APPENDIX 12

STATEMENT ON GENERAL FUND BUDGET STRATEGY BY THE CHIEF FINANCIAL OFFICER UNDER S.25 LOCAL GOVERNMENT ACT 2003

Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for "the proper administration of their financial affairs' and appoint a CFO to have responsibility for those affairs. The CFO must exercise a professional responsibility to intervene in spending plans in order to maintain the balance of resources so that the authority remains in sound financial health.

Section 25 of the Local Government Act 2003 imposes a duty on the Chief Financial Officer (CFO) to report formally to Council on the following matters:-

- The robustness of the estimates made for the purpose of the calculations (to set the Council Tax).
- The adequacy of the proposed financial reserves.

These specific matters are dealt with below but it is important to set the whole of the 2015/16 budget process in the context of the financial circumstances in which local government finds itself.

Since the start of the current CSR period, the Council has made significant savings totalling £73M. For the 2015/16 financial year the budget shortfall as published in this report was £9.98M. Over the five year period of the Medium Term Financial Strategy the budget gap stands at £90M representing a significant and ongoing challenge to the Council.

Given the continuing fragility of the economic environment and the scale of expenditure reductions required year on year, there will inevitably be significant risks involved in delivering a balanced budget. Whilst considerable pressure exists on the Council's budget because of the severely reduced level of resources available for local authorities in the future, further advanced forward planning to deliver the budget savings required in the medium term is in preparation and is absolutely essential.

Whilst therefore the basic methodology for putting the budget together at the Council has not changed in this financial year, it must be recognised that the scale of the changes and some of the measures being introduced do increase the risk built into the budget for 2015/16 and beyond. As part of the budget setting process for 2016/17 and onwards a fundamental review of the way in which the Council identifies savings is being undertaken with a potential move to outcomes based commissioning and outcomes based budgeting.

The level of one off funding already included in the 'base position' totals circa £12M, (as set out in paragraph 76 of the main report), to balance the budget position in 2015/16. As set out in previous years' statements the consistent use of large one off sums to balance the budget is clearly not a sustainable position. The Council's reserves are close to the minimum level recommended by the CFO and given the ever tightening financial position, the increasing pressures on spend (in particular in social care) and the significant savings to be made in future years, it is difficult to foresee that significant sums of one-off funding will be available in future years to support the budget position.

There are significant budget shortfalls in future years as set out in Annex A of Appendix 10 and members must not lose sight of the need to ensure that work is ongoing to redesign the Council in order to build a sustainable organisation going forward and a necessary part of this work will be to develop recurrent savings proposals for future years. As part of addressing this Cabinet are considering the implementation of a new operating model (See cabinet report 10 February 2015). Members must be mindful of the need to carefully consider the extent to which one off funding is utilised in order to deliver a balanced budget in any one year.

There are a number of specific major risks that could adversely impact on the Council's financial position. These are:-

i) **Council Tax Freeze Grant** – The Government has announced a Council Tax Freeze Grant for 2015/16, which will fund the equivalent of the difference between a zero percent and a 1.0% council tax increase. The grant receivable will represent additional funding equivalent to increasing Council Tax by 1.0%, which for Southampton City Council is approximately £0.8M. However, based on the level of grant payable in 2015/16 if the decision was taken to freeze Council Tax and accept the grant this would increase the current budget gap in each of these years by £0.6M due to the difference between the Council Tax income that has been assumed and the level of funding being offered by the Government. This increase in the forecast gap would continue to impact in future years whilst the grant is not guaranteed to continue. The CFO's advice is that it would not be in the Council's long term financial interest to accept the freeze grant provided the referendum limits are not reduced below 2%.

