ANNEX 1

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 - at January 24, 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. 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;
- Work is currently underway with Business Areas to pilot the budget and Risk Registers with Business Areas and to refine the approach;
- 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 2006-07 in order to re-align budgets with current demand, for 2007-08;
- a new 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 each Business Areas proposals for the budget through the Business & 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

- Strategic Managers reporting on the robustness of estimates to the Overview & Scrutiny Committee and subsequent scrutiny by that Committee.

Notwithstanding these arrangements which are designed to test the budget throughout its various stage of development, considerable reliance is placed on the Strategic 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 2007 following the final determination of both the Capital Programme and the Revenue Budgets for 2007-08.

The Risk Registers are intended to form part of the 2007-08 and onward Budgetary Control framework and used at Budgetary Control meetings with Business Area personnel and reviewed at least quarterly by Business Area Management Teams (BAMTs).

4 Robustness of Revenue Estimates

The 2007-08 budget process continues the trend of improving the Council's budget preparation, most notably in the £1.603m of budget re-alignment due to cost pressures and Business Critical Growth.

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

A small number of budgets have also been re-based to ensure they reflect the withdrawal of grant income or income withdrawn from the Formula Spending Share which will in future be funded from grants.

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 2007-08 and later years budgets. They are: • Pay and Rewards – a recasting of the basis of pay is in negotiation. The modelling will not be completed until January 2007, with firm financial results available in June/July 2007. The first payment is planned to be made in September 2007, albeit backdated to April 2007. 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 is experiencing trading difficulties, and had approached the Council for more support in 2006-07. The Executive of November 23rd resolved that the annual management fee would not exceed the base budget provision for 2007-08 and later years. The closure of three centres has been triggered, and the planning assumption is that the costs of closure will be contained in 2006-07. • Management re-structure. This exercise commenced in November. If there are any redundancy costs, the exercise will not be completed in time to capitalise them in 2006-07. If capitalisation is to take place in 2007-08, an application to the DCLG will have to be lodged by December 15 2007. In the meanwhile, a prudent saving of £250k has been assumed for 2007-08 and the subsequent years. • Other pressures – the level of budget correction is set out at Annex 6, budget pressures, which shows £713 k of corrections All Strategic 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. The 2007-08 budget has been based upon budget monitoring and projections made by Strategic Managers of demand in future years.

2. The treatment of inflation and interest rates.	Pay - 4.00% has been provided in the 2007-08 budget for the pay award for staff, with 2.75% for the following years. This is considered in **Annex 11,** an analysis of the salary estimates. The rebased salary estimates were checked by the Team Leaders, and the overall planning total allowed for a net increase in the paybill due to increments. The 2006-07 employers pension contributions is at 26.1%. No increase is required for 2007-08. A revaluation will be undertaken in 2007-08, to take effect from April 2008. For planning purposes an increase of 1.0% per annum has been assumed for 2008-09 and 2009-10. The vacancy factor [VF] built into the 2007-08 budget is 3%, which is broadly in line with that 'naturally' achieved. It is based on all Teams with 3 or more staff, but excluding front–line staff (refuse and recycling). Overall, the VF is 2.5%. Price inflation was included in the MTFP as follows:

	2007-08	2008-09	**2009-10**
Transport	3%	3%	3%
Supplies & Services	2%	2%	2%
Premises	3%	3%	3%
Other Income	3%	3%	3%
Government funding	actual	2.5%	2.5%
Council Tax	3%	3%	3%
Council Tax base	actual	220 Band D's?	220 Band D's?

OR

For the budget, Officers built an alternative approach where inflation is only been provided on contractually or quasi-contractually committed budgets either at 2% or the rate stated in the relevant agreement. The is covered in Annex 5.

Interest rates for 2007-08 have been assumed at 5.25% from April 07 and 5.0% from August 07 for temporary investment and 4.15% for any borrowing. The effect of each 1% change in interest rates is approximately £77,300 for interest on balances (estimated average balances during the year).

3. Estimates of the level and timing of capital receipts.	**T**he budget proposals for 2007-08 assume the following with regard to interest on funds. Revenue - that the investment funds of £21.7m 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. Capital – that interest on capital receipts received in 2006-07 and onwards, will be used to help fund the capital programme.
4 The treatment of income	LABGI – this Government reward, for increasing the Business base at a quicker rate than predicted, will be announced in early February, with two further updates, being finalised in June 2007. The lateness hinders sensible financial planning. The existing MTFP assumed £245k in 2007-08 and nothing in the following years. The scheme for 2007-08 has been loosened to pass more funds to those who qualify. Further work on the formula has confirmed that the estimate is reasonable, and may even be exceeded. However it is based on a prediction of a Government assumption, which might not be realised.

	The planning assumption remains unchanged at £245k in 2007-08 and nothing in the following years. Were the income to be higher, the recommendation would be to carry the excess into the following year 2008-09, to provide funds and certainty for that year's budget. Parking – the restructure of car parking charges would increase the income of the Council. A range of options to increase income is included in the savings options. Were the current free first hour to be charged at 10p, it would raise £90k in a full year. Toilets – ways to reduce the net cost will be explored Other income – an annual uprating, to take account of inflation, is expected to increase other income by 3% overall (see 2 above).
5. The treatment of efficiency savings/ productivity gains.	All Strategic 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 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 future years' budgets and it is assumed that general fund reserves will be restored to at least the minimum prudent level in the following year. Annex 8 sets out the level of efficiency savings, that will form the basis for further Gershon work.
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 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. A risk based approach is set out at Annex 2. The major risk facing the Council is North Wilts Leisure Limited, of which level of exposure is being investigated. There remain outstanding Housing Benefit and Council Tax Benefit Subsidy claims for 2004-05 of £400,000
8. The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates etc)	The Council is debt free. Were it to fund capital expenditure by borrowing it would budget prudently for its level of borrowing, avoiding external borrowing where cash resources allow. The capital programme assumes that there will be prudential borrowing in 2008-09 for two types of scheme: • Commercial re-developments , that will fund their own cost of borrowing;

