Annex 8

Statement of the Chief Finance Officer Under the Requirements of Section 25 of the Local Government Act 2003

Robustness of Budget Estimates and Adequacy of Reserves

1. Introduction

1.1 This annex focuses on two responsibilities of the Council's Chief Financial Officer under the Local Government Act 2003, which are:

a) the robustness of the estimates

b) the adequacy of the reserves

1.2 This document will be updated for the Council meeting on 25 February 2010 if necessary.

2. Processes

2.1 Budget estimates are an assessment of future expenditure and income at a point in time. This statement on the robustness of the estimates gives members a reasonable degree of confidence that the budget has been based on the best available information and assumptions at the time it was built. It cannot, however, give any guarantees about the budget.

2.2 In order to meet the requirement on the robustness of estimates, the budget process incorporated a number of key elements, including:

a) Issuing clear guidance to service accountants and budget managers

b) Peer review by finance staff involved in preparing the Continuation Budget

c) A medium term planning process that highlights priority services and identifies efficiency savings

d) Detailed challenge of the budget by Management Board and Cabinet members

e) The Chief Finance Officer providing advice throughout the process on robustness, including vacancy factors, avoiding unallocated savings, reflecting current demand and service standards (unless standards and/or eligibility are to be changed through policy changes).

f) Scrutiny of the robustness of estimates by the Chief Finance Officer, including review of risk on each option, reported to Audit Committee 11 January 2010.

2.3 In addition to these arrangements, which aim to test the budget throughout the various stages of its development, considerable reliance is placed on Directors and Heads of Service having proper arrangements in place to identify issues, project demand data, and consider value for money and efficiency.

3. Robustness of Estimates

General Fund Budget

3.1 In addition to improving efficiency, the Council has two choices:

a) To increase financial resources to meet demand and thereby reduce the risk of overspending in 2010/11; or

b) To reduce (where possible) service levels and standards, frequency of service delivery, eligibility for services and thereby reduce the risk of overspending in 2010/11

3.2 As part of developing the budget, members of the administration have considered these options and the outcomes of these deliberations are reflected in the budget proposed.

3.3 The robustness factors taken into account in developing the draft budget are shown in the tables below.

Review of Risk in the General Fund Budget

3.4 The Chief Finance Officer led a detailed review of the risks in the proposals from each Head of Service, considering deliverability, links to other proposals, and possible impacts on those, risks to partner organisations, risks from the economic climate, and impact on customers, among others.

3.5 Each proposal was assigned a risk level of Red (for high risk), Amber (for medium risk), and Green (for low risk).

3.6 As a result of the risk assessment a number of options were modified or removed from the proposed budget.

3.7 In relation to the remainder, the risks inherent in the budget proposals have been factored into the risk assessment of reserves.

3.8 An estimate has been built in for the costs of Pay and Grading in 2010/11. As negotiations have not yet been completed figures for 2011/12 and 2012/13 have not been included in the main budget proposals as accurate figures will be available for the next budget build process.

3.9 The pension fund revaluation is due to take place during 2010/11. Due to the economic instability nationally, it is not possible to estimate at this stage what the impact of that might be. This will therefore be built in during the next budget round.

3.10 Details of the risk review of the budget and a summary of the risk assessment of reserves was reported to the Audit Committee at its meeting of 11 January 2010.

3.11 Overall the Chief Finance Officer considers the estimates to be robust within the assumptions that have been made. Where risks have been identified, these have been taken into account in the risk assessment of reserves (see below).

3.12 Performance against the budget will be monitored regularly throughout the financial year, and will be reported to Cabinet by means of formal reports.

3.13 If necessary management action will be identified to address any adverse variances to the budget.

3.14 The assumptions and potential changing circumstances mean that forecasts for future years need to be reviewed each financial year.

3.15 The review of robustness is at Tables 1 to 5, appended to this Annex.

4 Capital Budget

4.1 Directorate project managers put forward project bids for the capital programme with full adherence to the corporate capital project appraisal procedures and Financial Regulations.

4.2 The appropriate Directors and Cabinet Member(s) have been consulted and the proposed programme is fully funded.

4.3 Projects have been costed at current year prices with many being subject to tender processes after inclusion in the programme, which may lead to variances in the final cost.

