finance Director, compliance with which has been supported by the Councils Audit Committee. The primary duties are for me, as RFO, to provide a view on the robustness of the budget process, budgetary risk and the adequacy of reserves and balances.

1.2 Robustness of the budget process

1.3 In terms of robustness of the budget process, I have placed reliance on the work carried out by members of the Strategic Leadership Team in their Directorates involving budget managers, the performance team and devolved accountants. The process has been properly rigorous with notable elements of good practice. These include;

- The use of the Councils Medium Term Financial Plan as an integral part of budget planning
- Inclusion of all Councillors through a Joint Select Committee to which all Members were invited.
- Cabinet ownership of budget principles and assumptions through the development of the Medium Term Financial Plan
- Anticipating likely and known events through the application of appropriate indices for base costs.
- Applying rigour via officer challenge sessions, Directorate Management Teams, Chief Officers, Strategic Leadership Team and Cabinet Member scrutiny.
- Comparing year on year budgets by using 2014/15 outturn and 2015/16 budget monitoring data.
- Providing Select Committees with opportunity to look at and scrutinize current budgets, gaining an understanding of the budgets within the remit of their Select committee.
- Engaging with the public at numerous events throughout the County in November and through the use of social media, sharing the budget ideas and gathering further ideas from the public.
- Consulting on budget proposals with the Schools Forum and Trade Unions and Business Ratepayers.
- Providing opportunities for public consultation, via the web site, You Tube presentations and Twitter.

- Communicating emerging Settlement considerations to Cabinet members.

- Being clear on risks and assumptions within budget proposals and identifying the links with the corporate priorities of the Council.

- Ensuring all members are involved in the budget setting process by establishing that budget and Council Tax settings is a function of full Council.

1.4 There are a number of explicit risks in the budget proposals now presented given the reduction in the settlement for next year and in the medium term. Risks have been identified as the budget proposals have been put together and are captured as part of the Authority's risk register. Outlined below are the key risks and how they are being managed:

- Some services may become financially unsustainable in the short to medium term as a result of reducing budgets and increasing demand. Some identification of evidenced based pressures in relation to the financial impact of increasing demand in children's social services, has been included in the current budget process. In addition, some risks have in part been mitigated by the protection given to these areas in the sense that budget savings have been more heavily weighted to other areas of the budget. However, given the current year position against the budget in some of these areas, this potential pressure will require careful monitoring over the course of the financial year so that problems can be highlighted early and any appropriate corrective action taken. Monitoring of progress against existing mandates that are part of the MTFP will be undertaken and progress reported to Cabinet and Select Committee quarterly. Engagement with the public, members and community groups on emerging proposals for the future years of the MTFP will continue so that proposals to balance the MTFP will be agreed taking into account the need to match the expected performance targets with adequate resources. Consideration will be given to how best to use capacity fund and any external funding sources to supplement the change programme required. The particular pressure in Children's social services needs to be managed with the implementation of a three year service and financial plan to ensure the service is able to deliver a balanced budget and continue to develop workforce practice.

- Directorates are being required to manage some pressures within their service areas as only significant pressures have been highlighted and included in the budget build. Whilst individually these pressures are relatively small, in total there is a considerable pressure to be managed alongside the achievement of the budget saving proposals contained as part of this budget.

- A number of the savings/efficiency proposals involve the generation of income, changes to current structures, systems and processes or have implications for service design involving other partners or organisations. These savings involve higher levels of risk than those which broadly maintain current arrangements. At the practical level these risks begin with the income targets not being achieved, possibility of slippage and disruption in the transition from old to new arrangements resulting in further pressures to be managed in the year in which savings are budgeted to be made. There is a need to ensure that the detailed business cases that will deliver the MTFP are fully costed, stress-tested and managed. Clearly robust and timely monitoring of the delivery of the savings in the budget will be critically important in order to manage the potential for these risks to materialize. In terms of income streams an action plan to deliver the Income Strategy needs to be undertaken.

- Late notification of grant funding streams being removed or reduced. This is particularly an issue where the expenditure backing this grant is in the form of permanent staff. These will need to be managed on a case by case basis, with the default position being that if the grant ceases the activity also ceases unless a business case can be built that justifies the maintenance of the activity, the expenditure and identifies a means of funding this expenditure following the loss of grant income

- Underlying assumptions built into the budget are not borne out next year. For example the pay award for 2016/17 has not yet been agreed. All budgets will not receive budget to cover the full extent of inflation factors next year if they turn out as expected. This puts further pressure on service budgets to find efficiencies savings to manage this shortfall. There is an expectation that this would need to be managed within overall directorate budgets.

- Uncertainty of when Prudential borrowing will impact on the revenue account resulting from progressing the 21st Century schools programme following further development of the detailed programme being submitted to the WG. The capital programme proposal seeks to mitigate this risk by establishing authority to generate capital receipts to offset the need to borrow, however this carries with it its own risk in the current economic climate.

- Treasury estimates established in the budget are based on cashflows, timing of capital spend, forecast interest rate levels and predicted trigger points for converting variable loans to fixed rate loans. There is inherent uncertainty and risk attached to each variable. The Authority has established a Treasury Equalisation reserve to mitigate the potential impact caused by significant variations to the year on year budget. Contributions from the reserve are used to even out the variation in the MTFP model.

- General pressures on school budgets indicated by the number of schools with deficit budget management plans. As previously identified, schools have been protected from the level of savings required from the rest of the Authority. The LEA will be working closely with schools to help costs savings to be established. However, it is understood that some schools will still need to establish budget management plans, any resulting redundancies will need to be met from the budget established for this purpose.