   If the referendum limits were to be reduced then this advice may change, as the scope to achieve additional Council Tax income through setting Council Tax at a lower threshold level when compared with accepting the freeze grant may be minimal. It is not clear the term over which the Freeze Grant will be payable for. The Executive's budget proposal does not currently include acceptance of this grant.

ii) **Council Tax Referendum** – The current Council Tax referendum limit for Council Tax increases is set at 2.0%, which is a limiting factor in being able to raise Council Tax income in 2015/16 and future years. The Executive could propose an increase greater than 2% and trigger a referendum, but their current budget proposal recommends a Council Tax increase of 1.99% and does not therefore trigger a referendum. There would be merit in seeking to generate additional funding through increasing Council Tax by a level which breaches the 2% referendum threshold given the Council's financial position, but the difficulties of achieving a successful referendum outcome are recognised.

iii) **Local Government Financing** – At present there are no firm dates of when the next Comprehensive Spending Review will be undertaken, however the current Government has undertaken a spending review each year when determining the settlement figures for each authority. The Provisional Local Government Finance Settlement 2015/16 reduces Revenue Support Grant by 28.5%; the Medium Term Financial Strategy was based on a reduction of 28.9%. With such dramatic losses in funding only be confirmed on a year on year basis this increases the level of risk within the system for local authorities, making medium term financial planning much more open to change.

Various professional bodies and associations quote the potential loss of grant funding between 25% and 40%. The exact timings of these further reductions are unknown at present. The potential impact of this for Southampton will form part of the thinking necessary around the sustainable changes which will need to be made in the next few years to ensure the long term viability of service provision**.**

For planning purposes, provision has been made within the current medium term forecast for reduced government grant with an assumption that there will be a further reduction in central government grant of 28.8% in 2016/17. This reflects a continuation of the deficit reduction programme and move to bring the national position to an annual surplus as announced by the Chancellor in the Autumn Statement. There is a risk that the actual reductions in government grant will be in excess of 28.8% for 2016/17.

iv) **Business Rate Retention (BRR) Scheme** – The BRR Scheme is seen by the government as providing a direct link between business rates growth and the amount of money local authorities have available to spend on local services. However, the reality is more complex and the new system introduces a high level of risk into the financial position for local authorities without the level of control the Government suggests is possible. The new BRR Scheme means that the Council's income is now subject to significantly greater volatility. Previously the funding from business rates was by way of a fixed annual government grant but it is now dependent on our ability to collect, retain and grow business rate income, and in part this depends on the local economic situation and also the level of outstanding appeals. It should be therefore be noted that the new system introduces significant new risks which the Council will need to be aware of:

The Authority is required to estimate the likely level of business rates to be retained, and this income level is then built into the Authority's budget. If the actual income collected is less than the amount included in the budget, then, all other things being equal, this will have a direct negative impact on the Council's financial position.

Estimating business rate income is complex, as there are many factors which can significantly affect the overall figure, including entitlement to reliefs and properties coming on to, or being taken off the rating list.

The biggest uncertainty however concerns revaluations arising from appeals against the Valuation Office (VO) determinations. These are very common and can lead to large refunds being backdated several years, with some appeals in the system dating back to the 2005 rating list. Prior to April 2013, the risk of appeals was met in full by central government, whereas since that date the council is responsible for the cost of 49% of all successful appeals, including those appeals which pre-date the introduction of the new system, and for which the Council has not received any additional funding. There has been much lobbying to date on the unfairness of this position by the sector to Government, but to date to no avail. It should also be recognised that two major components of the Business Rates system remain outside the control of the Council, even though each element has a direct impact on the Council's funding under the new system. The first is that the VO remain responsible for setting the rateable value, and secondly that the VO are responsible for settling appeals, the outcome of which directly impacts the Council. The Council's income under the new system has been significantly affected by the impact of successful appeals as set out in the main budget report, and this remains a significant ongoing risk.

The Authority's estimate of the level of Business Rates to be retained can be impacted by economic growth. If the economy grows within the City, then it is likely to have a positive impact, conversely, every time a business closes will represent a real reduction in income to the Authority.

