

Committee: Cabinet

Agenda Item

Date: 17 February 2015

9

Title: Robustness of Estimates and Adequacy of Reserves

Portfolio Holder: Councillor Robert Chambers

Item for decision

Summary

1. As part of the annual budget setting process, the Section 151 Officer is required to give the Council formal advice on the robustness of estimates and the adequacy of reserves. This is so Members can set a budget in full awareness of the risks and uncertainties, and ensure that adequate contingency reserves exist.
2. The advice, known as the "Section 25 report", is due to be considered by Cabinet on 17 February and Full Council on 26 February as part of the budget approval process.
3. The Scrutiny Committee reviewed the budget reports on 10 February. Comments from the Committee are in a separate item on the agenda.

Recommendations

4. The Cabinet is requested to approve, for recommendation to Full Council:
 - a) That the Council takes account of the advice in the report when determining the 2015/16 General Fund budget and Council Tax.
 - b) That the Council approves the risk assessment relating to the robustness of estimates as detailed in the report
 - c) That the Council sets the minimum safe contingency level for 2015/16 at £1.214 million.
 - d) That the Cabinet recommends to Full Council that it adopts the attached Reserves Strategy.
 - e) That the Council agrees that no transfers to or from the Working Balance should be built into the 2015/16 budget.

Financial Implications

5. No direct implications arise from the recommendations.

Background Papers

None.

Impact

Communication/Consultation	The top priority emerging from public consultation is that the Council should continue to deploy strong financial management.
Community Safety	No specific implications
Equalities	No specific implications
Health and Safety	No specific implications
Human Rights	No specific implications
Legal implications	The report is prepared in order to comply with Section 25 Local Government Act 2003
Sustainability	No specific implications
Ward-specific impacts	No specific implications
Workforce/Workplace	No specific implications

Section 25 report

6. Section 25 of the Local Government Act 2003 requires each local authority, when setting its annual General Fund budget and level of Council Tax, to take account of a report from its Section 151 Officer on the robustness of estimates and adequacy of reserves. This document is the report made under Section 25 by the Director of Finance and Corporate Services, as UDC's Section 151 Officer, applicable to the setting of the General Fund budget and Council Tax for 2015/16.
7. The purpose of this requirement is to ensure that when deciding on its budget for a financial year, a local authority is formally made aware of any issues of risk and uncertainty by the Section 151 Officer. The local authority is then expected to ensure that its budget provides for a prudent level of reserves to be maintained.
8. The Director of Finance and Corporate Services has assessed that the minimum safe contingency level is £1,258,000. However as the current forecasted level of the Working Balance is £1,214,000 the Director of Finance and Corporate Services' advice is that the budget need not make any provision to increase the Working Balance, nor however should it be reduced.
9. Section 26 of the Act empowers the Secretary of State to set a minimum level of reserves for which a local authority must provide in setting its budget. Section 26 would only be invoked as a fallback in circumstances in which a local authority does not act prudently, disregards the advice of its Section 151 Officer, and is heading for financial difficulty.

Basis of advice for the Section 25 report

10. In forming the advice for this report, the Director of Finance and Corporate Services has considered the following:
 - The requirement established in the Council's Medium Term Financial Strategy to ensure that a safe level of contingency is maintained.

- The degree to which the Council's financial plans are aligned to the Council's statutory obligations, local priorities and policy objectives.
- The adequacy of the information systems underpinning the Council's financial management processes.
- Risks associated with the Council's activities, as identified within the risk register.
- The level of earmarked and unearmarked reserves within the General Fund.
- The degree to which uncertainties exist within the draft 2015/16 budget.

Robustness of Estimates

11. There has been detailed scrutiny, review and challenge of budgets by managers, finance officers and CMT. The aim has been to ensure that the budget is based upon realistic estimates, for example, ensuring that contractual commitments are provided for, salary budgets reflect the approved establishment and current staff in post, and income budgets are based on an assessment of price and demand.
12. No budget can ever be completely free from risk. Necessarily, assumptions are made which means that the budget will always have an amount of uncertainty. The analysis below sets out the major risks applicable to 2015/16 and an indication of the possible impact.
13. It is not possible to give a precise estimate of the impact of each identified risk. As a general guide, the following broad definitions have been used:

Probability	Low	Possible, but unlikely
	Medium	Probable
	High	Almost certain
Impact	Low	Possible variance of up to £100,000
	Medium	Possible variance of £100,000 to £250,000
	High	Possible variance of over £250,000

