

## **ROBUSTNESS OF BUDGET ESTIMATES AND ADEQUACY OF RESERVES**

### **Background**

Section 25 of the Local Government Act 2003 requires the authority's Chief Financial Officer to comment on the robustness of the estimates and the adequacy of reserves allowed for in the budget proposals in the budget report, so Members have advice available to them when they make their budget decisions.

Further, the CIPFA guidance on Local Authority Reserves and Balances states that a statement reporting on the annual review of earmarked reserves should be made to Council, at the same time as the budget. The statement should list the various earmarked reserves, the purpose for which they are held and provide advice on the appropriate levels. It should also show the estimated opening balances for the year, planned additions/withdrawals and the estimated closing balance.

### **Robustness of Estimates**

The proposed budget for 2009/10 and medium term financial plan has been informed by:

#### 1. Council Wide Risk Management

Risk Management is well embedded across the authority and is an important element of the business planning and budget processes at Strategic, Portfolio and Business Unit levels. Risk workshops and training sessions have been held throughout 2008 at all levels of the authority to ensure that each business and portfolio plan clearly identifies the key risks to the achievement of its objectives. This includes training sessions for Cabinet, Members and employees.

The Risk Management Strategy is reviewed annually and was updated in November 2008. The Strategy clearly sets out the approach to Risk Management within the authority and identifies roles and responsibilities for all concerned as well as detailing the methodology to be adopted for identifying, assessing and monitoring of risks.

The Council's strategic risk register has also been regularly reviewed throughout 2008 to ensure that it is up to date and relevant, with risks being added, removed and changed where appropriate in full consultation with Directors and Members. In addition, stringent efforts have been made to identify and manage risks and opportunities attached to the many Projects and Partnerships the authority works with.

In reports to Directors and Cabinet, authors are asked to highlight any associated risks and opportunities and how these will be managed – this ensures that all risks are identified and not just the legal and

financial implications. Pressures and developments identified during the 2009/10 Service & Financial Planning process focus on the major risk areas for the authority as in previous years and the Council's exposure to risk and risk management is integral to the budget setting process.

**2. The Monitoring Process**

Financial monitoring is carried out on a monthly basis and highlights any significant variances, and therefore areas of risk, both for current and future years, with regular reports being presented to Directors and Cabinet during the year. Performance and risk monitoring are also undertaken regularly to complement the financial monitoring and are formally reported on a quarterly basis to Corporate Directors and Cabinet. This provides further indications of any potential risk areas for the council and action is taken to review any issues identified.

**3. The Budget Setting Process**

Finance officers meet with budget holders and review all budgets on an annual basis. Budgets are cash limited. Areas of unavoidable growth, pressures and developments have been identified and scrutinised as part of the budget process. These link to both the budget monitoring process, performance monitoring and risk management, discussed above, together with other issues such as meeting new legislative requirements and statutory obligations.

**2009/10 Budget Assumptions:**

<u>Inflation</u>	
Pay Award	2% for 2009/10, 2010/11 and 2011/12
Employer's Pension Contribution	Increases of 0.9% and 1.0% of the paybill in 2009/10 and 2010/11 respectively taking the total contribution to 16.3% in line with the triennial evaluation of the pension fund
Social Care Purchasing Budgets	Between 4.2 – 5.2% increase for next year
Electricity	A decrease of - 4% in 2009/10; 2% assumption for 2010/11 and 2011/12
Gas	32.8% increase in 2009/10; then 2% increase in 2010/11 and 2011/12
Water	4.4% in 2009/10; then 2% in 2010/11 and 2011/12

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Demographic Growth	The service and financial planning strategy includes a priority investment in Adult Social Care arising from demographic growth increasing the demand for care packages.
Interest Rates	Treasury projections assume base rate falling to at least 0.5%. Our investment and borrowing strategies for 2009/10 are set within this context. One of the primary objectives is to reduce the Council's exposure to risk while at the same time maximising returns. The Treasury Management Strategy for 2009/10 is presented to Council alongside the budget reports.
Dedicated Schools Grant (DSG)	The indicative Dedicated Schools Grant announced with the Revenue Support Grant Settlement is £95.80m which will be delegated to schools in line with guidance. DSG is finalised in June.
Estimates on the level and timing of capital receipts	The revenue budget and capital programme includes £22.951m anticipated future capital receipts over the three years commencing 2009/10
Prudential Borrowing / Prudential Indicators	<p>The Council will make use of the ability to borrow outside the main government funded service allocations, abiding by the Prudential Code and ensuring that such borrowing is appropriate and affordable.</p> <p>Prudential Indicators are approved as part of the budget strategy and are monitored and reviewed on a regular basis.</p> <p>The rules around the calculation of the cost of borrowing that must be charged to the revenue account – the minimum revenue provision (MRP) – have changed. The new approach has been prudently applied in setting the 2009/10 budget strategy and has also been discussed with KPMG, the Council's external auditors. The policy in relation to MRP is set out in the Treasury Management Strategy Report.</p>
Single Status	The Single Status process is underway but is not likely to reach a conclusion until after the

