

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.

These specific matters are dealt with below but it is important to set the whole of the 2011/12 budget process in the context of the exceptional financial circumstances that Local Government finds itself in.

Past budget processes have been difficult but the £25M gap forecast for 2011/12 is at least double the largest gap ever faced by the Council since it became a unitary authority.

Whilst early work was started on the budget in preparation for this likely scenario, the scale of the reductions was still beyond what was expected necessitating the need to look at radical solutions to closing the budget gap, including changes to staff terms and conditions.

Whilst therefore the basic methodology for putting the budget together at the Council has not changed, it must be recognised that the scale of the changes and some of the measures being introduced do increase the risk built into the budget for 2011/12.

Against this, the Council does have an excellent track record of remaining within budget once it has been set and has never been in the position of reporting an overall overspend on the General Fund despite some very difficult recent years in respect of reducing income and escalating social care costs in both children and adult services.

The Council maintains a healthy £4.5M minimum balance which is after significant sums have been put aside to deal with organisational development issues. If necessary, future year's allocations of these could be utilised in an emergency on the basis that they were re-instated at a later date.

Overall therefore whilst it is recognised that this budget has elements of risk not experienced before, it is felt that sufficient mitigating actions are already in place to accept and to manage those risks.

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 Spring and Summer of 2010 the Executive (supported by the Chief Officers Management Team) developed a series of detailed budget proposals which were subsequently presented 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, including those relating to changes to Terms & Conditions. Details of these items are included in the reports and have already been through the validation process as set out above, however, there are six 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 zero pay award has been incorporated into the budget for 2011/12 and 2012/13, with an increase of £250 per annum for those on less than £21,000.
- ii) Corporate savings relating to revised Terms & Conditions to the value of £5.0M and Management posts to the value of £0.8M are included within the current recommendation.

The scale of the reductions in local government funding has meant that the Council has been forced to look at radical options for reducing expenditure across services. One of these options is to reduce the terms and conditions of staff to produce ongoing revenue savings. There is however a commitment that this will be the only time that such a change will be made to terms and conditions for budgetary purposes. The budget has been prepared on the basis that a collective agreement is reached with the Unions on the current proposals. This is because the budget had to be prepared on one basis or another, but it is recognised that the collective agreement is subject to a union ballot.

In the event that changes are made to the proposals, this will have an impact on the budget position presented in this report as will the process of dismissing and re-engaging staff since a period of 90 days notice must be given. The recommendations in this report therefore also delegate authority to the CFO in consultation with the Solicitor to the Council to make changes to the budget to take account of these implications. In reality any loss of savings arising from either of these issues will be made up through a draw from balances on a one-off basis and the on going impact will then need to be addressed as part of setting the budget for 2012/13.

- iii) 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 (CFO), and all savings approved will be monitored throughout the year although responsibility for the delivery of these savings rests with the relevant Executive Director.
- iv) The current recommendation by the Cabinet retains a general contingency of £250,000 together with a risk based contingency sum of £6.1M which should cover any estimation issues or activity changes that arise during the year. There is also a small additional balance over the minimum figure of £4.5M that could be used if necessary.
- v) The current recommendation by Cabinet includes the continued use of a fund to manage the cost of revenue developments totalling just under £2.25M. This will enable any adjustments between schemes and in the timing of projects to be managed during the year.
- vi) The current economic climate and national issues surrounding continuing care and the safeguarding of children have impacted on the budget. 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 three years. The minimum level of balances is recommended by the CFO 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 are periodically reviewed and which currently produces a recommended minimum working balance of £4.5M despite increased risks in some areas such as future government funding. 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.

The Executives recommendations for efficiencies, income generation and service reductions now total over £17.9M, including £5.0M from Terms & Conditions changes and £0.8M from a reduction in management posts, and this allows an addition to balances of just under £1.3M which can be used in future years, although it is important to point out that there is still a significant gap in funding in future years that will require further recurring savings.

- 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 adversely 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.