ANNEX B

STATEMENT OF THE SECTION 151 OFFICER UNDER THE REQUIREMENTS OF SECTION 25 OF THE LOCAL GOVERNMENT ACT 2003

ROBUSTNESS OF BUDGET ESTIMATES AND ADEQUACY OF THE RESERVES – as at 7th February , 2007,

1 Introduction

This Annex focuses on the two responsibilities under the Local Government Act 2003 for the Council's S151 Officer to report to Members on:

- the robustness of estimates, sections 4-6; and
- the adequacy of reserves, section 7.

This Annex builds on the statements made in setting the 2006-07 budgets. It will be further updated, for the full Council at its budget setting meeting in February 2007.

2 Processes

Budget estimates are exactly that, estimates of spending and income made at a point in time, based on the corporate plan. This statement about the robustness of estimates cannot give a guaranteed assurance about the budget, but gives members reasonable assurances that the budget has been based on the best available information and assumptions.

In order to meet the requirement on the robustness of estimates a number of key processes have, or will be, put into place, including:

- the issuing of clear guidance to Business Areas on preparing budgets;
- peer review by finance staff involved in preparing the standstill [base] budget i.e. the existing budget plus inflation;
- the use of budget monitoring in 2007-08 in order to re-align budgets with current demand, for 2008-09;
- a medium term planning process that highlights priority services;
- a review via Corporate Management Board of proposed savings and their achievability;
- a Member review and challenge of the budget through the Budget & Strategic Planning Working Party;
- review of the budget by the Leader, who is the responsible Executive Member for the budget;
- the Chief Financial Officer providing advice throughout the process on robustness, including vacancy factors, increments, avoiding unallocated savings and reflecting current demand and service standards (unless standards and eligibility are to be changed through a change in policy); and

Notwithstanding these arrangements which are designed to test the budget throughout its various stage of development, considerable reliance is placed on the Managers having proper arrangements in place to identify issues, project demand data, and consider value for money and efficiency.

A key part of improving these processes is to develop data and information to monitoring service volume and unit costs and tracking changes in both. This will also assist in the Council's Medium Term Planning.

3 Risk Registers

Finance are to undertake and provide a formal Risk Register of the Revenue, and Capital budgets at an appropriate level compared to the risks.

The development and introduction of these Risk Registers is not intended to replace the Council's existing Risk Register, rather that they should inform any revision of the Council Risk Register.

Capital Programme and Revenue Budget Risk Registers – by Business Areas, will be completed and approved by Business Area Management Teams by March 2008 following the final determination of both the Capital Programme and the Revenue Budgets for 2008-09

The Risk Registers are intended to form part of the 2008-09 and onward Budgetary Control framework and used at Budgetary Control meetings with Business Area personnel and reviewed at least quarterly by relevant Management Teams (BAMTs).

4 Robustness of Revenue Estimates

The 2007-08 budget process saw an of improvement to the Council's budget preparation.

As part of developing this budget, reliance has been made on the medium term plan and the assumptions made within it.

A number of budgets have had to be re-aligned to take into account the revised management structure. There is likely to be further re-basing to ensure they reflect amendments to grant income. Final information relating to grants will not be available until the final settlement in February 2008, although little movement is expected from the draft settlement announced at the end of November 2007.

Table 1 below shows the factors taken into account in developing the draft budget.

Table 1: Analysis of Robustness

Budget Assumption	Financial Standing and Management
1. The treatment of demand led pressures	Four major demand factors affect the 2008-09 and later years budgets. They are: • Pay and Rewards – a recasting of the basis of pay is in negotiation. The modelling was completed January 2007, with firm financial results expected in early 2008. This settlement has yet to be agreed and as such assumptions continue to be made. The advice is that such exercises add 3-5% to the paybill. Therefore an estimate has to be included. For planning purposes, the mid-range 4% has been used. • NWLL – the arms length Leisure Trust ceased trading in February 2007. The previous assumption was that as a result three centres would close. In reality four were passed onto DC Leisure under an agreement to ensure they would remain open, but with NWDC underwriting all risk. The remaining two centres are now being run by local voluntary organisations with specific grant support from NWDC. The combined cost of these measures is expected to be less in 2008-09 than the running costs were in 2006-07. But due to the risk nature of the arrangement with DC Leisure is likely to cost more than assumed in the medium term plan. • Management re-structure. This exercise commenced in November 2006, whilst not completed, it has delivered the savings assumed. • Other pressures – the level of budget correction is to be finalised. The most significant issue is the announcement in 2007 of the Unitary Proposal for Wiltshire. This has led to a number of initiatives being frozen and could lead to capacity and staff costs fluctuating (due to anticipated use of agency backfills). The late publication of all grants and the delayed settlement of the revised Pay and Grading review, has increased the uncertainty. All Managers have reviewed their base budgets including demand led pressures. Business Areas are expected to put forward management and policy actions to manage the additional demand within the relevant legislation either within the relevant budget or reprioritising within their Business Areas budgets. If this is not possible, and under-spending management action or policy actions in other Business Areas are not sufficient to cover the additional demand, then the minimum level of reserves may have to be used to address the additional expenditure temporarily. Such an eventuality has been considered in future years' budgets and it is assumed that general fund reserves are restored to at least the minimum prudent level in the following year.

