Committee:	**Full Council**	**Agenda Item 8 A**
Date:	**15th February 2007**	
Title	**UTTLESFORD DISTRICT COUNCIL'S REVENUE BUDGET 2007/08 – REVIEW OF THE BUDGET AND LEVEL OF RESERVES AND BALANCES**	
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Summary

1 Under Section 25 of the Local Government Act 2003, the Council's Chief Financial Officer is required to report to the Council on:

1) The robustness of the estimates included within the budget
2) The adequacy of the reserves and balances

2 Under the Act, Members must have regard to the contents of this report when making their recommendations on the budget.

3 The main conclusion of the report is that in the light of the information provided during the budget process, it is my opinion that there is sufficient capacity in the proposed overall budget to cope with the financial risks the Council faces in 2007/08. The summary and conclusion of the report also sets out advice for managing the financial risks in the budget for 2007/08.

Recommendation

Recommended that the Council consider the contents of this report in approving the General Fund budget contained on the agenda for this meeting.

Background Papers

Budget reports 2007/08, budgetary control reports 2006/07, Financial Regulations, Statement of Accounts 2005/06, Annual Audit Letter 2004/05, Local Government Acts 1992 and 2003, Comprehensive Performance Assessment for Uttlesford, CIPFA guidance Note on Local Authority Reserves and Balances

Impact

Communication/Consultation	No specific implications
Community Safety	No specific implications
Equalities	No specific implications
Finance	This report concerns the Council's whole General Fund budget
Human Rights	No specific implications

Legal implications	The Council's budget reflects the statutory need to spend
Ward-specific impacts	The Council's budgets have wide-ranging implications for all wards. No specific ward issues can be highlighted
Workforce/Workplace	No specific implications

Situation

Background

4 The Local Government Act 2003 Section 25 includes a specific personal duty on the Chief Financial Officer ("CFO") to make a report to the authority when it is considering its budget and council Tax. Also, Section 26 of the Act gives the Secretary of State power to set minimum level of reserves for which an authority must provide in setting its budget. The Secretary of State stated that "the provisions are a fallback against the circumstances in which an authority does not act prudently, disregards the advice of its CFO and is heading for serious financial difficulty".

5 The Local Government Finance Act 1992 also requires that authorities have regard to the level of reserves needed for meeting estimated future expenditure when calculating the next budget requirement.

6 There are also a range of safeguards to ensure authorities do not over-commit themselves financially. These include:

- The CFO S114 powers, which require a report to all members of the authority if there is or is likely to be unlawful expenditure or an unbalanced budget
- The Prudential Code which applied to capital financing from 2004/5.

7 These safeguards have been further reinforced by the introduction of the Audit Commission's Comprehensive Performance Assessment (CPA) which includes a methodology to assess the financial performance and standing of the authority.

Budget Process 2007/08

8 The budget preparation process for 2007/08 began with a strategic overview report to the Operations Committee in September 2006. This lead to the development of a strategy to address the significant savings required to balance the budget within the previously targeted level of council tax.

9 Since September 2006 work has been undertaken to further examine, and where possible delete or reduce the cost of new spending pressures. This has been accompanied by a rigorous examination of existing budgets to identify possible efficiencies.

Risk Assessment

10 The Local Government Act 2003 does not provide any specific guidance on how to evaluate the robustness of the estimates. The explanatory notes to the Act do, however, stress that decisions on the appropriate level of reserves should not be based on a rule of thumb, but on an assessment of all the circumstances considered likely to affect the authority. In addition reference is also made to the CIPFA guidance on reserves and balances.

CIPFA Guidance Note on Local Authority Reserves and Balances

11 The Chartered Institute of Public Finance and Accountancy (CIPFA) states that the following factors should be taken into account when the CFO considers the overall level of reserves and balances:

- Assumptions regarding inflation
- Estimates of the level and timing of capital receipts
- Treatment of demand led budgets
- Treatment of savings
- Risks inherent in any new partnerships etc
- Financial standing of the authority (level of borrowing, debt outstanding etc)
- The authority's track record in budget management
- The authority's capacity to manage in-year budget pressures
- The authority's virement and year-end procedures in relation to under- and over- spends
- The adequacy of insurance arrangements

The above issues are also of relevance when evaluating the robustness of the budget.

