

APPENDIX O

STATEMENT BY CHIEF FINANCE OFFICER

Introduction

The Chief Financial Officer is required to make a statement on the adequacy of reserves and the robustness of the budget. This is a statutory duty under section 25 of the 2003 Local Government Act which states the following:

- (1) *Where an authority to which section 32 or 43 of the Local Government Finance Act 1992 (billing or major precepting authority) or section 85 of the Greater London Authority Act 1999 (c.29) (Greater London Authority) applies is making calculations in accordance with that section, the chief finance officer of the authority must report to it on the following matters:-*
 - (a) *The robustness of the estimates made for the purposes of the calculations, and*
 - (b) *The adequacy of the proposed financial reserves.*
- (2) *An authority to which a report under this section is made shall have regard to the report when making decisions about the calculations in connection with which it is made.*

This includes reporting and taking into account:

- The key assumptions in the proposed budget and to give a view on the robustness of those assumptions.
- The key risk areas in the budget and to assess the adequacy of the Council's reserves when reviewing the potential financial impact of these risk areas on the finances of the Council. This should be accompanied by a Reserves Strategy.

This report has to be considered and approved by the Council as part of the budget approval and Council Tax setting process.

This document concentrates on the General Fund 2014/15, the Housing Revenue Account and Capital Programme, but in addition it also considers key medium term issues faced by the Council.

Assurance Statement of the Council's Section 151 Officer (Director of Finance & Operations)

The following are the summary assurances and recommendations of the Council's Section 151 Officer (The Director of Finance & Operations) which fulfil my statutory duties to report under Section 25 of the Local Government Act 2003.

1. In relation to the 2014/15 General Fund Revenue budget I have examined the budget proposals and I believe that, whilst the spending and service delivery proposals are challenging, they are nevertheless achievable given the political and management will to implement the changes, good management, and the sound monitoring of performance and budgets. I am satisfied that sufficient management processes exist within the Council to deliver this budget and to identify and deal with any problems which may arise unexpectedly during the year.
2. The key process risks in making the above statement are comparatively low resources within the Council, compared to other District Councils, dedicated to providing financial

support services and advice to managers, which will require the finance teams to be focused on key risk budgets.

3. My recommendations are also conditional upon:

- The agreement of a Medium Term Financial Strategy and Plan for 2014/15 to 2018/19 that includes provisional planned reductions in net revenue expenditure to deliver a balanced budget over the planning period.
- A recognition in the medium term planning approach that the level of reserves and corporate risk assessment need to be regularly reviewed in the light of changing circumstances and that it may not be possible to match the two at any single point in time. The Council needs to show a commitment to maintain reserves at a level which provides adequate cover for most identified risks during the planning period. This approach is pragmatic, and shows a clear commitment to prudent contingency planning. It must be noted, however, that the recommended levels of reserves still leave the Council exposed to the very exceptional risks identified in this review and, if those risks crystallise, to reserves being inadequate.
- Portfolio Holders, Directors and Heads of Service managing within their cash limits for 2014/15 (and future years covered by the Medium Term Financial Strategy and Corporate Plan).
- Taking every opportunity to meet the Reserves Strategy as a first call on windfall under-spends.
- Not considering further calls on reserves other than for those risks that have been identified, those that could not have been reasonably foreseen and that cannot be dealt with through management or policy actions. The exception to this is where the Reserves Strategy (reviewed annually) is met. Even in those circumstances, it is not prudent to finance ongoing spending from one-off reserves. Any excess reserves should be targeted towards one-off “invest to save” or contributions to fund the Council’s capital programme.
- Where there is a draw-down on reserves, which causes the approved Reserves Strategy to be off target, that this is paid back within three years.
- That the Council has arrangements and resources in place to consider value for money in preparation for future years’ budgets.

4. In relation to the adequacy of reserves, I recommend the following Reserves Strategy based on an approach to evidence the requisite level of reserves by internal financial risk assessment. The Reserves Strategy will need to be reviewed annually and adjusted in the light of the prevailing circumstances.

- An absolute minimum level of General Fund reserves of £2.0m that is maintained throughout the period between 2014/15 to 2018/19.
- Reserves will remain within the optimal range of £2.5m - £4m over the period 2014/15 to 2018/19 to cover in-year risks, cash flow needs and unforeseen circumstances.
- In relation to the Housing Revenue Account (HRA), my recommendation is that reserves be maintained at 5% of turnover.

5. The estimated level of unallocated General Fund reserves at 31 March 2014, based on current projections is £2.991m subject to final outturn. Therefore:

- The absolute minimum level of reserves of £2.0m will be exceeded.
- Reserves will be within the optimal range of £2.5m - £4m.

6. These recommendations are made on the basis of:

- The risk identified in the Corporate Directors' reviews of their budgets.
 - My own enquiries during the development of the budget.
 - The resilience required to deliver the Medium Term Financial Strategy.
 - One-off unallocated reserves not being used to fund ongoing commitments.
 - That where non-earmarked reserves are drawn down, the level will be restored within three years to that required by the Medium Term Financial Strategy.
7. There are also serious exceptional risks which, if they crystallise, could eliminate the Council's reserves and leave its financial standing seriously in question. These include:
- Reductions in the anticipated resource base, resulting in a lack of funds to deliver on commitments and policies
 - Lack of effective procurement and contract management
 - Failure to deliver identified budget savings
 - Lack of funds to remedy issues relating to the High Barns chalk mines
 - Failure to progress the development of the Public Sector Quarter and associated development, resulting in the Council having to find alternative methods to fund the project
8. In relation to the General Fund and HRA Capital Programme 2014/15 (including commitments from previous years and new starts):
- The HRA Capital Programme will need to be self-sustaining given the borrowing limitations imposed by central government following the implementation of Self Financing.
 - The General Fund Capital Budget is based on the best information available in terms of project costs. What is less certain, given the history of slippage, is the phasing of expenditure, which could have revenue consequences as the Council moves towards the need to borrow.
 - The strategic schemes identified in the Capital Programme will be closely monitored in-year.
9. In relation to the medium/long term Capital Programme:
- The delivery of the agreed Capital Strategy and Asset Management Plan is a critical priority to enable the matching of resources to needs and priorities.

Assurance

Given all these factors, I, as the Council's Section 151 Officer, consider the estimates for 2014/15 to be sufficiently robust and ready for approval by the Council. I advise the Council that the General Fund Reserves are currently within the optimum range required to ensure financial stability over the medium term and recommend that the Reserves Strategy be maintained in 2014/15 and the medium term.