

Extract from the Revenue Budget and Council Tax 2013/14 report to Full Council on the 27th February

ROBUSTNESS OF THE BUDGET AND THE ADEQUACY OF RESERVES

- 1.1 The Local Government Act (Part II) 2003 placed a requirement upon the Council's statutory finance officer (The Director of Resources) to report to members on the robustness of the budget estimates and the adequacy of the proposed financial reserves.
- 1.2 In considering the robustness of any estimates, the following criteria need to be considered:-
- the reasonableness of the underlying budget assumptions such as:
 - the reasonableness of provisions for inflationary pressures;
 - the extent to which known trends and pressures have been provided for;
 - the achievability of changes built into the budget;
 - the realism of income targets;
 - the alignment of resources with the Council service and organisational priorities.
 - a review of the major risks associated with the budget.
 - the availability of any contingency or un-earmarked reserves to meet unforeseen cost pressures.
 - the strength of the financial management and reporting arrangements.
- 1.3 In coming to a view as to the robustness of the 2013/14 budget, the Director of Resources has taken account of the following issues:-
- Detailed estimates are prepared by directorates in accordance with principles laid down by the Director of Resources based upon the current agreed level of service. Service changes are separately identified and plans are in place for them to be managed.
 - Estimate submissions have been subject to rigorous review throughout the budget process both in terms of reasonableness and adequacy. This process takes account of previous and current spending patterns in terms of base spending plans and the reasonableness and achievability of additional spending to meet increasing or new service pressures. This is a thorough process involving both financial and non-financial senior managers throughout the Council.
 - Significant financial pressures experienced in 2012/13 have, where appropriate, been recognised in preparing the 2013/14 budget, or are subject to further actions to enable them to be delivered.
 - Contingency provisions have been included in the General Fund and within the DSG funded services. These provisions are for items not

foreseen and for items where there is a risk of variation during the year. In the case of the schools contingency, this would include adjustments required in the application of formula funding, significant increases in pupil numbers, and additional statements of Special Education Needs or exceptional in year cost increases.

- As part of the budget process, directorates have undertaken a risk assessment of their key budgets, documented this assessment in the form of a formal Risk Register, and provided a summary of major risks within the directorate budget documents, many of which are significant. All directorate budgets contain efficiencies, service reviews and savings which will require actions to deliver, and any delay in taking decisions may have significant financial implications. The overall level of risk within the 2013/14 budgets of directorates is considered to remain relatively high. Whilst this level of risk can be considered manageable, it must be on the understanding that key decisions are taken and that where identified savings are not delivered alternative savings options will be needed. This is all the more important given that the Council will face further financial challenges over the years beyond 2013/14.
- In addition to specific directorate risks, there are two new risks which need to be understood and closely monitored.
 - The introduction from April 2013 of a scheme of Council Tax discounts does raise additional risks as to collection. Overall, the assumed collection rate for Council Tax has been reduced from 99.2% to 99% to reflect this additional risk, but there is still the potential for further losses. However, it should be noted that should there be a higher level of loss than assumed, that this would materialise with the collection fund, and as such would not impact upon the current year's budget.
 - Under the new business rates retention scheme, the Council's local share of business rates is exposed to risks from both collection and reductions in rateable values. The scheme does provide for a safety net, whereby any losses in excess of 7.5% against an authority's business rates baseline would be met centrally. However, this would still mean the Council bearing losses, against our baseline, in excess of £10m. This risk is further heightened, as under the scheme, the Council shares its proportion of any losses in respect to rating appeals which may be backdated to prior to the 1st April 2013. Although in setting the 2013/14 budget, an assumption has been included as to potential scale of losses due to backdated appeals, this is still considered to be a significant risk. However, as in the case of Council Tax, any losses greater than those assumed in setting the budget will materialise through a collection fund and will not impact in the current year.

1.4 The Council's financial controls are set out in the Council's Financial Procedure Rules. These provide a significant degree of assurance as to the

strength of financial management and control arrangements throughout the Council. The Council has a well-established framework for financial reporting at directorate and corporate levels. Each month the Director of Resources receives a report from each directorate setting out spending to date and projected to the year-end. Action plans are utilised to manage and minimise any significant variations to approved budgets. There are no proposed changes to the level of financial reporting to either the Executive Board or to Scrutiny.

1.5 The Council's Reserves policy, as set out in Section 7, requires directorates to prepare budget action plans to deal with spending variations on budgets controlled by directorates during the year.

1.6 In the context of the above, the Director of Resources considers the proposed budget for 2013/14 as robust and that the level of reserves are adequate given a clear understanding of the following:-

- the level of reserves is in line with the risk based reserves strategy.
- budget monitoring and scrutiny arrangements are in place which include arrangements for the identification of remedial action, and reporting arrangements to members will be enhanced.
- the budget contains a number of challenging targets and other actions, these are clearly identified, and will be subject to specific monitoring by the Council's Corporate Leadership Team, and as such, are at this time considered reasonable and achievable.
- enhanced budget reporting to members will continue.
- risks are identified, recorded in the budget risk register and will be subject to control and management.
- as part of the Council's reserves policy directorates are required to have in place a budget action plan which sets out how they will deal with variations during the year up to 2%.
- risks associated with Council tax and business rates, although new and significant, will not impact on the current year's budget.
- there is a clear understanding of the duties of the Council's statutory Financial Officer and that the service implications of them being exercised are fully understood by members and senior management alike.