CPA

12 Under the Comprehensive Performance Assessment (CPA) one aspect of financial standing that has been assessed is the level of financial reserves and in order to achieve the 'good' ranking an authority would have to meet either of the following criteria:

The aggregate balance of

- General Balance
- Other earmarked revenue reserves
- Liabilities not recognised in the financial statements

should either be in surplus at the year end and the General Balance should be at least equal to 5% but not more than 100% of forecast net operating expenditure for the year, <u>or</u>

a formal financial risk management process should be operating, which the authority uses to justify a level of reserves and balances.

Uttlesford meets both of these criteria. The CPA assessment system is currently being changed and in future years the Council will face further tests of its financial standing, but at the moment the key criteria are met.

Reserves

13 The estimated level of reserves as at 31 March 2008 are shown in Appendix 1 to this report. The rationale for each of these reserves and the level required in each has been reviewed. Reserves have been merged where appropriate to reflect better classification, the fact that alternative budget provision exists, and to deal with the projected significant overspend on the 2006/07 budget. This overspend has been fully reported to the Council's Operations Committee. I believe that the remaining reserves are both necessary and at adequate levels. In addition to the various reserves, the Council keeps a working balance of £1,200,000 on the General Fund and £500,000 on the Housing Revenue Account. The General Fund balance comfortably exceeds the recommended minimum of 5% of net operating expenditure and the Housing Revenue Account balance, highlighted as becoming of some concern in the 2004/05 Annual Audit Letter, has now been increased to a projected £525,000 at 31st March 2008 as part of a phased approach to replenishment.

14 Reserves can be held for three main purposes:

- general reserves to meet the potential costs of emergencies or unexpected events, including a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing
- a contingency to meet the costs of events that are possible but whose occurrence is not certain – this also forms part of general reserves
- earmarked reserves to meet known or predicted liabilities over a period of time usually of more than one year. These earmarked reserves protect the Council against specific financial risks and this is a factor to be taken into account when assessing the adequacy of the totality of balances and reserves and the level of the General Balance.

15 Issues considered when evaluating the robustness of the estimates and the adequacy of the proposed financial reserves and balances:

(1) Inflationary pressures

Provision has been made for a national pay award of 2.5%. This figure has not yet been agreed. Any variation to this figure will be reported as part of normal budgetary control but is unlikely to be a significant sum. Budget holders have been advised to estimate at out-turn prices i.e. to take account of known or expected increases in the prices of goods and services. This is a tried and tested approach.

(2) Estimates of the level and timing of capital receipts

Assumptions of new capital receipts in 2007/08 are based on the current projected number of council house sales under Right to Buy provisions and also reflect the national pooling of housing capital receipts procedures.

(3) Treatment of demand led pressures and savings

Particular care has been taken in compiling the key Council budgets which are often described as 'demand led' because their achievement is to some degree outside the Council's control. These types of budgets, including spending on housing benefits and receipt of income from planning applications, car parking charges and interest on the Council's cash and financial reserve management are likely to contribute significantly to any overall variation of actual achievement against budgets.

Savings proposals contained in the 2007/08 budget have been appraised for realism. Prior to the commencement of the financial year 2007/08, officers responsible for these services and the associated budget reductions or additional income will be reminded of the need to achieve the figures put forward. Regular financial information will then be provided to help monitor progress, and any variations in the figures will be reported to committees via quarterly budgetary control reports. These reports will contain proposals for corrective action where necessary.

Capital Programme and Associated Revenue Effects

(4) The authority has been debt-free since 1996. The latest Capital Programme indicates that borrowing will be needed to finance capital schemes from 2008/09. This is due to the long term decline in the sums received by capital receipts under Right to Buy legislation and the national pooling of 75% of such receipts. Borrowing to fund capital spending is not a problem provided that such borrowing meets appropriate tests of affordability, prudence and value for money and criteria for these will be developed during 2007/08.

Record of budgeting and financial management

(5) For many years, year-end out-turn had been very close to approved budget levels, although for 2005/06 a shortfall in income of £288,000 (1.6%) contributed the major part to a £333,000 overall budget deficit. In addition, the revised budget for 2006/07 indicates a very significant level of overspend as likely. This indicates that the Council has several budgets under pressure and that this needs to be addressed by even greater appraisal of the affordability of potential new spending and enhanced in-year budgetary control.

Capacity to manage in-year budget pressures

(6) Despite the problems identified in the previous paragraph, the Council still has a good long term record of maintaining financial and budgetary discipline in the face of mid-year pressures, including virement procedures that allow funds to be moved to areas of pressure.

