

Chief Financial Officers' Opinion on Adequacy of Balances and the Robustness of the Budget

The Chief Financial Officer is required to make a statement on the adequacy of reserves and the robustness of the budget. This is a statutory duty under section 25 of the 2003 Local Government Act which states the following:

(1) Where an authority to which section 32 or 43 of the Local Government Finance Act 1992 (billing or major Precepting authority) or section 85 of the Greater London Authority Act 1999 (c. 29) (Greater London Authority) applies is making calculations in accordance with that section, the chief finance officer of the authority must report to it on the following matters-

(a) The robustness of the estimates made for the purposes of the calculations, and

(b) The adequacy of the proposed financial reserves.

(2) An authority to which a report under this section is made shall have regard to the report when making decisions about the calculations in connection with which it is made.

Summary Report of the Strategic Director of Resources and Support Services (as Chief Finance Officer for the Authority)

I have examined the budget proposals contained in this report, and believe that whilst the spending and service delivery proposals contained are challenging, they are nevertheless achievable and deliverable given the political will to implement the changes, good management, sound financial and performance monitoring, and that the initiatives to support and enable more efficient working practices are delivered. I am satisfied that, in general, the requisite management processes exist within the Council to deliver this budget, and to identify and deal with any problems which may unexpectedly arise throughout the year.

However, the corporate and medium term service and resource plans rely to a much greater degree on the delivery of strategies and action plans within individual services as well as corporately and it will therefore be necessary to give much higher priority to the monitoring and review of these plans in the performance management processes of the Council.

The level of exposure and commitment in our capital programme in the coming years remains particularly challenging. Solid monitoring, review and programming of schemes will need to be continued and refined, as will individual project management processes in order to manage and control properly the whole programme within financial tolerances. Where projects form part of partnership arrangements, satisfactory partnership governance arrangements will need to be in place.

On the matter of general reserves, I have continued to adopt the approach to evidence the requisite level by use of internal risk assessment. The 2009/10 budget contains no reliance on the use of unallocated reserves. The Council was advised to take a rigorous and critical approach to any further requests for uses of unallocated reserves during 2008/09 to maintain the reserves strategy.

Now that the Council has actually reached its target level of reserves, and taking account of provisions within the Exceptional Risk Reserve it is possible also to consider use of Reserves on either an Invest to Save and /or Invest to Avoid basis under the parameters and criteria set out in Appendix 2.

Other than on that basis, in view of the more difficult financial climate ahead remains essential that reserves in 2009/10 and the foreseeable future be used ONLY if risks materialise AND cannot be contained by acceptable management or policy actions. It will be essential in the event of any exceptional use of reserves for the Council to continue to put in place arrangements in future years' budgets to recover the level of reserves within 3 years which will place more pressure on revenue and capital budgets.

From 2001/2, the Council adopted a risk management approach, which assesses the level of reserves required against a corporate assessment of the risk being carried. The assessed risk suggests reserves of £10.685M, excluding the provision made through the Exceptional Risk Reserve. The Exceptional Risk Reserve recognises that the Council faces a heightened risk from some exceptional issues, including:

- Bath Spa Claims Management Costs
- Single Status Backpay Costs.
- Economic Recession
- Potential Local Education Partnership (LEP)

My recommendation that the budget is reasonably robust and reserves are adequate are on condition that the Council and the Cabinet:

- Recognise in the planning approach that the council needs to continue to regularly review the level of reserves and the corporate risk assessment in the light of changing circumstances and that it may not be possible to match the two at any single point in time.
- Recognise that in any use of reserves to fund 'one-off' corporate priorities on an invest to save or invest to avoid basis, the council needs to be clear that the overall level of reserves remains adequate and that the relevant business cases for such expenditure are fully scrutinised and monitored appropriately.
- Rejecting any further calls on reserves other than for those for risks that have been identified or are unforeseen and cannot be dealt with through management or policy actions.

- That where there is a draw down on reserves this is paid for within 3 years.
- Maintain a rigorous approach to financial monitoring by ensuring a continued focus on 'high risk' elements, particularly at this time income streams that are potentially affected by an adverse economic context.
- Limit its capital commitments so that unsupported borrowing is not increased above the level in the proposed budget, unless supported by identified and on-going sources of income.
- Maintain a prudent approach to budgeting for capital receipts, given current market conditions and the need to optimise value over the medium term.
- Maintain a rigorous corporate approach to the scrutiny of inflation provisions and ensure that any over-provision is 'clawed back' to assist in funding 'one-off' corporate priorities and/or future years' expected budget gaps.
- The Cabinet Members, Strategic Directors and Assistant Directors achieve their cash limits for 2009/10.