4.4 The Council has to work within a fixed cash envelope, so any under provision must be found from within these limits.

4.5 The risk of the Council being unable to finance variations to the programme is considered to be low due to the phasing of projects. If necessary the Council may freeze parts of the programme within the financial year (where permitted under contractual obligations) to ensure that spend is kept within the agreed limits.

4.6 The main risk in the capital programme is delivery of the projects to time. Slippage from one year to the next can increase pressure on the programme in the following year.

5 Adequacy of Reserves

5.1 The Secretary of State has reserve powers under the Local Government Act 2003 to set a minimum level of reserves. It is more likely that this power would be exercised where an authority is running down its reserves against the advice of the Chief Financial Officer.

5.2 There is no precise methodology for calculating the adequacy of reserves. It is the Council's safety net for unforeseen circumstances and must last the lifetime of the Council, unless contributions are made from the revenue budget. The minimum level of balances cannot be judged merely against the current risks facing the Council, but must be regularly updated as these risks can and will change over time.

5.3 An appropriate level of reserves is determined by a professional judgement based on local circumstances including overall budget value, risks and robustness of budgets, major initiatives being undertaken, budget assumptions, available earmarked reserves and provisions, and the Council's historic record of effective budget management.

5.4 Not keeping a minimum prudent level of reserves can have serious consequences. In the event of a major problem or series of adverse events, the authority could be forced to cut spending on other areas during the year in a potentially damaging and arbitrary way.

5.5 The Chief Financial Officer has developed a risk management approach to the level of reserves and determined that the minimum level should be £3m, and reserves should be built up to this level over the longer medium term.

5.6 In arriving at the recommendation on the minimum prudent level of reserves strategic, operational, and financial risks have been taken into account, as has the robustness of estimates information (above), and new guidance from CIPFA and Government on Treasury risk.

5.7 Issues taken into account include:

a) There is always some degree of uncertainty over whether the full effects of any efficiency measures/increased income will be achieved. Heads of Service have been asked to be prudent in their assumptions, particularly in relation to demand led budgets.

b) The Bellwin Scheme Emergency Financial Assistance to Local Authorities provides assistance in the event of an emergency. The local authority is able to claim assistance with the cost of dealing with an emergency over and above a threshold set by Government. The assistance is usually 85% of eligible costs over the threshold. (Up to the threshold the authority must meet 100% of the costs.) The scheme applies to any incident where conditions occur that are clearly exceptional by local standards and the damage to local authority infrastructure or communities must be exceptional in relation to normal experience. In the first instance these costs would be met from reserves.

c) The risk of major litigation.

d) Unplanned volume increases in major demand led budgets, particularly in the context of a growing town.

e) Potential short term differences between the Council's Insurance Reserve and outstanding liabilities, although these should be remedied by the following financial year.

f) The need to retain a general contingency to provide for any unforeseen circumstances which may arise, including risk of emergency repairs to public buildings.

g) The need to retain reserves for general day to day cash flow management.

h) Specific high-risk service issues that were identified during the 2009/10 financial year.

i) Treasury management risks

5.8 The Chief Financial Officer therefore recommends

a) That a minimum prudent level of reserves be set at £2.195m for 2010/11 (target for 31 March 2011) and increased over time to £3m. This will be reviewed at least annually. This minimum level is designed to cope with unpredictable circumstances, which cannot be addressed by management or policy action within the year.

b) That it be noted that this does not represent a medium-long term safe level of reserves. The level can only accommodate the impact of significant events up to the level set, and would need to be replenished if one or more such events actually occur.

6 General Fund Earmarked Reserves

6.1 The table below shows the current forecast balance of all earmarked reserves held by the Council.

Reserve	Balance as at 31/03/2009	Additions to Reserves	Use of/ Reductions to Reserves	Forecast Balances as at 31/03/2010
	£000s	£000s	£000s	£000s
Insurance	1,976	0	0	1,976
Subsidy Equalisation	500	0	0	500
Core Business Systems	169	0	0	169
Building Maintenance	500	0	(500)	0
Corporate Initiatives (LABGI)	351	0	(112)	239
Service Improvements	1,000	0	(150)	850
General	3,212	0	(353)	2,859
Debt Financing	460	103	(363)	200
Arts	23	0	0	23
	8,191	**103**	**(1,478)**	**6,816**

7 Housing Revenue Account (HRA)

7.1 The opening working balance for 2009/10 was £6.124m, and the closing balance is currently (as at the end of December 2009) forecast to be £6.3m by the end of March 2010.