- The risks on the capital side are largely around the difficulties in achieving the level of capital receipts required to fund future capital investment. If receipts are not achieved, other funding streams need to be sought which may include prudential borrowing with its consequent impact on the revenue budget. Also there is a risk that the funding envelop for 21st century schools may not be sufficient and further work will be required to establish schemes can be delivered within the original budget set. In addition there are significant pressures highlighted of a capital nature that will not be met as the priority is to invest in 21st century schools.

1.5 Whilst the above risks in the 2016/17 budget have been identified, the main budgetary risks going forward in for the MTFP will also need to be managed and outlined are as follow:

- The authority is unable to deliver its political priorities in the future because it does not yet have clarity on its future business model or longer term financial plan. While work is continuing on the need to address the longer term issue of a reducing resource base as part of the MTFP, these are often only looking 2-3 years ahead which will mean the authority does not have a longer term financial plan and its current business model could become unsustainable in the long term.
The Councils partnership administration continuance agreement sets clear priorities and performance expectation in line with these resource priorities, this only extends to 2017. The introduction of the Well-being of Future Generations Act requires us to plan on a decadal and generational basis and our current models do not extend to this timeframe. Action is required to develop and specify the business model for the authority in the long term, to ensure the Councils key delivery strategies Improvement Plan, MTFP, People Strategy, Asset Management Plan and iCounty Strategy all align to this model and to extend planning timelines for council’s key strategic documents to ten years.

- Any impact arising from the Williams review, and the shape of Local government in Wales in the future and any new legislation impacting on the services provided by Local Authorities.

- Very low settlements projected for the medium term

- The revenue implications of 21st Century Schools, where the source of capital is uncertain given the medium term national forecast for significant funding reductions.

- The financial, service and strategic implications of service transformation, including shared services, greater partnership working with both public and private sector

- The national and local emphasis on increased waste diversion

- The deteriorating condition of local roads, associated infrastructure and property

- The ageing population

- Continued uncertainty in financial markets

1.6 Adequacy of reserves

1.7 The MTFP has established the principles for general and earmarked reserve utilization. The level of the **general reserve** at £6.9 million is of concern being just above the minimum prudent level. The final revenue budget proposals do not include any requirement to use the general reserve to balance the budget in 2016/17. As the MTFP is updated as new information becomes available the position regarding the use of reserves will need to be reviewed.

1.8 Included with the general reserve are the school based reserves. There has been a slight recovery over recent years with the result that Monmouthshire's schools based reserves are no longer the lowest in Wales.

1.9 The 2016/17 budget recommendations anticipate some use of **earmarked reserves** to support the budget saving proposals and to even out one off expenditure items over the MTFP. Earmarked reserves have been established over time for the purpose of future utilisation, and whilst not currently earmarked for use provide a level of contingency for some of the risks associated with the budget recommendations highlighted in this report.

1.10 Earmarked reserve usage over the MTFP is projected to decrease the balance on earmarked reserves from £10.9 million at the start of 2015/16 to £5.6 million at the end of 2019/20. Taking into account that some of these reserves are specific, for example relating to joint arrangements or to fund capital projects, this brings the usable balance down to £4.7 million.

1.11 The forecast use of reserves in the current year, 2015/16, means that by the end of 2016-17 the Council is likely to utilise over 48% of the useable earmarked reserves brought forward from 2014-15, based on approvals to use reserves so far. Further reserve usage is anticipated before the end of the year, in particular redundancy costs in relation to Community Hubs which will need approval (£305k) and is likely to extinguish the Redundancy and Pensions reserve.

1.12 Given the forecast use of earmarked reserves, in order to ensure adequacy of reserves for the MTFP, the following change in practice has been approved:

- Increase workforce planning and redeployment to reduce the need for reserves to cover redundancies
- Any request for reserve funding must first explore whether existing budgets, or external funding sources can be used for the proposal accepting this may require a change in priorities if existing budget are used
- Use of reserves to implement budget savings must use the saving first to repay the reserve
- IT investment bids will need to be considered in the core capital programme when the IT investment reserve is extinguished, this may necessitate displacing some of the core capital programme allocations depending on the priorities agreed

1.13 A revaluation of the insurance reserve requirement is to be commissioned in the third quarter, and the work undertaken in the 4th quarter so that the figures will be current and available for 2015/16 closure. This may give scope to re-designate some of this reserve but this is subject to the outcome of the work outlined.

1.14 The above action is needed a slow down in the use of ear marked reserves through the above mechanisms, otherwise consideration would need to be given to budgeting to replenish reserves or including in the base budget, requests that would normally have been funded by reserves, both of which will increase the resource gap in the MTFP.

1.15 Whilst every effort will be made to avoid redundancy costs a budget has been included in the MTFP relating to these costs as they are a recurring expense in the current climate. Protection of Employment policy will be used to ensure redundancy is minimised, however, it is expected there may be some that are inevitable and a separate budget will be required for this, possibly in the region of £450,000 per year.

1.16 The volatility of the Children's social services budget is going to be supplemented for 2016/17 with further funding, however it is proposed to earmark the Priority Investment Reserve for next year to cover further pressures if they are not able to be contained.

1.17 The resulting impact on earmarked reserves would be to take the usable balance down further by the end of the MTFP period.

1.18 My judgement, taking into account the budget forecast, the corporate budget position, the quantum of earmarked reserves as well as the General Reserve is to certify reserves as adequate presently. However, given that the financial outlook is not set to improve significantly the in medium term, it is vital that the reserve position continues to be closely monitored. This will require continued sound budget management in future years of account and close Cabinet scrutiny of any further proposals to utilise reserves in the coming months. Further savings need to be identified so that the use of the general reserve can be minimized.

1.19 The provisional schedule of reserves estimated at the end of the financial year is included as an appendix to the budget report.

J Robson
<u>Responsible Financial Officer</u>