Processes

Budget estimates are exactly that - estimates of spending and income made at a point in time. This statement about the robustness of estimates cannot give a guarantee about the budget but gives members reasonable assurances that the budget has been based on the best available information and assumptions available at the time. The budget process aims to set challenging budgets while recognising the risk of this within its reserves strategy.

In order to meet the requirement on the robustness of estimates a number of key processes have been put in place, including:

- The issuing of clear guidance to Directorates on preparing budgets.
- The development of Council wide risk assessment.
- The continuing use of budget monitoring and financial outturn information to identify risks.
- The Council's s151 Officer and his staff providing advice throughout the process of budget preparation and budget monitoring.
- The Directors' review of the robustness of their budgets and budget sensitivities.

Notwithstanding these arrangements, which are designed to test the budget throughout its various stages of development, considerable reliance is placed on the Strategic Directors and Divisional Directors having proper arrangements

in place to identify issues, project costs, service demands, to consider value for money and efficiency, and to implement changes in their service plans. This is supported by appropriately qualified financial advisors.

Corporate and departmental processes will continue to be improved in future years. Recent experience indicates that improvement needs to be greatest in relation to Customer Services, (e.g. parking management and contract management) but also in relation to partnership governance (e.g. West of England). Improvement in these processes will assist in prevention or earlier identification of issues to be dealt with in the budget and medium term service and resource plans. Nevertheless in preparing such a complex budget unforeseen issues may arise throughout the year and the period of the medium term service and resource plans.

Robustness of Estimates

The 2009/10 budget and service and resource planning process continue the need to link financial resources to corporate priorities and risks. In addition to improving efficiency, there are clearly choices for the Council in this respect:

- To increase financial resources to meet demand and reduce risk; or
- To reduce (where possible) service levels and standards, frequency of service delivery, and eligibility for services.

As part of developing the budget, Members of the administration have considered these options and they are reflected in the proposed budget.

Most notably the Council has had to address major cost increases, and pressures and corrections to budgets as well as corporate priorities including;

- Pensions – potentially significant increases in contribution requirements
- Inflation volatility, particularly in respect of energy costs
- Uncertainty in respect of pay awards
- Volatility in interest rates
- Waste Strategy/Concessionary Fares
- Demand and price pressures in Adult Social Care
- Demand and price pressures in Children's Social Care
- Uncertainty in relation to capital receipts

The assumptions used for 2009/10 and potentially changing circumstances will require the forecasts for future years to be reviewed early in each financial year leading to more detailed budgets being prepared for the next financial year and the medium term during the autumn of each financial year.

Given all these factors I, as the Council's Section 151 Officer, consider the estimates for 2009/10 to be sufficiently robust, and the reserves adequate, to be recommended for approval by the Council.

Over the medium term, the service and resource plans reflect the continuing impact of only minimal growth in relation to issues that are unavoidable. Within the increasingly tight financial climate over the medium term it is very likely that service improvement and reasonable Council Tax levels, without key service reductions, will only be achieved through improving efficiency, by very difference ways of working, and clear prioritisation.

The Capital Budget

Projects, formally included in the capital programme (i.e. excluding 'italics' items'), were prepared by Divisional Directors and managers in line with financial regulations and guidance. All projects were agreed by the relevant Strategic Director and Cabinet Member and are fully funded, and reviewed through the Project Initiation and Delivery Group.

Projects have been costed at outturn prices with many subject to tender process after inclusion in the programme. This may lead to variance in the final cost.

Directorates are required to work within the given cash envelope so any under or over provision must be found within these limits.

In addition, I will require a clear commitment from the Council to:

- Minimise further commitments on the capital programme without any further capital income and/or reprioritisation of the proposed programme.
- Very carefully consider and balance the use of capital receipts over and above those planned between reducing unsupported borrowing, new service based schemes and development / regeneration projects in order to keep the capital programme sustainable.
- Continue to work with our partners to establish more robust governance for West of England partnership projects.

