

To: Council

Date: 20th February 2012

Item No: xx

Report of: Director of Finance & Efficiency

Title of Report: Report of the Council's Chief Finance Officer on the robustness of the budget

Summary and Recommendations

Purpose of report:

Under Section 25 of the Local Government Act 2003 I am required to report to the Council on:

- a) the robustness of the estimates made for the purposes of the calculations [of the budget], and
- b) the adequacy of the proposed financial reserves.

Recommendation: That the Council notes this report in setting its budget for 2012/13 and the indicative budgets for 2013/14 – 2015/16.

Robustness of the Budget.

1. The economic outlook remains depressed, certainly in the short to medium term. This, coupled with the lack of planning information in respect of the Government's welfare reforms and associated changes to Benefits including Council Tax Benefit, plus the changes to local government funding and the partial relocalisation of business rate income (all of which are due to be implemented over the next 12 -24 months) has posed some significant challenges in developing the Council's Medium Term Financial Plan.
2. However, the prudent and robust approach the Council took to developing its 2011/12+ Medium Term Financial Strategy and the delivery of significant levels of savings in the current financial year have provided a firm foundation on which to build.
3. The formulation of the 2012/13 budget has allowed for best estimates in relation to contractual inflation and commitments necessary to maintain priority services. It has also enabled the identification of 'spend to save' proposals to drive efficiency savings and new

investment in priority services and the City's infrastructure. Whilst the majority of services have seen reductions in their net revenue budgets, this is largely a consequence of both efficiency savings (£1.8m in 2012/13 and £3.6m over the life of the Plan) as well as new 'trading' and charging opportunities (£1.2m in 2012/13 and £2.7m over the life of the plan) having been identified.

4. Services have plans in place to make the required savings and these will be monitored closely throughout the year.
5. There are some areas of the Council's budget where expenditure is unpredictable and where a degree of judgement has to be applied to estimate the level of risk to the budget. This has been exacerbated in the area of Homelessness and Benefits as the implications of government policy are still unclear. To mitigate these risks contingency budgets have been created.

Due to the level of efficiency savings and fees and charges proposals underpinning the budget and the fact that these are front end loaded a contingency has also been created around these in recognition of potential capacity and delivery issues.

6. There has been scrutiny of the proposed budgets and savings for 2012/13 by:
 - The Finance Team
 - The Corporate Management Team
 - Executive Members
 - The Majority Group
 - The Value and Performance Scrutiny Committee – Budget Review Group

These examinations have provided a number of refinements and provide assurance about the robustness of the estimates.

7. Risks to the 2012/13 budget have been identified and contingency budgets of £2.4m have been put in place (£5.3m over the life of the Plan) which provides a safety net to mitigate unforeseen circumstances.

Housing Revenue Account (HRA)

8. As a consequence of the reform of the Housing Revenue Account and the implementation of the self financing regime from the 1st April 2012, the 2012/13 budget for the Housing Revenue Account flows from the 30 yr Housing Business Plan.
9. This is the first year the Council has had to produce a 30 year Business Plan and clearly projecting over such a long period is difficult. However, the Business Plan will effectively become a living document and be reviewed at least annually as part of the annual MTFS refresh.
10. The key risks faced by the HRA include: benefit reforms adversely affecting rent arrears, Right to Buy Sales (the outcome of the Government's recent consultation on discounts is awaited) being

higher than anticipated and resulting in a consequential reduction in rent and assumed efficiencies not being delivered, thereby increasing costs. Prudent assumptions have been built into the Business Plan to mitigate these issues and sensitivity testing has been carried out. The Business Plan has also been constructed in such a way that the Council does not need to utilise its borrowing headroom to deliver its investment aspirations, thereby providing additional flexibility.

11. The Scrutiny of the HRA budget and Business Plan has followed a similar process to that for the General Fund outlined above.

Adequacy of Reserves

12. Reserves are also held to mitigate risk. As part of the budget formulation the level of reserves has been reviewed. The proposed budget for 2012/13 provides for general or unearmarked reserves of £3.6m. Reserves are expected to remain between £3.5m and £3.6m over the residual three years of the planning period.
13. The Housing Revenue Account general reserve for 2012/13 is £7.6m. It fluctuates between £4.6m and £6.5m over the subsequent three years in order to meet cash and investment requirements in line with the Business Plan.
14. Included at Appendix A is a summary of the Council's earmarked reserves and the HRA and non HRA general reserves. Earmarked reserves are forecast to total £6.7m by 31st March 2012. Some of these reserves can only be used for specific purposes, but others could be called on if necessary and so provide additional flexibility.

Control Environment

15. Budget managers operate within a cash limit framework and the Council's overall track record for budget management is good. A recent audit report issued by Price Waterhouse Coopers on the Council's Financial Planning arrangements stated:

There is a robust process for budget monitoring which is considered at both a cost centre and fund level. Monthly service line meetings have been introduced since June '11 to ensure that budget holders take ownership for performance.
16. The Council is currently projecting an under spend of £351k and is expecting to deliver savings of £4.2m in year. The Council's transformation programme overseen on a 'day to day' basis by an Officer Board and underpinned by a robust programme and project management framework has been instrumental in delivering this.

Programme Boards are currently being reviewed to ensure they remain focused on delivering the Council's key objectives.
17. Improvements in the reporting capabilities to budget holders and of the Council's Corporate Programme Management Office have been developed during 2011/12 utilising Corvu, the Council's performance

reporting software. These improvements will be fully deployed from the start of the new financial year.

18. As part of the annual refresh of its Medium Term Financial Strategy the Council will review the indicative budgets for 2013/14 onwards in the autumn of 2012. This will enable contingency budgets, assumptions and underlying pressures to be reviewed in light of new information and adjusted accordingly.

Conclusion

19. The process for the formulation of budgets, together with the level of challenge, provides a reasonable assurance of their robustness.
20. The provision of contingency budgets enables those more uncertain elements of the budget to be managed as part of the Council's risk management arrangements.
21. The approach which has been taken to those funding streams which are currently uncertain is prudent and puts the Council in a positive position to manage underlying pressures going forward.
22. The level of the Council's total reserves is sufficient to provide:
 - A working balance to cushion the impact of unexpected events or uneven cash flows (general reserves) and
 - The setting aside of funds to meet known or anticipated liabilities (earmarked reserves).

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