

**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 – Housing
Revenue Account (HRA)**

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

Housing Revenue Account 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 Housing Revenue Account 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 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).
- 3.5 Performance against the budget will be monitored regularly throughout the financial year, and will be reported to Cabinet by means of formal reports.
- 3.6 If necessary management action will be identified to address any adverse variances to the budget.
- 3.7 The assumptions and potential changing circumstances mean that forecasts for future years need to be reviewed each financial year.

Table 1 – Robustness of Estimates –HRA

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	<p>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.</p> <p>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.</p> <p>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.</p>
The treatment of efficiency savings/productivity gains.	<p>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.</p> <p>The HRA services have been reviewed to establish whether services can be delivered more efficiently.</p>
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.	<p>The HRA maintains a prudent level of balances in reserves to deal with any contingencies that arise.</p> <p>The HRA has a specific reserve of £8.3m that relates to capital and funds for leaseholder review.</p> <p>The HRA will continue to undertake in-year monitoring of volatile budgets and produce a managed response to budget pressures.</p>
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.

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 HRA 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.
- 5.6 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).

- 5.7 Issues taken into account include:
current volatility in the HRA Subsidy mechanism; and
current volatility of the Repairs and Maintenance service;

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.

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