	<p>budget is set. Ongoing liabilities are assumed to be incurred from 1<sup>st</sup> April 2007 and provision was made in the 2007/08 accounts after consultation with the external auditors. The 2008/09 accounts will be closed on the same basis. There is a £2.2m central revenue budget provision projected in the medium term strategy for 2009/10 onwards and a further provision of 4% additional costs within Education –LEA and DSO impacts – schools have also been advised to include 4% provision. There is possible exposure to liabilities around back pay but this is difficult to gauge until the process is nearer concluding an overall package. Possible application for a capitalisation direction can also be made for one off costs when there is any information available to support a claim, but the success of this is likely to be limited by the availability of in house balances to fund liabilities.</p>
<p>Demand-Led Pressures</p>	<p>Directors and Senior Management Teams are expected to manage in-year demands within existing budgets, by re-prioritising or implementing action plans to ensure that costs are met from the available funding, including any underspends brought forward from previous years. There is a policy that service overspends can be carried forward to future years, but they must then be addressed as top priority.</p> <p>General reserves may have to be used to address unforeseen additional expenditure that cannot be funded elsewhere. It is assumed that the reserves would then be restored in future years to maintain the minimum level of reserves required.</p>
<p>Efficiency Savings</p>	<p>All Directors have a responsibility to ensure the efficient delivery of services and value for money are achieved. Efficiency savings of £3.006m were identified during the 2009/10 budget process.</p> <p>The Council is also making good progress towards achieving the 3% cash releasing savings required under the Government's Delivering Efficiency Agenda (National Indicator 179) and an estimate of £3m was submitted as the projected NI 179 efficiencies for 2008/09.</p>

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	Delivering Value for Money is integral to the Service & Financial Planning Process.										
Financial Risks inherent in any new funding partnerships, major outsourcing deals or major capital developments	There are a number of major capital projects that have been identified which require careful project management and monitoring during 2009/10 and beyond to ensure commitments are matched by funding actually achieved, particularly the reliance on capital receipts. These include the Town Centre Redevelopment and Borough Towns Initiative, Telford Sports Learning & Enterprise Village ,Railfreight and Building Schools for the Future.										
The availability of other funds to deal with major contingencies	General reserves may have to be used temporarily and restored if management and policy action is insufficient to deal with a major issue.										
The overall financial standing of the authority (level of borrowing, debt outstanding, collection of council tax etc.	<p>The Council budgets prudently for its level of borrowing, avoiding external borrowing where cash flow permits. The assumed council tax collection rate for 2009/10 onwards is high at over 99%, but being achieved already for past years. For each 1% not collected the cost is approximately £0.53m in lost income to the Council. Legislation requires that any collection fund deficit is corrected through Council Tax in the next year.</p> <p>Cumulative collection rates for recent years are (as at October 2008)</p> <table style="margin-left: 20px;"> <tr><td>2003/04</td><td>99.47%</td></tr> <tr><td>2004/05</td><td>99.43%</td></tr> <tr><td>2005/06</td><td>99.42%</td></tr> <tr><td>2006/07</td><td>99.40%</td></tr> <tr><td>2007/08</td><td>98.83%</td></tr> </table> <p>Recovery for all years is projected to be well over 99% finally.</p>	2003/04	99.47%	2004/05	99.43%	2005/06	99.42%	2006/07	99.40%	2007/08	98.83%
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The authority's track record in budget and financial management	<p>The Council continues to demonstrate strong financial management with outturn being within +/- 1% of the net budget set:</p> <ul style="list-style-type: none"> <li>• 2003/04 - underspent by £0.884m (0.5% of budget)</li> <li>• 2004/05 –underspent by £1.724m (1.0% of budget)</li> <li>• 2005/06 –underspent by £0.519m (0.28% of budget)</li> <li>• 2006/07 –underspent by £0.479m (0.47% of budget)</li> <li>• 2007/08 – underspent by £0.300m (0.27% of budget)</li> </ul>										

