Appendix 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 appendix 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 25th February 2013 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 14th January 2013.

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 2013/14; 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 2013/14

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

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

3.7 Details of the risk review of the budget were reported to the Audit Committee at its meeting of 14th January 2013.

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).

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

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

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

3.12 The review of robustness is at Tables 1 to 6, below. .

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 limit, 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. Carry forward 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 £3.1m.

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 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 2012/13 financial year.

i) Equal Pay Claims

j) Treasury management risks

5.8 The Chief Financial Officer therefore recommends

a) That a minimum prudent level of reserves be set at £3.1m for 2013/14. 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 Council holds a level of earmarked reserves for specific financial risks in addition to general fund balances.

Isabell Procter,
Chief Finance Officer

Table 1 – Robustness of Estimates – Customers and Communities

Budget Assumption	Commentary on Robustness
The treatment of inflation and interest rates	1% has been assumed for the 2013/14 pay award, and 1% for the 2014/15 and 2015/16 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 Customers and Communities 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. Particular attention will be paid to the management of car parking income because of the significant sums involved and the complex range of factors which impact on car parking income.
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 Customers and Communities Directorate has reviewed its services to establish whether services can be delivered more efficiently. Savings have been identified through service restructure 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. Robust arrangements are in place to monitor the proposed environmental services contract to ensure it is delivered in accordance with agreed standards and that corrective action is taken promptly, as necessary, in the event of performance failure. Robust arrangements will also be in place to monitor the performance of the leisure trust in accordance with the management agreement and to ensure that corrective action is also taken promptly for this arrangement if the need arises.
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.

Budget Assumption	Commentary on Robustness
The Directorate's track record in budget and financial management.	The Customers and Communities Directorate's recent track record of budget and financial management is that as at month 9 the Directorate is forecasting an over spend of £186k for 2012/13.
The Directorate's capacity to manage in-year budget pressures	The Customers and Communities 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 – Resources

Budget Assumption	Commentary on Robustness
The treatment of inflation and interest rates	1% has been assumed for the 2013/14 pay award, and 1% for the 2014/15 and 2015/16 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 Resources 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. The majority of the directorate will move into LGSS, potentially delivering savings.
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 Resources 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.
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.
The Directorate's track record in budget and financial management.	The Resources and Support Services Directorate's recent track record of budget and financial management is that as at month 9 the Directorate has a forecast savings of £126k for 2012/13.
The Directorate's capacity to manage in-year budget pressures	The Resources 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 – Regeneration, Enterprise and Planning

Budget Assumption	Commentary on Robustness
The treatment of inflation and interest rates	1% has been assumed for the 2013/14 pay award, and 1% for the 2014/15 and 2015/16 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 Regeneration, Enterprise and Planning 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 demand led pressures for the Regeneration, Enterprise and Planning Directorate include; cessation of WNDC in March 2014, impact of localism bill and increase in development activity.
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 Regeneration, Enterprise and Planning 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 will continue to monitor volatile budgets in year and produce a managed response to budget pressures.
The Directorate's track record in budget and financial management.	The Regeneration, Enterprise and Planning Directorate's recent track record of budget and financial management is that as at month 9 the Directorate is forecasting savings of 89k for 2012/13.
The Directorate's capacity to manage in-year budget pressures	The Regeneration, Enterprise and Planning 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 – Borough Secretary

Budget Assumption	Commentary on Robustness
The treatment of inflation and interest rates	1% has been assumed for the 2013/14 pay award, and 1% for the 2014/15 and 2015/16 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 Secretary 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.
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 Secretary has reviewed the service to establish whether it can be delivered more efficiently. Savings have been identified through service restructure and revised working practices.
Financial Risks inherent in any significant partnerships, major outsourcing or major capital developments	The Borough Secretary 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 Secretary has the St Peters Way earmarked reserve available to it. The Borough Secretary 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 2012/13 budget monitoring in the 2013/14 budget where appropriate.
The Directorate's track record in budget and financial management.	The Borough Secretary area's recent track record of budget and financial management is that as at month 9 the Directorate is forecasting an over spend of £1k for 2012/13.
The Directorate's capacity to manage in-year budget pressures	The Borough Secretary 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 5 – Robustness of Estimates – Housing General Fund

Budget Assumption	Commentary on Robustness
The treatment of inflation and interest rates	1% has been assumed for the 2013/14 pay award, and 1% for the 2014/15 and 2015/16 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 Welfare Reform changes are likely to have an impact as the new arrangements are implemented, the situation will be closely monitored.
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 service restructure and an increase in fee income within the Housing Solutions Service.
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 the Rent Deposit Scheme Reserve available to it. The Housing Directorate will continue to monitor volatile budgets in year and produce a managed response to budget pressures.
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 over spend of £101k for 2012/13.
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 6 – 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 management advisors, Sector, and taking into account local circumstances, an average interest rate of 1.00% has been assumed for investments for 2013/14. No new external long term borrowing is forecast to take place in 2013/14.
Financial Risks inherent in any significant partnerships, major outsourcing or major capital developments	This can be a volatile budget, particularly in the current economic environment, and there are recognised risks to delivering this budget depending on the level of borrowing (internal and external) that 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 adherence to the Council's treasury management strategy, 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 9 of 2012/13 the debt financing budget is forecasting a saving of £344k, of which £250k has been transferred to the debt financing earmarked reserve to mitigate risk in the investment interest budgets in 2013/4 against a background of falling interest rates. These savings are mainly due to a reduction in Minimum Revenue Provision (MRP) requirement for 2012/13 and a one off receipt of interest from HMRC on a back dated VAT claim. As these are one-off savings they will not be carried forward into 2013/14
The Directorate's capacity to manage in-year budget pressures	Regular monthly 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.