

IMPLEMENTATION EXECUTIVE
28 JANUARY 2009

**ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES –
REVENUE BUDGET 2009-10**

Executive Summary

In the circumstance of combining Five Councils into one, the process to produce the budget with clear and prudent assumptions has been effective. The estimates based on the best available information, are robust. However, it is possible that new information may emerge on service and cost pressures which will need to be managed through the year.

Following a risk based approach, it is my view that the appropriate level of general reserves is £46.8 million including earmarked reserves with general balances of £15.8 million.

Proposals

Implementation Executive is asked to consider this report and have regard to its content when recommending a net revenue budget and Council Tax for 2009-10 to the County Council.

In particular, Implementation Executive is asked to:

- a. Note the assessment of the robustness of estimates which have been used in preparing the budget proposals presented to date.
- b. Recognise the total level of general balances and earmarked reserves.
- c. Note that the recommended level of general balances is £15.8 million and that this will need to be reviewed at 11 February 2009 Implementation Executive before a budget requirement for 2009-10 is recommended to the County Council.

Reasons For Proposals

Section 25 of the Local Government Act 2003 requires the Section 151 Officer to formally report to Council, as part of the budget setting process, on the robustness of estimates and the adequacy of reserves allowed for in the budget proposals.

Sandra Farrington
Chief Financial Officer

IMPLEMENTATION EXECUTIVE

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REVENUE BUDGET 2008-09**

Purpose of the Report/Background

1. Section 25 of the Local Government Act 2003 requires the Section 151 Officer to formally report to Council, as part of the budget setting process, on the robustness of estimates and the adequacy of reserves allowed for in the budget proposals. The Council is required to have regard to these views when setting the net revenue budget and Council Tax at its meeting on 24 February 2009.
2. There is also a requirement set out in the Chartered Institute of Public Finance Accountants, CIPFA, guidance on Local Authority Reserves and Balances that a statement reporting on the annual review of earmarked reserves should be made to Council, at the same time as the budget.
3. This work is built on an analysis of operational and strategic risks details of which are set out in appendix A, The statement lists the various earmarked reserves, the purpose for which they are held and provide advice on the appropriate levels. It should also show the estimated opening balances for the year, planned additions/withdrawals and the estimated closing balance. This statement is given in respect of the 2009-10 budget setting process and estimated earmarked reserves as at 31 March 2010.

Main Considerations for the Council

Robustness of Estimates

4. Budgets are prepared initially in the autumn for the financial year which will end eighteen months later and therefore include a range of assumptions. To assess the robustness of estimates it is critical that the key assumptions and risks are clear and appropriate. The process of monitoring and managing the budget and risks provides assurance that control can be maintained and risk managed.
5. This report details the key assumptions and the approach undertaken in relation to:
 - a. Inflationary impact
 - b. Volumes
 - c. Policies
 - d. Environment
 - e. Legislation and the impact of reorganisation

The assumptions reflect the best available information.

The Budget Setting Process

6. Budgets provide an authority to spend and a cash limit for Council services. They are prepared on an annual basis with departments building up budget proposals within a Financial Plan approved by Implementation Executive. This has been updated, as resources become clearer, to the current presented elsewhere on this agenda.
7. Areas of unavoidable growth, cost pressures, efficiencies and development have been identified and scrutinised as part of the budget process. Service changes have also been clearly identified on service standards and scrutinised. This is consistent with the budget monitoring process, performance monitoring and risk management.
8. The assumptions included within the 2009-10 budget proposals:

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| Inflation | 2% for pay awards, energy costs 15%-77% depending on contract, General Fund Insurance 0%, waste contracts 3%, landfill tax 25%, public transport contracts 7%, school transport contracts 5%, highway contracts 5%, IT contracts 5% All other costs 3%. |
| Demographic growth and demand led pressures | <p>A number of service specific areas are significantly demand led and the direct impact of demographic growth is substantial. Demographic changes in pupil numbers, waste tonnages and adults and children requiring different types of care are all reviewed and assumptions included within the budget.</p> <p>Corporate Directors are committed to managing in-year demands within their existing budgets by reprioritising or implementing action plans to ensure costs come within available resource levels. The estimates are based on existing approved policies and criteria. There is a policy that service overspends are carried forward to future years as a first call on the following year's budget.</p> |
| Dedicated Schools Grant | <p>The Provisional Dedicated Schools Grant Settlement has not been announced but the figure of £244.387 million has been included in the budget proposals as a best estimate of what the final award will be. This is based on October pupil counts and the December revised estimate is lower at £243.642 million due to a decline in pupil numbers. This will put pressure on the OSG budget which will also need to cover any 2008-09 DSG overspends as a first call.</p> <p>The minimum funding guarantee to schools is 2.1%.</p> <p>A paper elsewhere on this agenda "Estimate of DSG 2009/10 and Implications for the Schools' Budget" discusses this further.</p> |