The Valuations Office undertake a revaluation of properties every five years, with the next being due to take effect in April 2017. The Government has announced the rateable value will be assessed on either the rental values or 3 years trading receipts (dependent on the type of property) as at 1 April 2015. As the overall multipliers are revised so that national business rates bill only changes in line with inflation, it is difficult to predict what impact this will have on Southampton. The Council needs to acknowledge and begin to address this risk in its Medium Term Financial Planning, and this has been acknowledged in the Reserves Policy detailed in the Medium Term Financial Strategy at Appendix 10

v) **<u>Localisation of Council Tax Benefit</u>** – The move away from a nationally prescribed scheme for calculating and fully funding council tax benefit, and the introduction of a local scheme adds further risk to the budget position. The risks are follows:

a) That a shift in demographics or economic conditions will cause an increase in demand for benefit which cannot be contained within the reduced budget provision available.

b) That with Council Tax benefit being paid direct to recipients there will be an increase in council tax arrears due to non payment.

The Council has sought to limit its exposure to these risks through careful consideration of the scheme design, and through working closely with its partner Capita. However, there remains a risk of increased non collection and also the risk that the number of claimants will increase.

vi) **<u>Impact of Welfare Reform and Universal Credit</u>** –The Welfare Reform changes will affect residents of Southampton and may increase demand for services provided by the Housing, Adult Care and Support and Children Schools and Families services. Whilst it is impossible to calculate these impacts, the overall budget does include some funding specifically aimed at supporting the most vulnerable who are impacted by these reforms:

a) <u>Council Tax Reduction Scheme</u> – A sum of £200,000 has been set aside as part of the scheme agreed by Full Council in the form of a discretionary Hardship Fund.

b) <u>Universal Credit</u> - The Government has announced that Southampton will be in the next wave to implement Universal Credit starting in March 2015. Universal Credit roles 6 benefits into one. These are:

- Jobseekers Allowance
- Housing Benefit
- Working Tax credit

- Child Tax Credit
- Employment and Support Allowance
- Income Support

It also requires the authority to give budgeting advice to claimants, following a referral from the DWP.

Initially this will affect new single claimants only, with roll out to other claimants later in the process.

There remains an unquantifiable risk that an increase in demand and reduced income within services would impact on the Council's financial position, as no specific additional funding has been built into service budgets to account for any wider impact arising from the Welfare Reform changes.

vii) **Public Health Grant - 0-5 year olds** – Further Public Health responsibilities for commissioning children's public health services from pregnancy through to five years will transfer to the Council from October 2015 and at this stage it has been assumed that the associated funding for 2015/16 will meet the cost of providing the transferred service and therefore will not have any adverse impact on the Council's total net revenue budget requirement. Whilst unlikely, any shortfall arising will need to be addressed during the financial year as a matter of urgency and in future years there is a risk that growth in demand may place a financial pressure on the Council.

viii) **Academy Schools Transfer (Education Services Grant)** – The Education Services Grant (ESG – formerly known as Local Authority Central Spend Equivalent Grant - LACSEG) is currently paid to Academies to cover the cost of services that local authorities provide centrally to its own schools. These services include improving school attendance, financial support and asset management amongst others. This new grant has been allocated between the Council and Academies based largely on pupil numbers and will be reviewed on a quarterly basis. This has introduced an additional element of volatility and risk as schools transfer to Academy status and this will be exacerbated if the Council is not able to reduce its costs in line with reductions in funding.

ix) **Interest Rate Risk** – Whilst the UK economic recovery has continued the Eurozone weakness and the threat of deflation have increased the risks to the durability of the UK growth. Whilst this means that interest rate rises may be deferred the Treasury Management Strategy details the expectation of an interest rate rise in August 2015. This means that there is a considerable amount of interest rate risk within the overall financial system. The current position of securing low interest rate variable debt is providing a positive benefit to the General Fund budget, with borrowing costs significantly lower than they otherwise would have been through borrowing longer term through higher rate fixed term loans.