Although underspends and overspends are not automatically carried forward, the Authority does have an approved carry forward scheme.

Strength of financial information and reporting arrangements and the robustness of the medium term plan

(7) The Authority has a proven track record in sound financial management as borne out by Annual Audit Letters from the Audit Commission. The 2004/05 Annual Audit Letter (the last one received) indicated several areas where improvements needed to be made to change the CPA Use of Resources rating from level 2 ('sound') to level 3 ('good') and it is hoped that the re-evaluation currently being undertaken by the Audit Commission to be included in the 2005/06 Annual Audit Letter (due March 2007) will show several detailed scores moving to level 3, even if the overall average score does not.

(8) Members are regularly updated on budgetary control matters throughout the year and staff budget holders receive regular information from their relevant service accountant and/or regular Financial Management System (FMS) reports or through on-line access to the information.

Adequacy of insurance arrangements

(9) The Council has full coverage of all significant risks via insurance. During 2007/08 the scope and coverage of insurance held by the Council was reviewed and improvements made where necessary. The Authority has a very low record of claims against policies, although during 2006/07 the return of the Waste Collection service to in-house provision necessitated the insuring of the refuse fleet by the Council and there have been a significant number of minor claims against this policy. Insurance arrangements for staff leased cars have for several years been the responsibility of each individual and therefore the Council has transferred any risk to the employee.

Pension Liabilities

(10) The Authority makes contributions to the income of Essex Pension Fund, which is invested in order to meet its liability to provide for the benefits to past employees and future benefits for existing employees. Employees contribute 6% of their salary. The Fund is valued every three years and the next valuation is due in April 2007. The 2004 valuation showed that the Fund's investments were achieving performance levels well short of the actuary's expectations at the time of the 2001 valuation and the Council has now made provision within its revenue budget for an annual deficit payment to the Fund. It is expected that this action, along with proposed national changes to the Scheme and better performance by the Fund will result in the Council's deficit being eliminated over the next 10-15 years.

Corporate Plan

(11) The Corporate Plan involves many new initiatives which are subject to individual risk assessments. To reduce the risk of failure to achieve the Plan it has been placed at the centre of the Council's policy and financial planning framework so that service priorities and budget decisions are formed with the achievement of the Plan as the highest corporate priority.

Private Finance Initiative (PFI) Leisure Centres

(12) The three Centres have been fully operational since August 2003. They are operated by an external contractor, Leisure Connection, under a 32-year agreement with Linteum Leisure who is the PFI facilitator. The major risk of market demand has been transferred to the PFI contractor but some financial risks still remain with the Authority such as the continuation of Business Rate Relief through their Industrial and Provident status.

Staff Vacancies

(13) Staff costs represent over 70% of the Council's direct expenditure. In November 2003 the former Resources Committee therefore agreed that any vacancy occurring should be subject to vigorous challenge regarding the need for a replacement to be sought or whether a different approach would serve the Council's needs in a better way. This discipline will require further reinforcement during 2007/08 when an assumption of 5% vacancy factor savings has been built into staffing budgets.

General Fund Services

16 Estimates in respect of General Fund services for the following expenditure and income types have been made based on a full recalculation of all relevant factors:

pay and related costs, rates, insurances, other premises, transport and supplies or services costs, leasing charges, interest payable and receivable, fees and charges receivable. These estimates are considered robust for current service levels.

Interest on the Council's cash flow balances is based on projected cash flows and interest rates and will be closely monitored during the year.

Estimated savings from the Integrated Customer Management Initiative (ICM) are based on experience of savings levels achieved in similar councils, were initially compiled with external consultancy advice and have been proven broadly correct by the first phase of Organisational Re-Engineering. Detailed monitoring of the actual savings achieved is being undertaken.

17 Brief details of committee estimates which may have a financial risk are as follows:

<u>Operations Committee</u>

Housing Benefit – Estimates in respect of Council Tax Benefit and Housing Benefit payment, government reimbursement of these payments and payment of administrative subsidy have been calculated based on the latest information available about take-up of benefits, the latest levels of correctly paid benefits and government notifications of reimbursements and subsidy levels. These estimates are therefore as robust and practicable as possible for an area of expenditure that is demand led.

External legal fees – Extremely difficult to forecast but supported by a Risk Management Earmarked Reserve.

