

STATEMENT ON GENERAL FUND BUDGET STRATEGY
BY THE CHIEF FINANCIAL OFFICER
UNDER S.25 LOCAL GOVERNMENT ACT 2003

Section 25 of the Local Government Act 2003 imposes a duty on the Chief Financial Officer to report on the following matters:-

- a) The robustness of the estimates made for the purpose of the calculations (to set the Council Tax), and
- b) The adequacy of the proposed financial reserves.

a) Robustness of estimates

Budget setting is made up of several estimates some involving quite complex forecasting. By the very definition of the word, estimates are not factual and the degree of accuracy will not only vary but also take different periods of time to be proven to be correct or otherwise.

During the Summer of 2008 the Executive (supported by the Chief Officers Management Team) developed a series of detailed budget proposals of which the major items for consultation were presented to Cabinet on 27th October 2008. These were subsequently given to all political groups in December. Whilst some figures were changed and new proposals have been put forward, these have also been validated by COMT prior to their inclusion in the final proposed budget. There is therefore a high degree of validation inherent within the final budget proposals.

Key elements within the budget are provisions for inflation on pay and prices, projected levels of income and achievability of savings. Details of these items are included in the reports and have already been through the validation process as set out above, however, there are five points to draw out:-

- i) Assumptions made in all of the forecasts are basically sound. The pay increases have yet to be negotiated, however a pay award of 2.50% has been incorporated into the budget for 2009/10.
- ii) Individual savings items have been approved by relevant Chief Officers and have been subject to scrutiny by the Chief Officers Management Team. Responsibility for actioning any changes in the budgets will fall to me as Chief Financial Officer and all savings approved will be monitored throughout the year although responsibility for the delivery of these savings rests with the relevant Executive Director.

- iii) The current recommendation by the Cabinet retains a general contingency of £250,000 together with a risk based contingency sum of £4.8M which should cover any estimation issues or activity changes that arise during the year.
- iv) The current recommendation by Cabinet includes the setting up of a fund to manage the cost of revenue developments totalling £4.842M of which £1.3M relates to the local council tax discount. This will enable any adjustments between schemes and in the timing of projects to be managed during the year.
- v) The current economic climate and national issues surrounding the safeguarding of children have impacted on the budget at a late stage. Adequate provision to cover all of these issues has been included within the final budget proposals and will be the subject of detailed monitoring throughout the year.

b) Adequacy of proposed financial reserves

- i) The Council holds a number of specific reserves for issues like debt write off that are assessed on an ongoing basis against the specific debts to which they relate. Review of these provisions forms part of the budget preparations covered above.
- ii) The general reserves are used to support revenue, capital and strategic pressures and to provide a working balance.

Details of the use of general reserves are included in the report. The level of reserves and the projected use is forecast for 3 years. The minimum level of balances is recommended by the Chief Financial Officer taking into account issues like the proposed draw from reserves, the level of risk contained within the budget and previous experience on potential levels of net overspend.

Best practice guidance issued by CIPFA is followed in determining a level of reserves based on assessed risks, which has been updated for 2008/09 and produces a recommended minimum working balance of £4.5M. There is no legal definition or Audit Commission recommendation on the absolute level of reserves that any authority should hold but the risk based approach does provide a consistent, transparent methodology that can be updated periodically.

In order to balance the budget following the late addition of items that are beyond the Council's control, it has been necessary to draw £1M from balances which is £500,000 more than had been previously recommended. However, the estimated outturn position for the current year reported for month 9 monitoring indicates that sufficient balances will still exist and the Council will

avoid dropping below the minimum level of balances. Also, a moratorium has been placed upon all non-essential expenditure in order to ensure that sufficient reserves are in place at the end of the current financial year to support this position.

- iii) Attention is drawn to the level and use of capital resources in the General Fund Capital Programme report. This identifies that there is currently a deficit in the funding of the overall capital programme based on a revised estimate of capital receipts which have been affected by the current economic climate.

Slippage in capital receipts could also require a further temporary draw from balances unless accompanied by equivalent slippage in spend. Non receipt of any planned income will require a permanent draw from balances or savings in the programme. In drawing up the capital programme these risk factors are obviously taken into account but as a backstop position these potential shortfalls will continue to be reviewed over the longer term and where possible, be reduced by re-phasing schemes or bringing forward the use of prudential borrowing.

The Council also has key strategic sites which it is currently holding until market conditions improve and this provides a further source of contingency to reduce the risks outlined in the above paragraphs.