There are specific measures within the budget to provide a way of managing the risks presented by the current borrowing strategy, namely through the establishment of the Treasury Risk Reserve (formerly Interest Equalisation Reserve). Following a review of this reserve it has been felt that a reduction in the amount contained within it was justified as the current level of borrowing and the sound treasury management practices since the reserve was established have reduced the risk to the Council. It should be noted however that the Treasury Risk Reserve would only be sufficient to provide for transitional funding at the point at which the Council begins to convert from variable rate debt to long term fixed rate debt and that there remains no recurring budget provision to fund the increased interest costs likely to be incurred. The likelihood however, is that based on the current economic conditions, interest rates are likely to stay lower for longer and also the margin between short term variable debt and long term rates is not anticipated to narrow to any significant extent. It is likely therefore that the impact of converting to fixed rate long term debt will materialise towards the end of the current medium term budget horizon, providing the Council with time to manage this potential issue in future budget rounds.

x) **Demographic Change and increased Demand** – There remains an upward demographic pressure in social care via an increasing elderly population, and demand continues to grow for expensive interventions within Children's Services. Within the proposed budget for 2015/16 there are some limited sums available within the Risk Fund to manage demographic and demand pressures across all sectors of the Council. Furthermore, sums have been allocated to service budgets in 2015/16 to deal with demand pressures which have arisen in 2014/15. It is the expectation that services will need to deal with any demographic and demand changes within their existing resources. The significant transformation work that is underway within the Council together with adopting early intervention and prevention should help to reduce demand as a priority.

xi) **Economic Conditions** – Whilst the national and international economic conditions remain challenging, there has been a period of sustained growth in the UK economy. However with the General Election looming the economic conditions will remain uncertain for some time. It should also be noted that if the UK should slip back into recession the risk to the Council's income stream is now greater due to the direct impact Business Rates now has on funding.

xii) **Redundancy Provision** – Forecast future redundancy payments are based on information gathered during the previous budget process. We anticipate that we have set aside sufficient provision in the Organisational Development Reserve to finance the required one-off payments over the next three years. However the actual impact is only known when specific details come forward and changes in the overall level of savings required will influence the resulting level of redundancies in future years.

xiii) **Transformational Change** – There is a considerable amount of transformational change that is about to occur with the introduction of the Council's new operating model at the same time as maintaining and dealing with demand pressures within "business as usual". There is always a degree of risk associated with major change, and this is exacerbated by the overall financial position and lack of funds to invest in Transformation. However, the Chief Executive is seeking to put in place a Transformation Implementation Director to drive forward the Transformation agenda.

xiv) **Equal Pay** –The Council has received a number of Equal Pay claims. There remains the risk that further claims could be received. However, the Council is seeking to minimise its risk through the implementation of a new pay and allowances framework. However, should there be any significant increase in the value of claims payable, this would present a financial challenge given the Council's overall financial position.

xv) **Medium Term Financial Position** – The impact of much of the above, is that the Council faces a significant budget shortfall from 2015/16 onwards. The level of forecast savings required in 2015/16 alone are unprecedented. This is a significant risk to the overall financial position of the Authority in both the short to medium term, and the Council's Management Team (CMT) recognise that significant action is required in the immediate future to provide options for Members to enable them to put in place plans to deliver the scale of spending reductions required to meet the forecast future budget shortfall. Inevitably though, the scale of reductions required will have a significant impact on the level of services which the Council can continue to sustain. As a result of the risk around the Medium Term Financial Strategy, the volatility around Business Rates, and the potential for savings to be delayed as the Council goes through a period of major change, a Medium Term Financial Risk reserve has been set up to assist the Council in managing this risk.

xvi) **Pooled Budgets** – The Council is embarking on a new way of working with Southampton Clinical Commissioning Group (SCCG), following the implementation of the Better Care Fund in April 2015. In the 2015/16 financial year the majority of the funding being pooled is the SCCG's, however as this is a new arrangement, there will be an inherent level of risk to the Council until all systems and processes have been tried and tested. Whilst a due diligence exercise has been carried out to ensure variations from budget are minimised and if arise are dealt with in the most appropriate manner, the nature of a pooled budget does mean that both organisations involved carry some risk of a budget variation occurring in an area for which they are not the lead.

xvii) **Unforeseen Emergency Situations** – Where disasters occur, the Council needs to have General Fund Balances in place to pick up costs that will fall to it, both from supporting the community through a disaster and from any additional costs incurred in business continuity and disaster recovery.