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| Staff | Budgets provide for the cost of staff anticipated to be employed during the year and include adjustments to reflect part year savings where redundancies are anticipated mid year and to reflect the level of vacancies and staff turnover in the year. The costs of all staff who will transfer to the new council under the transfer of undertakings. (Protection & Employment Act) are included. A redundancy provision was made as part of the IC4W transition cost reserve which will be utilised for any redundancy costs arising from the reorganisations or other budget efficiencies. |
| Contracts | It is assumed that prices and volumes in existing contracts will be honoured and any assumptions to vary this includes for the realistic impact of renegotiation and renewal of contracts. |
| Estimates on the timing and level of capital receipts and capital expenditure | <p>The authority closely monitors its capital programme and a separate report is included on the agenda detailing plans for the next three years although given the current economic climate ...</p> <p>The revenue budget and capital programme includes anticipated capital receipts over the three years although given the current economic climate a prudent view of the market has been taken.</p> <p>There are risks associated with a number of major investment projects being led by the Council, many in conjunction with partner agencies. These include the Waterside, BMP, Melksham Oak School, Wiltshire Academy and Westbury Bypass. The latest monitoring position is included within the budget assumption.</p> |
| Prudential borrowing and prudential indicators | The Council will borrow by the Prudential Code and ensuring that the borrowing is appropriate and affordable. A separate report is included on the agenda to provide details of this and the Prudential Indicators which are approved as part of the budget process. |
| Efficiency savings | <p>There is a requirement on all services to provide efficient delivery and value for money. Efficiency savings are identified by Corporate Directors in establishing their budget proposals.</p> <p>The significant efficiency savings included within the budget proposals are identified in the report on "Revenue Budget 2009-10".</p> |
| The availability of other funds to deal with major contingencies | General reserves may have to be used temporarily and restored if management and policy action is insufficient to deal with a major issue. A risk assessment of the overall reserves available has been undertaken to cover potential exposure during the budget year. |

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| <p>The authority's track record in budget and financial management</p> | <p>The Council continues to demonstrate good financial management with past outturn for the County Council positions of:</p> <ul style="list-style-type: none"> • 2002/03 – underspent by £1.239m • 2003/04 – underspent by £0.677m • 2004/05 – overspent by £1.531m • 2005/06 – overspent by £3.289m • 2006/07 – underspent by £1.727m • 2007/08 – underspent by £3.266m |
| <p>The strength of financial information and reporting</p> | <p>Use of Resources forms part of the Audit Commission Comprehensive Performance Assessment (CPA) for Local Authorities. It focuses on financial management and its links to the strategic management of the authority.</p> <p>In 2007-08, Wiltshire County Council, Salisbury District Council, Kennet District Council and West Wiltshire District Council all scored 3 out of 4 overall. North Wiltshire scored 2 out of 4.</p> |
| <p>The adequacy of the authority's insurance arrangements to cover major unforeseen risks</p> | <p>The Council's insurance arrangements are a balance between external insurance premiums and internal funds to "self-insure". The Council's insurance team use the services of an external insurance advisor to provide additional expertise in managing insurance arrangements. Officers receive an estimate of liabilities and assess the level of the fund using actuarial techniques with advice from insurance brokers.</p> <p>The insurance manager is a member of the Risk Management group and works closely with the Risk Manager to identify insurance related risk areas and recommend ways of mitigating future risks.</p> |
| <p>Single Status – Job Evaluation Programme</p> | <p>Every Local Authority was required by the National Agreement of 2004 to undertake a review of its pay and grading arrangements for implementation by April 2007 (unless it had already done so).</p> <p>Three out of the four District Council's had not implemented the changes and no provision has been made for pay harmonisation where the pay rates across the five authorities are aligned. This is based on the assumption that overall the exercise will be cost neutral. As with all staff negotiations there is a risk to performance from morale changes and staff turnover but this is not deemed significant for budget purposes a provision has been made for the Single Status costs based on District assumptions prior to unitary and a risk surrounding potential appeals and job evaluation changes is being considered in the decision over what is an adequate level of reserves.</p> |
| <p>Legislation</p> | <p>Budgets assume that the existing legislation and regulatory framework is maintained except where there are known changes. The most significant change is a change in the law from 1 October 2007</p> |