Isabell Procter,
Chief Financial Officer

Table 1 – Robustness of Estimates – Environment and Culture

Budget Assumption	Commentary on Robustness
The treatment of inflation and interest rates	0% has been assumed for the 2010/11, 2011/12 and 2012/13 pay awards. A vacancy factor has been built into the budgets for all 3 years, which should be achieved 'naturally'.
The treatment of demand led pressures	All Heads of Service have reviewed their base budgets, including demand led pressures. Directorates are expected to put forward management and policy actions to manage additional demand within the relevant legislation either within the relevant budget or by reprioritising the Directorate budgets. The budgets for demand led services in the Environment and Culture Directorate were calculated using previous trends and future forecasts of the volatility of expenditure demands and income streams, taking account of the current economic climate. Among other items, specific pressures have been identified in relation to parking fee income in particular.
The treatment of efficiency savings/productivity gains.	All Directors and Heads of Service have a responsibility to ensure the efficient delivery of services, and when efficiency savings are proposed that those savings are realistic in terms of both the level of savings and the timing. The Environment and Culture Directorate has reviewed its services to establish whether services can be delivered more efficiently. Savings have been identified through, additional recycling income, negotiation of new contracts and changes in working practices.
Financial Risks inherent in any significant partnerships, major outsourcing or major capital developments	The Directorate will manage financial risks through consistent monitoring of the revenue budget and capital programme, and by identifying and implementing management actions should any overspends arise.
The availability of other funds to deal with major contingencies.	This Directorate has a specific earmarked reserve for Arts. The Directorate will continue to undertake effective in-year monitoring of volatile budgets and produce a managed response by means of monitored action plans to any budget pressures arising in the year.
The Directorate's track record in budget and financial management.	The Environment and Culture Directorate's recent track record of budget and financial management is that as at month 9 the Directorate is forecasting an overspend of £768k for 2009/10.
The Directorate's capacity to manage in-year budget pressures	The Environment and Culture Directorate undertakes regular monthly monitoring to promptly identify budget pressures and savings. It is working to improve its ability to develop and monitor action plans and implement solutions to address such pressures as necessary.

Table 2 – Robustness of Estimates – Finance and Support Services

Budget Assumption	Commentary on Robustness
The treatment of inflation and interest rates	0% has been assumed for the 2010/11, 2011/12 and 2012/13 pay awards. A vacancy factor has been built into the budgets for all 3 years, which should be achieved 'naturally'.
The treatment of demand led pressures	All Heads of Service have reviewed their base budgets, including demand led pressures. Directorates are expected to put forward management and policy actions to manage additional demand within the relevant legislation either within the relevant budget or by reprioritising the Directorate budgets. The budgets for demand led services in the Finance and Support Directorate were calculated using previous trends and future forecasts of the volatility of expenditure demands and income streams, taking account of the current economic climate. Specific demand led pressures have been identified including: Demand for the Government's revised concessionary fares scheme, which has remained in excess of the funding provided to this authority for this purpose, despite the saving on the budget for this in 2009/10. Decline in commercial letting income due to the economic situation locally. Increased demands on the Revenues and Benefits service due to the economic climate, including a 20% increase in the number of households receiving benefits since April 2008.
The treatment of efficiency savings/productivity gains.	All Directors and Heads of Service have a responsibility to ensure the efficient delivery of services, and when efficiency savings are proposed that those savings are realistic in terms of both the level and timing of savings. The Finance and Support Services Directorate has reviewed its services to establish whether they can be delivered more efficiently. Savings have been identified through changes in working practices, contract changes, and restructuring,
Financial Risks inherent in any significant partnerships, major outsourcing or major capital developments	The Directorate will manage existing financial risks through consistent, evidenced monitoring of the revenue budget and capital programme and by identifying, implementing, and monitoring management actions should any overspends arise.