The Council is required to have regard to this report in approving the budget and Council Tax. It is appropriate for this report to go first to Cabinet and then to be made available to the Council in making its final decision.

Notwithstanding the above, as required under Section 25 of the Local Government Act 2003 I would make the following formal comments on the Robustness of the Estimates and the Adequacy of Reserves:

A) ROBUSTNESS OF ESTIMATES

Budget setting is made up of several estimates some involving quite complex forecasting. By the very definition of the word, estimates are not factual and the degree of accuracy will not only vary but also take different periods of time to be proven to be correct or otherwise.

During the summer of 2014 the Executive, supported by CMT, developed a series of detailed budget proposals the majority of which were published in November. Whilst some figures have changed and proposals have been amended these have been validated by CMT prior to their inclusion in the final proposed budget. There is therefore a high degree of validation inherent within the final budget proposals.

Key elements within the budget are provisions for inflation on pay and prices, projected levels of income and achievability of savings. Details of these items are included in the reports and have already been through the validation process as set out above. However, there are a number of points to draw out:

i) Assumptions made in all of the forecasts are basically sound. The pay award agreed in November has been incorporated into the budget for 2015/16 and 2% for 2016/17 onwards. Employer contributions to the Hampshire Local Government Pension for current service costs will remain at their current level of 13.1% for the remainder of the three year period, 2015/16 to 2016/17, following the actuarial review. The contribution for past service will increase by a known amount each year thereby giving certainty about this cost. Contributions from April 2017 will be reviewed as part of the next actuarial review and the impact will be built into future forecasts.

ii) The scale of the reductions in local government funding has meant that the Council has been forced to look at radical options for reducing expenditure across services. Proposals which involve significant change to current structures, systems and processes, or which have major implications for service design inherently involve higher levels of risk than those which broadly maintain current arrangements. At the most practical level those risks begin with the possibility of slippage and disruption in the transition from old to new arrangements.

   The Executives recommendations for efficiencies, income generation and service reductions now total £9.98M.

   Individual savings items have been approved by the relevant Directors and Heads of Service and have been subject to scrutiny by CMT. Responsibility for actioning any changes in the budgets will fall to me as CFO, and all savings approved will be actively monitored throughout the year although responsibility for the delivery of these savings rests with the relevant Director.

iii) The Council's external auditor gave an unqualified opinion on the 2013/14 financial statements and an unqualified conclusion on the Council's arrangements for securing value for money.

   The Council has maintained a robust system of budget monitoring and control evidenced by the small unplanned variances from budget on final outturn in recent years. Where over spends or under spends have arisen, potential variances have been identified early enough to enable corrective action to have effect.

   The CFO considers that the financial control arrangements remain sufficiently robust to maintain adequate and effective control of the budget in 2015/16.

iv) The current recommendation by the Cabinet retains a general contingency of £0.25M together with a risk based contingency sum of £4.5M within the Risk Fund, which should cover estimation issues or some activity changes that arise during the year. In addition, as set out earlier in this statement, the Council has put in place a Medium Term Financial Risk Reserve for 2015/16 in the sum of £2.89M to provide further coverage for managing financial risk.

v) The current economic climate and national issues surrounding adult social care (aging population) and the safeguarding of children have impacted on the budget. Additional provision to cover all of these issues has been included within the final budget proposals and will be the subject of detailed monitoring throughout the year. Rising demand in both adults and children's social care together with reduced funding remains one of the most significant risks to the sustainability of the Council and its financial position

vi) A prudent but realistic view of interest rates has been taken in constructing estimates for interest charges in 2015/16 budget. Whilst these estimates are considered to be adequate at this point in time the considerable turbulence within the financial markets may lead to further consideration. Interest rate trends and capital financing operations will be monitored closely throughout the year to facilitate timely action designed to optimise the Authority's position.

B) ADEQUACY OF PROPOSED FINANCIAL RESERVES

Risk Mitigation – Mindful of the overall risks within the budget, some of which are specifically highlighted in points i) to xvii) at the start of this report, (of which some are not quantified nor have any specific offsetting financial provision within the budget), the CFO has reviewed the minimum level of the Council's General Fund reserves/balances.