<table>
<tr>
<td>2. The treatment of inflation and interest rates.</td>
<td>
Pay - 4.00% has been provided in the 2007-08 budget for the pay award for staff, with 2.75% for the following years. The current assumption is that there is no net increase in the paybill due to increments – this still remains to be tested, for the compilation of the base salaries is an exercise that has unexpectedly been delayed. This is a matter of concern, for salaries represents 70% of expenditure.
The 2007-08 employers pension contributions is at 26.1%. A revaluation was be undertaken in 2007-08, to take effect from April 2008. This has led to a decrease of 2.0% per annum for 2008-09, against the previous assumption of a 1% increase.
The current vacancy factor [VF] built into the 2007-08 budget is 3%, which is broadly in line with that ‘naturally’ achieved. This excludes any areas where teams are so small as to make a vacancy factor impractical.
Price inflation has been provided as follows:
<table>
<tr><td></td><td>2008-09</td><td>2009-10</td></tr>
<tr><td>Transport</td><td>3%</td><td>3%</td></tr>
<tr><td>Supplies & Services</td><td>2%</td><td>2%</td></tr>
<tr><td>Premises</td><td>3%</td><td>3%</td></tr>
<tr><td>Other Income</td><td>3%</td><td>3%</td></tr>
<tr><td>Government funding</td><td>4.2%</td><td>2.5%</td></tr>
<tr><td>Council Tax</td><td>3%</td><td>3%</td></tr>
<tr><td>Council Tax base</td><td>993
Band D’s</td><td></td></tr>
</table>
Interest rates for 2007-08 were assumed at 5.25% from April 07 and 5.0% from August 07 for temporary investment and 4.15% for any borrowing. These assumptions are valid for 2008-09, ie Interest earned at 5.25% however due to market fluctuations we anticipate being able to improve interest income through the use of set period investments.
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<td>3. Estimates of the level and timing of capital receipts.</td>
<td>The budget proposals for 2008-09 assume that a minimum balance of £17.0m will be kept in reserve in order to generate additional interest on the ‘debt-financing’ budget. This will help to support the Council’s revenue expenditure.</td>
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<td>4 The treatment of income</td>
<td>
LABGI – this Government reward, for increasing the Business base at a quicker rate than predicted. Whilst there is none due in 2008-09, the payment in 2007-08 exceeded that expected and therefore the additional funds were allocated to 2008-09..
Parking – No change is assumed to these charges, there remains an outstanding VAT Case nationally which may impact upon the overall net income. NWDC is already taking into account this effect and making advance payments in lieu of formal notice.
Other income – an annual uprating, to take account of inflation, is expected to increase other income by 3% overall (see 2 above). Except where known changes will occur.
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<td>5. The treatment of efficiency savings/ productivity gains.</td>
<td>All Managers have a responsibility to ensure the efficient delivery of services and when efficiency savings are proposed that those savings are both realistic in terms of the level of savings and timing. Should the</td>
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	level and timing of such savings vary due to unforeseen events and under-spending, management action or policy actions within the relevant Business Area and corporately, are not sufficient to cover the variation, then the minimum level of reserves may have to be used to address the additional expenditure temporarily. Such an eventuality has been considered in current and next years' budgets and it is assumed that general fund reserves will be restored to at least the minimum prudent level in the following year.
6. The financial risks inherent in any significant new funding partnerships, major outsourcing deals or major capital developments	The sharing of risk is in accordance with the principle of the risks being borne by the party best placed to manage that risk. Inherent risks include any guarantee or variation of service throughput (service volumes). If risks materialise the expectation is that such an eventuality will be considered in future years' budgets and general fund reserves restored to at least the minimum prudent level. Grants – the level of Grants and the contractual arrangements that underlie the partnership, should be continually reviewed.
7. The availability of other funds to deal with major contingencies	The minimum level of reserves assumes that management and policy actions will be taken to address major contingencies. Should these be insufficient, the minimum level of reserves may have to be used temporarily and restored to at least their minimum prudent level or the optimal level through future budgets. The major risks facing the Council are far less than previous years and are in the area of Leisure costs and the volatility of the concessionary fares scheme and continual claims for higher payments by operators.
8. The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates etc)	The Council is has one major debt. As a result of decisions in the current year, there is one medium term loan for £4M the cost of which is covered by similar medium term investments. Whilst there were plans to increase debt further to fund capital projects, whilst at the same time investing capital receipts to cover the cost of borrowing and provide contribution to the revenue account, these plans will no longer proceed. This is in the main due to fluctuations in interest rates. The assumed (ultimate) Council Tax collection rate for 2008-09 onwards is 98.5%, judged to be achievable. For each 1% not collected, the cost is approximately £0.060m in lost income to the Council in 2007-08. Legislation requires that any Collection Fund deficit be corrected through the Council Tax in the next year.
9. The authority's capacity to manage in-year budget pressures	The authority has improved its ability to manage in-year budget pressures. There still needs to be an Improvement the accuracy of estimates and the monitoring system, in terms of accuracy, the frequency of reporting and the challenge process.
10. The strength of the financial information and reporting arrangements.	It was recognised that the financial information and reporting arrangements needed to be strengthened. The Council intends to improve the usability of the system for non-financial users, and implement a single debtors system. The turnover of senior finance staff has reduced the level of continuity and affected capacity. The new team (three of which have yet to formally take up post) will seek to restore this and improve the standards in all areas. During 2007-08, investigations were conducted into a new financial information system were pursued with a view to implementation for April 2008. The advent of the Unitary Proposal has stopped this project, there will be a need again for Interim support over year end