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	<p>This demonstrates continued strong financial management, despite considerable pressure on service budgets, notably children’s social services.</p>
<p>The strength of the financial information and reporting</p>	<p>Use of Resources forms part of the Audit Commission Comprehensive Performance Assessment (CPA) for Local Authorities and focuses on financial management and its links to the strategic management of the authority. Revised CPA methodology has made it a more challenging test for Local Authorities with more emphasis on value for money and on outcomes for local people. In 2008, the Council scored 3 out of a maximum 4 for Use of Resources.</p> <p>Financial monitoring is provided on a monthly basis and budget and closedown reports are prepared within the statutory deadlines.</p>
<p>Virement and Year End Procedures</p>	<p>The Council has clear rules relating to virement and the carry forward of under/over spends which are set out in the financial regulations.</p> <p>Virement is an important feature of budgetary control. It provides flexibility to adapt expenditure patterns to meet changing needs and objectives, consistent with Council policy.</p> <p>No Head of Service or Business Manager should plan to overspend. All expenditure should be consistent with business plans and the overall approved budget. All underspends or deficits on controllable budgets at year end will be carried forward to the next financial year as first call on the budget for the following year.</p>
<p>The adequacy of the authority’s insurance arrangements to cover major unforeseen risks</p>	<p>The Council’s insurance arrangements are a balance between external insurance premiums and internal funds to “self insure”. The Council use the services of an external insurance advisor to provide additional expertise in managing insurance arrangements.</p> <p>The insurance section work closely with the Audit &amp; Risk Manager to identify insurance related risk areas and recommend ways of mitigating future risk.</p>

These assumptions are reviewed on an annual basis.

## **Reserves & Balances Policy**

### **Introduction**

Guidance on local authority reserves and balances is available from the Chartered Institute of Public Finance & Accountancy (CIPFA). This represents good financial management and underpins the framework followed by Telford and Wrekin Council in this policy.

### **Types of Reserves and Balances**

As part of the Service & Financial Planning process, the Council will consider the establishment and maintenance of reserves and balances.

Reserves and balances can be held for a number of purposes. Some reserves and balances are essential for the prudent management of the Council's financial affairs. These will provide a working balance to cushion the impact of uneven cash flows; a contingency for the impact of unexpected events or emergencies and allow the creation of earmarked reserves to meet known liabilities. The consequences of not keeping a minimum level of reserves can be serious and is therefore one of the considerations taken into account when setting the medium term financial plan.

When establishing reserves, the Council will ensure compliance with the Code of Practice on Local Authority Accounting in the United Kingdom (the SORP).

Some of the most commonly established earmarked reserves are:

- Sums set aside for major schemes, such as capital developments
- Insurance reserves – to provide for an element of self-insurance
- Service Balances – to permit year end under spends to be carried forward for future commitments
- School Balances – unspent balances of budgets delegated to individual schools

### **Level of Reserves and Balances**

The minimum prudent level of reserves that the Council should maintain is a matter of judgement. It is the Council's safety net for unforeseen circumstances and must last the lifetime of the Council unless contributions are made from future year's revenue budgets. CIPFA guidance does not set a statutory minimum level so it is up to the Council itself, taking into account all the relevant local circumstances, to make a professional judgement on what the appropriate level of reserves and balances should be. Telford & Wrekin Council will adopt a risk based approach to determine the appropriate level of reserves and balances to sustain and that which can be released to support the medium term financial plans.

Reserves and balances are only maintained in accordance with the risk assessment undertaken and are used in a planned way. Therefore the opportunity cost of maintaining the determined levels is kept to a minimum while interest is earned on the retained amount.

### **Process**

Each reserve and balance will have a clear purpose showing how and when it can be used together with a process for review to ensure continuing relevance and adequacy.

An annual review of reserves and balances will be undertaken as part of the budget process each year and a schedule presenting the estimated opening balances for the forthcoming year, planned additions to/withdrawals from and the estimated closing balances will be presented in the budget report. The schedule will also show the purpose of each reserve and a comment on the appropriateness of the value held.

The key financial risks will also be identified and an assessment of estimated exposure and possible mitigation will be made. This will link to the Council's key strategic risk register. The conclusion of this risk evaluation process will determine the resources available over the medium term to support the Council's budget.

This process will be repeated each year to ensure the ongoing adequacy of the Council's reserves and balances.

### **Responsibilities and Reporting Mechanism**

The Corporate Director: Resources has a duty to local tax payers, and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.

The level and usage of reserves will be formally approved by Council, as part of the budget strategy, informed by the Corporate Director of Resources judgement and expertise.

The budget report to Council will include a statement showing the estimated opening balances for the year ahead (including general fund and earmarked funds), any projected additions to/withdrawals and an estimated end of year balance. This will be accompanied by a statement from the Corporate Director:Resources on the adequacy of the general reserves and provisions for the forthcoming year and the authority's medium term financial strategy. A statement reporting on the annual review of reserves and balances will also be made to Council at the same time.

### **Legal Framework**

This policy is in accordance with the following legislation:

Local Government Finance Act 1992 - The balanced budget requirement  
Local Government Act 2003 – The Chief Finance Officer’s duty to report on the robustness and adequacy of reserves when the authority is considering its budget requirement

Local Government Act 1972 – the requirement for each authority to make arrangements for the proper administration of their financial affairs and that the Chief Finance Officer has responsibility for the administration of those affairs