The current recommended minimum General Fund (GF) Balance is £5.5M, as recommended and approved last year.

In reviewing the minimum level of General Fund Balance for 2015/16 the CFO has been cognisant of the risks and provisions together with the continuing reduction in Local Government funding and the consequent significant budget shortfalls the Council still faces in the medium term. Whilst given the financial risks the Council faces in the next few years there would be a sound argument for increasing the minimum GF balance level even further, conversely the ability to do so is constrained by the fact that the Council faces a significant budget shortfall which limits the Council's ability to set aside further sums to increase the minimum level of balances. However, in light of the increased level of risk around the Medium Term Financial Strategy and the increased probability of resources being required to support the delivery of the MTFS, as set out earlier the budget proposal has made the establishment of an Earmarked Medium Term Financial Risk Reserve possible. As this has the impact of increasing the overall level of balances and reserves, the CFO is not recommending a further increase in the minimum level of GF Balance at this stage, but would recommend increasing the minimum level of this balance further in the future should the financial position allow.

The Medium Term Financial Strategy in Appendix 10 also establishes a Reserves Policy going forward. This gives the CFO and CMT the authority to set aside available funds into a prioritised list of earmarked reserves.

It is worth highlighting that the Council has an excellent track record of remaining within budget once it has been set, and has never been in the position of reporting an overall overspend on the General Fund despite some very difficult recent years in respect of reducing income and escalating social care costs in both children and adult services. It is noted however that the forecast outturn position for 2014/15 is relatively small compared to previous years, and that this is indicative of the tightening financial position. It will be important to retain tight expenditure controls in 2015/16, and deliver the proposed savings, to ensure that the Council doesn't overspend in 2015/16 and aims to deliver a budget underspend to support the overall financial position for 2016/17 onwards.

Issues which it is appropriate to draw specifically to the attention of Cabinet and Council are detailed below:

i) The Council holds a number of specific provisions for issues like debt write off that are assessed on an ongoing basis against the specific issues to which they relate. Review of these provisions forms part of the budget preparations covered above.

ii) The General Fund balance is used to support revenue, capital and strategic pressures and to provide a working balance.

Details of the use of the General Fund Balance is included in the report. The level of GF Balance and the projected use is forecast for three years. The minimum level of GF Balance is recommended by the CFO taking into account issues like the proposed draw, the level of risk contained within the budget, and previous experience on potential levels of net overspend, but also takes account of the practicalities of being able to increase the minimum GF balance at a time when the Council is faced with having to find significant savings, far greater than at any other time, simply to balance the budget position.

Best practice guidance issued by CIPFA is followed in determining a level of GF Balance based on assessed risks, which are reviewed annually. Based on the current assessment of the overall financial position, the CFO has recommended that the minimum level of GF Balance should be maintained at £5.5M, albeit that should the Authority find itself in a position where it could realistically identify additional resources to fund an increase in the minimum level of GF Balance as well as the increase in earmarked reserves, then the CFO's advice is that it would be prudent to do so. There is no legal definition or Audit Commission recommendation on the absolute level of balances and reserves that any authority should hold but the risk based approach does provide a consistent, transparent methodology that can be updated periodically.

iii) Attention is drawn to the level and use of capital resources in the General Fund Capital Programme report. Whilst this identifies the overall Capital Programme is fully funded this is based on a revised estimate of capital receipts. The level of capital receipts is volatile and therefore while the funding deficit is now closed from the level reported previously this remains an area to monitor as the deficit is based on estimated forecast receipts rather than receipts received.

Slippage in capital receipts could change the forecast of temporary borrowing that is required unless accompanied by equivalent slippage in spend. Non-receipt of any planned income will require a permanent draw from balances, additional borrowing or for savings to be found in the capital programme. In drawing up the capital programme these risk factors are obviously taken into account but as a backstop position these potential shortfalls will continue to be reviewed over the longer term and where possible, be reduced by re-phasing schemes or bringing forward the use of prudential borrowing.