	periods, although a more robust permanent team is being formed. The following tasks will be completed by the end of January, to be incorporated into the Council Tax recommendation: • base salary estimates - the compilation of the base salaries is an exercise that has unexpectedly been delayed. ; • review of 2008-09 assumptions • risk based balances calculation; • inflation – move to an exception basis • Equipment Fund – review
11. The authority's virement and end of year procedures in relation to budget under/overspends at authority and departmental level.	The Council's virement and carry forward rules are clear. The Council is operating management disciplines to ensure management and policy actions are considered in relation to overspending budgets. Generally virement is considered at a corporate level against corporate priorities, including the contribution towards the optimal level of general fund reserves. The Council operates a policy of clawing back overspends from the relevant Business Areas in the following year – a discipline which needs to be maintained.
12. The adequacy of the authority's insurance arrangements to cover major unforeseen risks.	The Council's insurance arrangements are a balance between external insurance premiums and internal funds to "self-insure" some areas. External premiums are also managed by an excess payable by NWDC for claims received. Premiums and self-funds are reactive to external perceptions of the risks faced by the Council which includes both risks that are generic to all organisations and those specific to the authority. Both those issues produced large increases in risk and thus premiums/costs in recent years that required increases to reserves. Trend analysis indicates that these have now settled and provide confidence that no substantial increases in risks and costs should be seen in near future. But of course, by its very nature, insurance is a service that manages unforeseen risks, and reserve levels must be kept under constant review in this area. The recommended reserves strategy takes this uncertainty into account. The level of the Insurance Reserve has been reviewed for 2008-09 and is judged to be adequate, however as a result of a large settlement relating to a prior incarnation of the council, the fund will require a 'top up' from the General Reserve.

Taking into account the above and building on the work over the past 3 years, the proposed budget is considered to be adequately robust.

5 Risk

In reports to the Overview & Scrutiny Committee during January 2008, the Corporate Management Board, with the support of their management accountants, will assess the robustness of their budgets, the achievability of savings, income and reductions. It is expected that the key risks will be:

- Impact of the Unitary decision
- Leisure – DC Leisure risk based contract continuing through 2008-09;
- Pay and rewards, the outcome of which is estimated;
- The Capital Programme, given the level of slippage in 2007-08;
- The continuing volatility of income in the Business Areas;

- Changes in policy or non-implementation of policy changes built into the budget.

6 Capital Budget

Projects included in the capital programme, were prepared by the Business Area project managers, with full adherence to the corporate project appraisal procedures and in line with financial regulations. All projects are signed off by the relevant Manager and Executive member with portfolio. The agreed programme is fully funded.

Projects have been costed at current year prices with many subject to tender process after inclusion in the programme. This may lead to variance in the final cost. In some areas, the design brief may not be finalised, again giving rise to potential price variance.