	• The £600k cost of waste enhancements, that will add 1% to the level of Council Tax from 2008-09 onwards. The revenue budget assumes that the external borrowing will be used to fund the capital expenditure for 2007-10, for it represents the most prudent option for the Council in the current economic climate . The assumed (ultimate) Council Tax collection rate for 2007-08 onwards is 98.5%, judged to be achievable. For each 1% not collected, the cost is approximately £0.056m 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. Any surplus is distributed in 2007-08.
9. The authority's track record in budget and financial management.	The Council's recent track record in budget and financial management shows potential variations of +3.8% to –7.82%, a range of 11.6% of the net budget (equivalent to £2,167k on the 2006-07 net budget): Amount £k — % of budget ▪ 2000-2001 – under spent by — 34 - — 0.24- ▪ 2001-2002 – over spent by — 547+ — 3.83+ ▪ 2002-2003 – under spent by — 1,145- — 7.82- ▪ 2003-2004 – over spent by — 187+ — 1.20+ ▪ 2004-2005 – under spent by — 363- — 2.37- ▪ 2005-2006 – under spend by — 311- — 1.86- ▪ 2006-2007* – overspent — 32+ * As projected at M8 monitoring However this has been achieved by considerable management and policy actions to ensure spending is in line with the budget each year. Base budget under provision, the full year effect of previous decisions, demographic growth and legislative change have been identified and will continue to be identified during the budget and Medium Term Planning process. Ultimately, financial performance relies on all budget managers and Strategic Managers actively managing their budgets and complying with financial regulations, including not committing expenditure if there is no budget provision available.
10. The authority's capacity to manage in-year budget pressures	The authority needs to improve its ability to manage in-year budget pressures. The following steps are required. Re-set the rules for dealing with overspends. Improve the accuracy of estimates. Improve the monitoring system, in terms of accuracy, the frequency of reporting and the challenge process. Act earlier in the year to correct any over/underspends. Deliver what was planned. The 2006-07 projected overspend, reported in November 2006, at £32k is being responded to. A matter for concern was the number of invoices that are over 30 days and had not been notified to the centre; an exercise was undertaken in December to bring the process up to date.
11. The strength of the financial information and reporting arrangements.	It has been recognised that the financial information and reporting arrangements needs to be strengthened. The Council needs to introduce commitment accounting, improve the usability of the system for non-financial users, and implement a single debtors system. Equally the summer 2006 turnover of senior finance staff has reduced

	the level of continuity and temporarily affected capacity. The new team is seeking to restore this and improve the standards in all areas. During 2007-08, investigations into a new financial information system will be pursued with a view to implementation for April 2008. The MTPF is based on an existing model, which uses net figures which are adjusted. This is inadequate, time-consuming, and could be subject to error. The MTPF will be reset, using a 'grandfather' gross model, that will strengthen the basis of reporting. Annex 3 shows the budget on a subjective basis. The following tasks were completed before the end of January, • base salary estimates - the compilation of the base salaries is now the subject of a separate Annex [11] • risk based balances calculation; • prudential borrowing – a model was tested with advisors. • inflation – move to an exception basis. See Annex 5 to be incorporated into the Council Tax recommendation, along with the latest information on LABGI: The Equipment Fund review will be completed prior to the Council meeting of February 22nd.
12. The authority's virement and end of year procedures in relation to budget under/overspends at authority and departmental level.	_To be reviewed_ 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.
13. 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 2006-07 and 2007-08 and is judged to be adequate, the position being that estimated outstanding liabilities are covered by the balance on the Reserve.

Taking into account the above and building on the work over the year, the proposed budget is more robust than in previous years.

5 Risk

In reports to the Overview & Scrutiny Committee on February 7 2007, all Strategic Managers, with the support of their financial consultants, will assess the robustness of their budgets, the achievability of savings, income and reductions. It is expected that the key risks will be:

- NWLL performance and the level of support;
- Pay and rewards, the outcome of which is estimated;
- The management restructure;
- The Capital Programme, given the level of slippage in 2006-07 [see 6 below];
- The Pension Fund revaluation, affecting 2008-09 onwards;
- Volatility of income in the Business Areas, especially the Planning Delivery Grant;
- Demographic trends being even slightly higher than projected or estimated;
- Changes in Housing Benefit funding and structure;
- Changes in policy or non-implementation of policy changes built into the budget.

These assumptions and potential 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.

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 Strategic 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 2006-07 is fully funded but this in itself will increase pressure on the Council to deliver the anticipated 2007-08 programme.
- Secondly, the draft 3 year 2007-10 programme has been brought into line with resources by reducing plans by £5.75m.

Budget Assumption	Financial Standing and Management
1. Estimates of the level and timing of capital receipts.	The Council's new policy is to fund its capital programme over the three year MTFP cycle, from three sources: • Capital receipts – paid/agreed in the year immediately before the three year budget period, and 20% of 'non controversial' capital receipts to be generated during the planning period; • Interest on the capital receipts; • Grants; This is fully explored in the accompanying report on the capital programme In the past, receipts were invested. The income continues to be used to **help to** support the Council's revenue expenditure. The investment reserve currently stands at £21.7m.

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%*, [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.

* Equivalent to £0.964m for 2006-07.

The recommendation on the minimum prudent level and optimal level of reserves has been based on the robustness of estimate information (above). The details are set out in **Annex 2.**