Risk item	Prob-ability	Impact	Overall Risk of budget variance
<p>a) Waste & Recycling – This service continues to be the most complex financially and at greatest risk of volatility. Fuel costs are variable. Other budget risks have been identified regarding trade waste and green waste, all of which have income budgets that depend upon accuracy of forecasting activity levels. The Council maintains a Waste Management reserve to mitigate the risk.</p>	High	High (adverse or favourable)	High
<p>b) Localisation of Business Rates. The actual share retained by UDC will not be known until well after the end of the financial year and will depend on many variables including collection performance, value of new ratings, appeals, refunds, and reliefs granted. Because of known risks relating to potentially substantial appeals, the budget prudently assumes that the Council's share will be at the minimum safety net level. Accordingly there is no downside risk in terms of budgeted income. The downside risk relating to loss of unbudgeted income is considerable and the upside opportunity is potentially significant if growth and other outcomes exceed losses.</p>	High	High (favourable)	High
<p>c) Efficiency Savings. Work continues to find ways of achieving the same or improved outcomes at lower cost. It is probable that some savings opportunities will be realized with unbudgeted savings arising in 2015/16. In addition, the budget does not include the implementation costs that may arise, on the basis that these will be funded from the Transformation Reserve. Therefore it is probable that unbudgeted costs will arise. Where budgets have already been reduced because of identified savings, the revised budget level is untested so there is an inherent risk of adverse variances.</p>	Medium	Medium (adverse or favourable)	Medium
<p>d) Car Parks Income. The budget is based on the existing tariff and charging periods as detailed in the fees and charges section of the budget report. If at some point during the year the Council decides to make changes, this will affect the income. For example if the charging period is shortened, or if there is a repeat of Christmas/New Year free periods, income will reduce. There is also an additional risk for 2015/16 around the Fairycroft car park which is being closed for the Waitrose refurbishment. Providing alternative arrangements has an unbudgeted cost which will need to be met from Reserves.</p>	Medium	Medium (adverse)	Medium

Risk item	Prob-ability	Impact	Overall Risk of budget variance
e) Fees & Charges income. If economic conditions deteriorate or demand fluctuates there may be unbudgeted loss of income. Building Control, Planning, Land Charges, Licensing, Lifeline, Pest Control and Food Imports are all income streams where risk of volatility has been noted.	Medium	Medium (adverse)	Medium
f) Planning appeals. A risk of costs of defending appeals and the meeting of costs awarded against the planning authority. The current position of the Local Plan process raises the risk levels in this area.	Medium	Medium (adverse)	Medium
g) Treasury management. Investment risks are spread between public and private sector counterparties including UK banks systemically important to the UK economy. In the unlikely event of a banking failure, there could be a serious impact on the Council.	Low	High (adverse)	Medium
h) Reforms to Housing & Council Tax Benefit. The Council has approved a Local Council Tax Support Scheme that will require non-vulnerable working age people to pay more Council Tax than previously. The Council has committed to subsidise the LCTS scheme to ensure cost neutrality for major precepting authorities. This is based on estimates and subject to variation. Housing Benefit reforms including the 'Spare Room Subsidy' and 'Benefit Cap' affect working age people living in rented accommodation. In some cases hardship will be caused as people struggle to pay their rent, which means that the Council is at risk of incurring costs associated with preventing homelessness. Discretionary Housing Payments and Council Tax Hardship policies and budgets are available to assist those in genuine need. The budget maintains the 2014/15 increase in the Homelessness service resources in order to continue to meet the increased demand.	Medium	Low (adverse)	Low
i) Universal Credit – This was due to commence in early 2015/16 but has been delayed to late 2015/16. Implications of delay are primarily around the Working Balance level.	Medium	Medium (adverse)	Medium

Risk item	Prob-ability	Impact	Overall Risk of budget variance
j) Local Plan – Additional consultancy spend or resources may be needed in order to take forward the Local Plan process. The Planning Service has budgets for the majority of this work; however the Planning Reserve exists to meet additional costs.	Medium	Low	Low
k) Flitch Green Community Centre. Risks have been identified with the Flitch Green community centre. This issue is unresolved and the Council may be required to incur further costs before the facility is transferred to the parish council.	Medium	Low (adverse)	Low
l) External funding. Due to inherent uncertainty about local authority budgets, there is a risk that funding for services such as A120 cleaning and the Highways Ranger could be reviewed or reduced.	Medium	Low	Low
m) Supplies & Services contracts. Where contracts have indexation clauses, estimates have been made of the inflationary increase that will be applied. In addition some contracts are due to be re-tendered during the year which could affect the base price. Accordingly there is an inherent risk of price volatility.	Medium	Low (adverse or favourable)	Low
n) Capital Financing costs. These are influenced by variable factors such as cash flow, variations in the Capital Programme and availability of capital receipts. In some circumstances greater revenue financing of capital expenditure may make economical sense over the longer term.	Medium	Low (adverse or favourable)	Low

14. Taking all of the above issues into consideration, the Director of Finance and Corporate Services is unable to provide a full assurance that there will be no unforeseen variances. This is an expected and acceptable situation for any organisation that has to deal with a large number of variables. Provided that the minimum safe level of balances is maintained (as set out in the attached Reserves Strategy below), any variations arising as a result of any lack of robustness in the estimates should be manageable.

15. The risks identified will be proactively monitored and mitigating action taken as soon as reliable trends emerge. Budget monitoring reports to Members during the financial year will set out the latest position and action being taken, where applicable.

Adequacy of reserves

16. Attached is the new Reserves Strategy which sets out the purpose, risks and calculation for each reserve held by the council.

17. It is the opinion of the Director of Finance and Corporate Services that the reserves as set out in the Strategy are adequate and appropriate.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
In general, actual events may differ from the assumptions and estimates used to produce the draft budget, which will lead to variances from the budget.	4 (variances will occur requiring action to be taken)	3 (potential impact which could adversely affect the council's financial position if not managed)	Budget monitoring and corrective action taken as necessary. Maintain sufficient reserves and Working Balance.