

**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 29th February 2012 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 9th January 2012.

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 2012/13; 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 2012/13
- 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 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 9<sup>th</sup> January 2012.
- 3.9 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).
- 3.10 Performance against the budget will be monitored regularly throughout the financial year, and will be reported to Cabinet by means of formal reports.
- 3.11 If necessary management action will be identified to address any adverse variances to the budget.
- 3.12 The assumptions and potential changing circumstances mean that forecasts for future years need to be reviewed each financial year.
- 3.13 The review of robustness is at Table 1, appended to this Appendix.

### **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 HRA working balances and determined that the minimum level should be set at £5.0m, which is in line with the HRA Business Plan.
- 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 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 risk of major litigation.
- c) Unplanned volume increases in major demand led budgets, particularly in the context of a growing town.
- d) Potential short term differences between the Council's Insurance Reserve and outstanding liabilities, although these should be remedied by the following financial year.
- e) Specific high-risk service issues that were identified during the 2011/12 financial year.
- f) Risks associated with the move to a Self-financing HRA.
- g) Current volatility of the Repairs and Maintenance service.

5.8 The Chief Financial Officer therefore recommends

- a) That a minimum prudent level of working balance be set at £5.0m for 2012/13 (target for 31 March 2013). 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 Housing Revenue Account Earmarked Reserves

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

<b>Reserve</b>	<b>Balance as at 31/03/11</b>	<b>Additions to Reserves</b>	<b>Use of/ Reductions to Reserves</b>	<b>Forecast Balances as at 31/03/2012</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Capital Programme	12,860	0	(10,075)	2,785
Leaseholders	1,000	0	0	1,000
Service Improvement	821	0	(288)	533
Supporting People	500	0	0	500
HRA Reform	2,000	0	0	2,000
	<b>17,181</b>	<b>0</b>	<b>(10,363)</b>	<b>6,818</b>

## **7 Housing Revenue Account (HRA)**

- 7.1 The opening working balance for 2011/12 was £4.893m, and the closing balance is currently (as at the end of January 2012) forecast to be £4.908m by the end of March 2012. It is anticipated that any surplus will be used as an additional contribution to Earmarked Reserves to fund future expenditure service priorities. In addition, the working balance will be increased by £107k to £5.0m (see 5.8a above).

**Isabell Procter,  
Chief Financial Officer**

**Table 1 – Robustness of Estimates – HRA**

<b>Budget Assumption</b>	<b>Commentary on Robustness</b>
The treatment of inflation and interest rates	0% has been assumed for the 2012/13 pay award, and 1% for the 2013/14 and 2014/15 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 Self-financing, 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. No specific savings were identified.</p>
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.	<p>The HRA maintains a prudent level of balances in reserves to deal with any contingencies that arise.</p> <p>The HRA has specific reserves of £17.1m as identified in the table under 6.1 above.</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 10 the HRA is forecasting a saving of £15k for 2011/12.
The Directorate's capacity to manage in-year budget pressures	The HRA 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.