The Council also has key strategic property and land sites which it has been holding until market conditions improve. These have been reviewed to ensure that those held are truly strategic and as a result sites have been identified for sale which has in part served to reduce the forecast capital deficit. The categorisation and potential for sale of sites will continue to be actively monitored and sites held by the Council which are not operational provide a further source of contingency to reduce the risks outlined in the above paragraphs.

iv) Levels of borrowing and debt and associated treasury risks are fully covered in the Treasury Management Strategy and Prudential Indicators report which appears on the Council agenda. In recognition of the risk associated with the current strategy the Council is maintaining a Treasury Risk Reserve, and as part of setting the 2015/16 budget the CFO has recommended that the level of this reserve should be reduced to £2.1M, which the CFO considers to be the prudent minimum at this time based on the current borrowing strategy. The Reserve has been and will continue to be subject to ongoing review, not least of which will be to review the new risks which are now in the system as a result of the new banking regulations. This means that UK banks are less likely to receive government support in future should they find themselves in financial difficulties, and instead will have to resort to ‘Bail In’, whereby individual investors (be they individuals or institutions) would be expected to fund any shortfall via a ‘hair cut’ i.e. a reduction to the sums they hold on deposit for which there will be no protection for institutions. The Treasury Management Strategy has been developed with the Bail In risk in mind and a more diversified portfolio of investment has begun to be developed and as a consequence the CFO has felt able to release £1M of the Reserve, to support the MTFS Reserve.

Section 25 concentrates primarily on the uncertainty within the budget year rather than the greater uncertainties in future years. However future uncertainties also inform the need for reserves and balances in the medium term. The current financial position involving significant savings targets increases the risk of over spending, together with demand led spending pressures during a recession and potentially higher inflation than assumed. Funding beyond 2015/16 is uncertain as this will signal the start of a new CSR and therefore budget plans for 2016/17 and beyond must be treated with caution at this stage.

This formal report is part of a continuum of professional advice and is the culmination of a budget process in which lots of detailed work has already taken place with Directors, Senior Managers and their teams and Members.

The CFO considers that the budget proposals recommended by the Cabinet for 2015/16 are robust and deliverable for the one year planning horizon, but are underpinned by the significant use of one off resources, which is not sustainable in the medium term. It is also recognised that there are significant demographic pressures in both Adult and Children's social care which need to managed. There are also risks associated with the achievement of efficiencies and service reductions and robust monitoring arrangements must continue to ensure savings are delivered within the required timescale. The level of general and specific reserves together with the contingency sum of £250,000 and the provisions held within the Risk Fund and the Medium Term Financial Risk Reserve go some way to meet the known risks within the budget, taking account of the robust financial management framework which the Council has in place. Overall therefore, whilst it is recognised that this budget has elements of risk not experienced before, it is felt that sufficient mitigating actions are already in place to accept and to manage those risks in 2015/16.

However, the CFO remains very concerned about the Authority's medium term position, with circa £61M of savings to be found by 2017/18. This concern is heightened as general fund balances are close to the recommended minimum level, and available earmarked reserves are low, meaning that short term options to shore up the budget through a draw on balances/reserves (even though not ideal), to buy time to put in place sustainable transformation and deliver sustainable savings alongside reduced service provision, are limited. In addition, the Council has used significant one off funding in balancing both the 2014/15 and the 2015/16 budgets, and the level of one off funding utilised, particularly in setting the 2015/16 budget, are unlikely to be available in future. This will mean that there will be more pressure to deliver significant and sustainable budget savings to balance the budget for 2016/17 onwards.

Therefore, both Members and the Council's Management Team must not lose sight of the need to ensure that work is ongoing to develop sustainable savings proposals for future years (a key element moving forward will therefore be driving forward and implementing the Council's new Operating Model), mindful of the fact that available reserves to support the financial position are limited. That said, there is a balance to be struck, as Members must also be mindful of the need to carefully consider the extent to which one off funding is utilised in order to deliver a balanced budget in any one year, albeit that it may be prudent to do so if it buys time to bring sustainable savings and spending and service reductions on stream.

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