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

The risk of the Council being unable to fund variations outside of the programme is minimal mainly due to phasing of projects. If necessary the Council can choose to freeze parts of the programme throughout the year to ensure spend is kept within the agreed budget.

There are two main risks.

- Firstly to the capital programme is the ability of the Council to fully deliver it within the agreed timescales. Slippage relating to 2007-08 is fully funded but this in itself will increase pressure on the Council to deliver the anticipated 2008-09 programme.
- Secondly, that the move to Unitary impacts on the ability to deliver projects as programmed.

Budget Assumption	**Financial Standing and Management**
1. Estimates of the level and timing of capital receipts.	The Council's policy is to fund its capital programme generated by general fund capital receipts from the future sales of assets. Unbudgeted receipts received during the year are added to the unearmarked general fund capital reserve and taken into account as a funding source for the following financial year, subject to revenue budget considerations. The draft 2008-09 capital programme, which will go to Executive and Council in February 2008 for approval, allows for £1.2M of the reserve to be applied to fund the Council's capital expenditure. The budget proposals for 2008-09 are that the balance of Capital Reserves will be preserved in order to generate additional interest on the debt-financing budget. This will help to support the Council's revenue expenditure.

7 Adequacy of the Reserves

General

Under the 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 Chief Financial Officer.

Determining the appropriate levels of reserves is not a precise science or a formula e.g. a percentage of the Council's budget. It is the Council's safety net for 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.

A budget strategy should also include a reserves strategy.

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.

Unallocated General Fund Reserves

During the CPA process, the following definition of adequacy was advanced:

Audit Commission's measure of reserves

Either, the aggregate of the following items is expected to be in surplus at 31 March,

- General Fund balance;
- Other earmarked GF revenue reserves; and
- Liabilities not recognised in financial statements [excluding FRS17 unfunded pension liabilities]

and the GF balance is expected to be at least equal to 5%, (Equivalent to £1.115m for 2007-08) [but not exceeding 100%] of forecast net operating expenditure. There are plans agreed by members on how to use these reserves, which link to the Council's strategic aims.

OR

There is a formal financial risk management process operating which the authority uses to:

- Justify a lower level of reserves;
- Determine its minimum level of reserves; and
- To adhere to this level.

The recommendation on the minimum prudent level and optimal level of reserves has been based on the robustness of estimate information (above). 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. Managers have been requested to be prudent in their assumptions and that those assumptions, particularly about demand led budgets, will hold true in changing circumstances.
- Having reviewed the prior year financial plans which set the minimum at General Reserve at £3.5M which represents a reserve of 15% of net operating costs which exceeds the recommended 5% level. In addition having reviewed performance against budget during 2007-08 the council has demonstrated its ability to manage its finances better than in prior years. The risk and scale of 'unknown unknowns' as the previous Interim S151 Officer was keen to protect against has been reduced and specific earmarked reserves remain, or will be created, to protect against the major variables such as Concessionary Fares.
- 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 assistance is usually 85% of any eligible costs over the threshold. Any incident for which assistance is sought must involve conditions, which are clearly exceptional by local standards and the damage to local authority infrastructure or communities must be exceptional in relation to normal experience. In the first instance these initial costs will have to be met from reserves.
- The risk of major litigation, both currently and in the future.
- The risk of losing subsidy arising from outstanding Housing Benefit and Council Tax Benefit Subsidy claims
- The risk of grants being introduced mid-year that require the Council to contribute.
- Unplanned volume increases in major demand led budgets, particularly in the context of high and accelerating growth.
- Potential short term differences between the Council's Insurance Reserve and outstanding liabilities, although these should be remedied in the following fiscal year.
- The need to retain a general contingency to provide for any unforeseen circumstances, which may arise.
- The need to retain reserves for general day to day cash flow needs.

As a consequence, it is recommended that the minimum prudent level of general fund reserves is £2.4m for 2008-09 and.

The recommendations of the Chief Financial Officer are:

a) The Council maintains a minimum prudent level of general fund reserves of £2.4m at the end of any financial year from 2007-08. The minimum level is designed to cope with unforeseen circumstances, which cannot be addressed by management or policy action within the year.

b) That an optimal level of general fund reserves is £2.4m. The optimal 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 a Medium Term Strategy;

c) A prudent approach would accommodate an ability to correct any single significant event over multiple years by creating a longer-term resilience. It also emphasises the need to ensure discipline over the clawback of overspends in future years.

d) The reserves are currently in excess of the General Fund unallocated reserves target.

e) Based on that approach, a reserves figure of £2.4 is recommended.