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| | <p>increases the statutory minimum holiday entitlement to 20 days. This includes statutory holidays. This does not affect authority staff who are at the minimum already but is expected to apply to care providers and a prudent increase in care costs is included within the budget to provide for this. A part year impact was reflected in the 2008-09 budget with a full year effect included for 2009/10. Costs relating to changes in the Safeguarding Children Act which require additional security reviews of staff and people with access to vulnerable people or their personal information are assumed to be met through existing staff recruitment budgets. The impact of Carbon Trading Scheme which is being introduced in 2010-11 to financially penalise authorities which do not reduce their carbon footprint will be a cost pressure in 2010-11 and reflected in the update MTFS. A budget proposal for growth to increase capacity to address climate control is included in the budget options.</p> |
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The Monitoring Process

9. Officers constantly monitor their budgets and budget monitoring reports are taken to Implementation Executive along with performance reports on a monthly basis. These highlight significant variances and areas of risk, both in the current year and for future years. In addition, where a large overspend is identified, closer monitoring will be developed with a corporate recovery board established to monitor the savings programme and report separately on a monthly basis.
10. Members will also be aware of the increased role of the Budget Scrutiny Task Group at the County Council to carry out regular budget monitoring as a way of calling the Cabinet to account on this aspect of their work.

Council Wide Risk Management

11. Specifically in relation to risks surrounding the budget, Corporate and Service Directors have been asked to complete risk statements as part of the budget process. These detail the significant risks associated with the proposed budgets for each given service area and action that would be taken should the risk arise.
12. Overall, risk management is well embedded across the authority and is an important element of the business planning and budget process at all levels. The Council's Risk Management Strategy ensures that risks are identified, assessed and mitigated with responsibility for mitigating controls being clearly defined. The County Council's Corporate Plan includes a summary of key strategic risks i.e. those risks which pose a threat to the operation of the County Council, and the achievement of its objectives.
13. The management of these and new such risks that may arise during the year are reviewed regularly at the Corporate Leadership Team (CLT). As part of this the authority maintains a risk register detailing department, corporate and strategic risks.

and a risk update is taken to Final Accounts and Audit Committee meetings. It is a requirement that all reports to Members specifically highlight any associated risks and mitigating actions, to ensure that all risks are identified and the risk register updated accordingly.

14. To maintain the prominence of risk management across the organisation there has been risk management briefings and training for both officers, Members and partners during the year. The Corporate Risk Management Group meets regularly and is currently in the process of the annual review of the Risk Management Strategy. The Risk Manager during the year has been reviewing the risk management arrangements and processes within the authority and identifying areas of improvement. The results of this will be implemented in 2009-10.

Adequacy of Reserves

15. The Section 151 officer has a duty to the local tax payer, and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.
16. The level and usage of reserves are required to be formally approved by the Council, as part of the budget strategy, informed by the judgement and expertise which is demonstrated in this report and later reports to the Council before the budget is set.
17. In assessing the adequacy of reserves, there are two main categories of reserves that are assessed:
 - Earmarked reserves
 - Unallocated general reserves and balances

Earmarked Reserves

18. Earmarked reserves are those which the Council builds up over a period of time to fund known or predicted liabilities. The level of reserves available to the new Council have been compiled with the co-operation and support of the four District 151 officers.
19. The Council reviews each of the funds during the year to ensure that the levels are appropriate to achieve the purpose for which they were set up. Currently earmarked reserves are predicted to be £47.680 million at 31 March 2007 and £46.797 million at 31 March 2008. The reserves which make up this balance and their designated purposes are shown in Appendix B.
20. The majority of earmarked reserves are ring fenced or committed or not available to support revenue spending.

| The Earmarked Reserves for 2009-10 | £m |
|---|---------------|
| Revenue | 8.078 |
| Capital | 5.971 |
| Schools and other ring-fenced reserves | 32.748 |
| Total earmarked reserves | 46.797 |

Unallocated General Reserves

21. Unallocated general reserves are those held to meet unforeseen liabilities and emergencies. The amount of general reserves held have been compiled based on responses from District 151 officers where available.
22. There is no guidance given as to what constitutes an adequate level of reserves and the minimum prudent level of reserves that the Council should maintain is a matter of judgement. It is the Council's safety net for unseen or other circumstances and in determining the right level to hold, the County Council takes a risk based approach.
23. Specifically with regard to the budget proposals and the level of reserves to hold, the risks shown in Appendix A have to be considered.
24. General reserves are predicted to be:

| | £m |
|-------------------------------|---------------|
| Available earmarked reserves | 8.078 |
| Unallocated general reserves | 15.778 |
| | |
| Total general reserves | 27.856 |

25. Unallocated general reserves consist of the predicted outturn position shown in the Projected Revenue Spending 2008-09 report earlier on this agenda, less a budgeted combination from reserves of £4 million for spending in 2009-10.
26. On the assumption that Members will be inclined to accept this advice, general balances will become around £15 million in 2009-10 and given sound financial management and everything discussed above, I am comfortable with this position. My opinion is based on a review of current circumstances and risks. This includes the risks surrounding the Department of Community Services cost pressures, Department for Children and Education cost pressures (in particular, surrounding the increased number of looked after children and related recovery plans), any potential impact of implementing the new Business Management Programme and transitional effect of moving from five authorities to one, potential unforeseen changes arising from the Job Evaluation Programme and the size and complexity of the capital programme. Membership will aware that the Secretary of State has the power to set a minimum level of reserves if he disagrees.