Budget Assumption	Commentary on Robustness
The availability of other funds to deal with major contingencies.	There are contingency funds specifically available in relation to earmarked reserves for insurance, and core business systems available to this Directorate. The Directorate will continue to monitor volatile budgets in year and produce a managed response to budget pressures. Steps have been taken to address the major issues that have been identified through the 2009/10 budget monitoring in the 2010/11 budget where appropriate.
The Directorate's track record in budget and financial management.	The Finance and Support Services Directorate's recent track record of budget and financial management is that as at month 9 the Directorate has a forecast under spend of £737k for 2009/10. This reflects the high risk and volatile demand led budgets that are held within this Directorate and emphasises the importance of effective budget monitoring.
The Directorate's capacity to manage in-year budget pressures	The Finance and Support Services Directorate undertakes regular monthly monitoring to promptly identify budget pressures and savings. It endeavours to develop and monitor action plans and implement solutions to address pressures as necessary.

Table 3 – Robustness of Estimates – Planning & Regeneration

Budget Assumption	Commentary on Robustness
The treatment of inflation and interest rates	0% has been assumed for the 2010/11, 2011/12 and 2012/13 pay awards. A vacancy factor has been built into the budgets for all 3 years, which should be achieved 'naturally'.
The treatment of demand led pressures	All Heads of Service have reviewed their base budgets, including demand led pressures. Directorates are expected to put forward management and policy actions to manage additional demand within the relevant legislation either within the relevant budget or by reprioritising the Directorate budgets. The budgets for demand led services in the Planning & Regeneration Directorate have been calculated using previous trends and forecasts of the volatility of expenditure demands and income streams, taking account of the current economic climate. Specific pressures that have been identified include planning fee income and building control income, which have both fallen significantly due to the condition of the housing market and the effects of the global financial position.
The treatment of efficiency savings/productivity gains.	All Directors and Heads of Service have a responsibility to ensure the efficient delivery of services, and when efficiency savings are proposed that those savings are realistic in terms of both the level of savings and the timing. The Planning and Regeneration Directorate has reviewed its services to establish whether services can be delivered more efficiently. Savings have been identified through changes in working practices, and restructuring
Financial Risks inherent in any significant partnerships, major outsourcing or major capital developments	The Directorate will manage existing financial risks through consistent monitoring of the revenue budget and capital programme and by identifying, implementing, and monitoring management actions should any overspends arise.
The availability of other funds to deal with major contingencies.	The Directorate is expected to have some of its 2009/10 earmarked LABGI reserve left. The Directorate will continue to monitor volatile budgets in year and produce a managed response to budget pressures. Steps have been taken to address the major issues that have been identified through the 2009/10 budget monitoring in the 2010/11 budget where appropriate.
The Directorate's track record in budget and financial management.	The People, Planning & Regeneration Directorate's recent track record of budget and financial management is that as at month 9 the Directorate is forecasting an under spend of £7k for 2009/10.
The Directorate's capacity to manage in-year budget pressures	The Planning & Regeneration Directorate undertakes regular monthly monitoring to promptly identify budget pressures and savings. It endeavours to develop and monitor appropriate action plans and implement solutions to address such pressures as necessary.

Table 4 – Robustness of Estimates – Assistant Chief Executive

Budget Assumption	Commentary on Robustness
The treatment of inflation and interest rates	0% has been assumed for the 2010/11, 2011/12 and 2012/13 pay awards. A vacancy factor has been built into the employee budgets for all 3 years, which should be achieved 'naturally'. A 0% increase has also been assumed for members allowances in line with the staff pay award assumptions.
The treatment of demand led pressures	All Heads of Service have reviewed their base budgets, including demand led pressures. Directorates are expected to put forward management and policy actions to manage additional demand within the relevant legislation either within the relevant budget or by reprioritising the Directorate budgets. The budgets for demand led services in the Assistant Chief Executive areas have been calculated using previous trends and forecasts of the volatility of expenditure demands and income streams, taking account of the current economic climate. No specific demand led pressures have been identified in the Assistant Chief Executive's area.
The treatment of efficiency savings/productivity gains.	All Directors and Heads of Service have a responsibility to ensure the efficient delivery of services, and when efficiency savings are proposed that those savings are realistic in terms of both the level of savings and the timing. The Assistant Chief Executive areas have reviewed their services to establish whether they can be delivered more efficiently. Savings have been identified through restructures
Financial Risks inherent in any significant partnerships, major outsourcing or major capital developments	The Assistant Chief Executive will manage existing financial risks through consistent monitoring of the revenue budget and capital programme and by identifying, implementing, and monitoring management actions should any overspends arise.
The availability of other funds to deal with major contingencies.	The Assistant Chief Executive area has no specific contingent reserves available to it. The Assistant Chief Executive will continue to monitor volatile budgets in year and produce a managed response to budget pressures. Steps have been taken to address the major issues that have been identified through the 2009/10 budget monitoring in the 2010/11 budget where appropriate.
The Directorate's track record in budget and financial management.	The Assistant Chief Executive areas' recent track record of budget and financial management is that as at month 9 the Directorate is forecasting an under spend of £185k for 2009/10.
The Directorate's capacity to manage in-year budget pressures	The Assistant Chief Executive areas undertake regular monthly monitoring to promptly identify budget pressures and savings. It endeavours to develop and monitor appropriate action plans and implement solutions to address such pressures as necessary.