The Council is advised to be cautious about these risks and commit to restoring any draw down on reserves within a 3 year period.

In these circumstances, I will require the Council, Strategic Directors and Divisional Directors:

- To remain within their service budget for 2009/10 and to commence early work to identify options to balance medium term service and resource plans for future years while maintaining strict adherence to recovering overspends within future years' plans (i.e. services will need to absorb any overspends, pressures over the medium term).

- Repayment to reserves over 3 years should risks materialise, and need to be funded temporarily from reserves.

Estimated Available Revenue Reserves

Earmarked Revenue Reserves

A detailed review of the Council's earmarked revenue reserves has been undertaken by each of the Departments and is reflected in Annex 3 of this Appendix.

Non-Earmarked (General) Revenue Reserves

Detailed in the table below is the estimated level of non-earmarked revenue reserves that will be available to support the General Fund revenue budget in future years.

	2009/10 £'000	2010/11 £'000	2011/12 £'000
Estimated Reserves @ 1st April each year	14,785	10,685	10,685
Contribution to Reserves from the Revenue Budget	0	0	0
Provision for Potential Outturn 2008/09	0	-	-
Transfer to Exceptional Risk Reserve	-4,134	-	-
UK Youth Games Funding (repaid in 2008/09 and 2009/10)	34	-	-
Estimated Reserves @ 31st March each year	10,685	10,685	10,685

Assessment of Adequacy of Reserves

Under the Local Government 2003 Act the Secretary of State has reserve powers to set a minimum level of reserves. The most likely use of this power is where an authority is running down its reserves against the advice of their s151 Officer.

Determining the appropriate levels of reserves is not a precise science or a formula e.g. a %age of the Council's budget. It is the Council's safety net for risks, unforeseen or other circumstances and must last the lifetime of the Council unless contributions are made from future years' revenue budgets. The minimum level of balances cannot be judged merely against the current risks facing the Council as these can and will change over time.

Determining the appropriate levels of reserves is a professional judgement based on local circumstances including the overall budget size, risks, robustness of budgets, major initiatives being undertaken, budget assumptions, other earmarked reserves and provisions, and the Council's track record in budget management. This judgement is subject to monthly review as an integral part of the Council's financial reporting cycle, and annual review by full Council as an integral part of budget-setting and 3 year financial planning. Clearly, as circumstances change, the currently recommended level of reserves can be expected to change.

The consequences of not keeping a minimum prudent level of reserves can be serious. In the event of a major problem or a series of events, the Council would run a serious risk of a deficit or of being forced to cut spending during the year in a damaging and arbitrary way.

The recommendation on the prudent level of reserves has been based on the robustness of estimate information and the Corporate Risk Register. In addition, the other strategic, operational and financial risks taken into account when recommending the minimum level of unallocated General Fund reserves include:

- There is always some degree of uncertainty over whether the full effects of any economy measures and/or service reductions will be achieved. Directors have been requested to be prudent in their assumptions and have clear action plans to deliver such savings.
- The Bellwin Scheme Emergency Financial Assistance to Local Authorities provides assistance in the event of an emergency. The Local Authority is able to claim assistance with the cost of dealing with an emergency over and above a threshold set by the Government.
- The extent to which the Council is dependent on traded income.
- The risk of major litigation, both current and in the future.
- Risks in the inter-relation between the NHS and Social Service authorities and in the growth of other partnerships.
- Unplanned volume increases in major demand led budgets, particularly in the context of high and accelerating growth.
- The need to retain a general contingency to provide for any unforeseen circumstances or emergencies, which may arise.
- The need to retain reserves for general day-to-day cash flow needs.

The recommendations of the Council's s151 Officer are:

- That the Council continues to maintain an absolute minimum prudent level of General Fund reserves (excluding schools) of £6m at the end of any financial year, in addition to the Exceptional Risk Reserve. The

minimum level is designed to cope with risk and unforeseen circumstances that cannot be addressed by management or policy action within the year. Management and policy action should be the first actions taken before any resort to reserves.

- That an appropriate level of general fund reserves to provide resilience against day to day risks is £10.685m. This level of reserves is designed to allow the Council to withstand a measure of changes in circumstances during the year or minor variations in projected resources or spending over the period of the medium term service and resource plans.
- That the Council must restore reserves used to meet risks that crystallise within a period of 3 years.