Risk Assessment

27. The risks associated with the budget proposals are discussed above alongside the budget assumptions and in Appendix A on a service basis. In addition to these the Council faces a generally higher level of risk due to the level and complexity of change proposed in 2009-10. The movement to one council from five will involve significant operational and strategic changes. These are being carefully planned and monitored to mitigate risk but inherent uncertainties will exist and risk remains.
28. The budget proposals include a range of savings which range in status from secure to speculative. Where speculative, Corporate Directors have agreed to business plans to deliver the savings and the risks associated with delivery are reflected in Appendix A. Non delivery of any savings would lead to an overspend in 2009-10 and require alternative measures to be found in year to correct the position. Where significant business transformation and reorganisation has been proposed, best estimates have been included based on current business plans. The deliverability of such savings are dependent on a number of assumptions including salary grading, redundancies and staff turnover. Where plans are at an early stage it is very difficult to forecast redundancy costs as staffing pool may be varied in terms of salary, age and years in service, all of which can significantly impact on potential costs.
29. The rollout of the Business Management Programme and introduction of SAP and a new cash receipting system also carries risks. These are being managed as part of the programme and will continue to be monitored.
30. The wider economic climate and recession also poses risk to the Council in terms of
 - Reduced interest rates impacting on the deliverability of the capital finance budget.
 - The ability to make assumed capital receipts from the sale of assets.
 - Reduced demand for fee generating services such as development and building control, car parking and rental income.
 - Increased demand for other services such as homelessness and vulnerable children.
31. Where possible account has been taken of these risks in the budget proposals based on latest assumptions to mitigate the risks faced.

Other risks which will cannot be quantified but will need to be balanced against the level of reserves are:

- Interest Rate volatility
- Income volatility
- Change to Government Grant
- Emergencies
- Economic and world recession
- Poor performance of the Pension Fund

- Bankruptcy / liquidation of a major service partner
 - Government Legislation
 - General ability to take advantage of opportunities
 - Uninsured risks
32. The budget for 2009-10 has been based on a range of information provided from five councils rather than a single authority. This carries the risk of greater inaccuracy and unknown cost pressures, To reduce this risk CLT appointed service directors to all services within the new authority in 2008-09 and these directors have taken responsibility for setting the 2009-10 budget for their area. This has provided accountability and ownership of the proposals. However, in a number of services staff, financial support and operations are not going merge until 2009-10 creating risks to service delivery and cost centres. Budget assumptions could therefore be subject to review as information emerges and issues are exposed. This will be managed through the budget monitoring process during 2009-10.
33. The proposed Revenue Budget for 2009-10 includes using £4 million of general fund reserves and other one off funding. These resources are one-off cash resources and only provide benefit in one year. To avoid funding recurring expenditure from one-funds, the Corporate Leadership Team (CLT) have agreed that elements of one-off expenditure in the 2009-10 must be identified.
34. This will mean that one-off income is matched with one-off expenditure, which will be removed from the 2010-11 starting base position.
35. CLT have committed to achieving the One Council for Wiltshire savings planned for 2010-11 and as such have agreed that those 2010-11 savings will be treated as one-off expenditure in 2009-10, be removed from the 2010-11 base budget and are sufficient to match the one-off resources being used in 2009-10.

Environmental Impact of the Proposal

36. There are no environmental issues identified from the proposals in this report.

Equalities Impact of the Proposal

37. None have been identified as arising directly from this report.

Financial Implications

38. These are explicit within the report.

Proposals

39. Implementation Executive is asked to consider this report and have regard to its content when recommending a net revenue budget and Council Tax for 2009/10 to the County Council.

In particular Implementation Executive is asked to:

- a. Note the assessment of the robustness of estimates which have been used in preparing the budget proposals presented to date
- b. Recognise the total level of general balances and earmarked reserves
- c. Note that the recommended level of general balances is £15.8 million and that this will need to be reviewed at 11 February 2008 Implementation Executive before a budget for 2009-10 is recommended to the County Council.

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Sandra Farrington
Chief Financial Officer

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Unpublished Documents Relied Upon: Departmental Budget Working Papers