Table 5 – Robustness of Estimates – Borough Solicitor

Budget Assumption	Commentary on Robustness
The treatment of inflation and interest rates	0% has been assumed for the 2010/11, 2011/12 and 2012/13 pay awards. A vacancy factor has been built into the budgets for all 3 years, which should be achieved 'naturally'.
The treatment of demand led pressures	All Heads of Service have reviewed their base budgets, including demand led pressures. Directorates are expected to put forward management and policy actions to manage additional demand within the relevant legislation either within the relevant budget or by reprioritising the Directorate budgets. The budgets for demand led services in the Borough Solicitor area have been calculated using previous trends and forecasts of the volatility of expenditure demands and income streams, taking account of the current economic climate. Specific pressures that have been identified include licensing income and land charges income, which have both fallen significantly due to the effects of the global financial position.
The treatment of efficiency savings/productivity gains.	All Directors and Heads of Service have a responsibility to ensure the efficient delivery of services, and that efficiency savings proposed are realistic in terms of both the level of savings and the timing. The Borough Solicitor has reviewed the services to establish whether services can be delivered more efficiently.
Financial Risks inherent in any significant partnerships, major outsourcing or major capital developments	The Borough Solicitor will manage existing financial risks through consistent monitoring of the revenue budget and capital programme and by identifying, implementing, and monitoring management actions should any overspends arise.
The availability of other funds to deal with major contingencies.	The Borough Solicitor has the St Peters Way earmarked reserve available to it. The Borough Solicitor will continue to monitor volatile budgets in year and produce a managed response to budget pressures. Steps have been taken to address the major issues that have been identified through the 2009/10 budget monitoring in the 2010/11 budget where appropriate.
The Directorate's track record in budget and financial management.	The Borough Solicitor area's recent track record of budget and financial management is that as at month 9 the Directorate is forecasting an under spend of £79k for 2009/10.
The Directorate's capacity to manage in-year budget pressures	The Borough Solicitor area undertakes regular monthly monitoring to promptly identify budget pressures and savings. It endeavours to develop and monitor appropriate action plans and implement solutions to address such pressures as necessary.

Table 6 – Robustness of Estimates – Housing General Fund

Budget Assumption	Commentary on Robustness
The treatment of inflation and interest rates	0% has been assumed for the 2010/11, 2011/12 and 2012/13 pay awards. A vacancy factor has been built into the budgets for all 3 years, which should be achieved 'naturally'.
The treatment of demand led pressures	All Heads of Service have reviewed their base budgets, including demand led pressures. Directorates are expected to put forward management and policy actions to manage additional demand within the relevant legislation either within the relevant budget or by reprioritising the Directorate budgets. The budgets for demand led services in the Housing Directorate have been calculated using previous trends and forecasts of the volatility of expenditure demands and income streams, taking account of the current economic climate.
The treatment of efficiency savings/productivity gains.	All Directors and Heads of Service have a responsibility to ensure the efficient delivery of services, and that efficiency savings proposed are realistic in terms of both the level of savings and the timing. The Housing Directorate has reviewed the services to establish whether services can be delivered more efficiently. Savings have been identified through deletion of vacant posts and a strategic move towards Private Sector landlords for homelessness provision.
Financial Risks inherent in any significant partnerships, major outsourcing or major capital developments	The Housing Directorate will manage existing financial risks through consistent monitoring of the revenue budget and capital programme and by identifying, implementing, and monitoring management actions should any overspends arise.
The availability of other funds to deal with major contingencies.	The Housing Directorate has no General Fund earmarked reserves available to it. The Housing Directorate will continue to monitor volatile budgets in year and produce a managed response to budget pressures. Steps have been taken to address the major issues that have been identified through the 2009/10 budget monitoring in the 2010/11 budget where appropriate.
The Directorate's track record in budget and financial management.	The Housing Directorate's recent track record of financial management is that as at month 9 the Housing General Fund is forecasting an under spend of £43k for 2009/10.
The Directorate's capacity to manage in-year budget pressures	The Housing Directorate undertakes regular monthly monitoring to identify budget pressures and savings promptly. It endeavours to develop and monitor appropriate action plans and implement solutions to address such pressures as necessary.