Environment Committee

The ongoing cost of the new Waste Management Strategy is one of the largest new spending pressures agreed by this Council in recent years. The initial estimates involved were compiled based on the experience of similar councils and with external consultancy advice. The revised 2006/07 budget and the 2007/08 budget now reflect experience from the first few months of operation of the Strategy but are still subject to change until the experience of a full year of operation is gained. These budgets will continue to be closely monitored.

The Building Surveying function operates in a competitive environment. Fee income is subject to such competitive pressures and will be monitored during the year. The income from car parking will be closely monitored, as it is demand led.

Development Control Committee

Planning fees are a major factor in the Council's budget and will be subject to detailed monitoring during the year. A drop in the number of planning applications has caused a significant reduction in the income projected but such an adjustment to the budget is a prudent decision.

Community Committee

The homelessness budget is demand-led and therefore difficult to accurately estimate. The Lebanon evacuation added significantly to the pressures on this budget during 2006/07 and meant that the Homelessness Budget Risk Reserve was exhausted. Consideration will be given to the building up of this reserve again.

Other Corporate Budget Risks

Procurement
The 2007/08 budget includes assumed savings of £72,000 via improved procurement. This figure needs to be achieved via increased use of the facilities available via the Procurement Agency for Essex and the Procurement Hub, both of which the Council is a member of. Progress towards achieving the targeted savings will be closely monitored.

Officer Restructure

The Chief Executive's report to the Council in December 2006 indicated a saving of £130,000 per annum would be made as a result of the officer restructure that took effect from 1st January 2007. This sum has been included in the budget. Details of how the saving will be achieved will become apparent when levels below Director are clarified. The results will be reported to members.

LAGBI and Planning Delivery Grant

Final confirmation is awaited for budget estimates included in respect of the Local Government Business Growth Incentive Scheme (LAGBI) for both 2006/07 and the 2007/08 budget and the 2007/08 Planning Delivery Grant. The sums currently included in the budgets for these years are the best current estimates but are being actively monitored. Any significant variations from the budgeted figures will be reported to members with an appropriate plan to deal with any deficit.

Uttlesford in 2011 Transformation Programme

An initial savings target of £50,000 has been built into the 2007/08 budget in relation to this Programme. This figure will be worked into greater detail and closely monitored as part of the Programme's management.

Staff Pay

A significant risk within the 2007/08 budget is in relation to pay levels of certain types of staff. The Council continues to offer market supplements to attract staff in areas of shortage. Budget provision has been made for some of these (e.g. for planning staff via use of the Planning Delivery Grant) but failure to recruit in other areas could necessitate use of agency staff at higher sums than provided for in the vacant posts. This is what has happened in the Financial Services Unit during 2006/07, where agency cover contributed greatly to the significant projected overspend on the revised 2006/07 budget. The Strategic Management Board are developing a pay strategy as a matter of priority and assumptions will need to be made in the Medium Term Financial Strategy

Conclusions

18 When assessing the overall robustness of the budget and the adequacy of the reserves to meet potential financial risks, there are two main areas to consider in respect of 2007/8:

(1) The key risks set out in paragraph 17, whilst not a complete identification of all the financial risks faced by the authority are felt to be those that could lead to pressures on budgets during the next financial year.

(2) The drive for efficiency savings and redirected resources could make it more difficult for some services to meet unforeseen budget pressures.

In order to manage such financial risks it is obviously important that an increased emphasis is placed on sound financial reporting and monitoring of budgets. Virement powers and Earmarked Reserves exist to assist with any difficulties.

19 My conclusion is that the processes followed have been generally sound and similar to those that have produced robust estimates in the past. In the light of information made available during the budget process, there is sufficient capacity in the proposed overall budget to cope with the financial risks the Authority faces in 2007/8. The Council's Medium Term Financial Strategy, considered as item 14 to this agenda will consider the longer term view, but there is no doubt that the Council's financial position is becoming more difficult.

20 My advice on managing the financial risks in the budget for 2007/8 is as follows:

(1) Regular reporting on all budgets to budget-holders on a monthly basis and to relevant committees in each cycle of meetings, with particular attention paid to key budgets, which are often demand-led.

(2) Where budget-holders have included proposals for savings and efficiencies within their budgets, there must be plans in place both for their implementation and for monitoring such implementation.

(3) When during the year a net overspend for a budget-holder is identified the monthly budget report must include an action plan setting out what steps are being taken to deal with the overspend.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Failure to identify the major risks in the budget	Low	Medium	Good knowledge of the Council's budget combined with regular monitoring during the budget year