Table 7 – Robustness of Estimates – Debt Financing

Budget Assumption	Commentary on Robustness
The treatment of inflation and interest rates	Based on the latest projections from the Council's Treasury advisors, Sector, and taking into account local circumstances, an average interest rate of 0.75% has been assumed for 2010/11 on investments, with the average interest on the Council's long term borrowing budgeted at 5.4%.
Financial Risks inherent in any significant partnerships, major outsourcing or major capital developments	This is a volatile budget and there are recognised risks to delivering this budget depending on the level of borrowing the authority needs to undertake to fund its capital programme and the interest rates available for both borrowing and investment. The Directorate will manage existing financial risks through consistent monitoring of the revenue budget and by identifying, implementing, and monitoring management actions should any overspends arise.
The availability of other funds to deal with major contingencies.	There is a specific earmarked reserve for debt financing to cater for the volatility of interest rates. The Directorate will continue to monitor this volatile budget in year and produce a managed response to budget pressures.
The Directorate's track record in budget and financial management.	The Debt Financing area's recent track record of budget and financial management is that as at month 10 the Directorate is forecasting a break even using a draw down of the debt financing earmarked reserve in 2009/10.
The Directorate's capacity to manage in-year budget pressures	Regular monitoring is undertaken on the debt financing budget to promptly identify budget pressures and savings. The Directorate endeavours to develop and monitor appropriate action plans and implement solutions to address pressures as necessary.

Table 5 – Robustness of Estimates – HRA
Further detail can be found in Annex F of the HRA report elsewhere on this agenda

Budget Assumption	**Commentary on Robustness**
The treatment of inflation and interest rates	0% has been assumed for the 2010/11, 2011/12 and 2012/13 pay awards.
The treatment of demand led pressures	All Heads of Service have reviewed their base budgets, including demand led pressures. Directorates are expected to put forward management and policy actions to manage additional demand within the relevant legislation either within the relevant budget or by reprioritising the Directorate budgets. The budgets for demand led services in the HRA were calculated using previous trends and future forecasts of the volatility of expenditure demands and income streams, taking account of the current economic climate. Among other items, specific pressures have been identified in relation to the cost of HRA subsidy, rent pressures through the rent restructuring process and repairs costs through the pressure to meet and maintain the decent homes standard.
The treatment of efficiency savings/productivity gains.	All Directors and Heads of Service have a responsibility to ensure the efficient delivery of services, and when efficiency savings are proposed that those savings are realistic in terms of both the level of savings and the timing. The HRA services have been reviewed to establish whether services can be delivered more efficiently.
Financial Risks inherent in any significant partnerships, major outsourcing or major capital developments	The Housing Directorate will manage financial risks through consistent monitoring of the revenue budget and capital programme, and by identifying and implementing management actions should any overspends arise.
The availability of other funds to deal with major contingencies.	The HRA maintains a prudent level of balances in reserves to deal with any contingencies that arise. The HRA has a specific reserve of £8.3m that relates to capital and funds for leaseholder review. The HRA will continue to undertake in-year monitoring of volatile budgets and produce a managed response to budget pressures.
The Directorate's track record in budget and financial management.	The HRA's recent track record of budget and financial management is that as at month 9 the HRA is forecasting an over spend of £110k for 2009/10.
The Directorate's capacity to manage in-year budget pressures	The HRA undertakes regular monthly monitoring to promptly identify budget pressures and savings. It has the ability to develop and monitor action plans and implement solutions to address such pressures as necessary.