

County Council

27th February 2009



Budget 2009/10 Report under Section 25 of Local Government Act 2003

Key Decision No. Corp/TR/01/09

Report of Stuart Crowe, Corporate Director, Resources [Cabinet Portfolio Member for Corporate Resources, Councillor Michele Hodgson]

Purpose of the Report

- 1 The purpose of this report is to provide Members with information on the robustness of the estimates and the adequacy of reserves, so that Members have authoritative advice available when they make their decisions.

Background

- 2 Local Authorities decide every year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on each of their services.
- 3 The decision on the level of the council tax is taken before the year begins and it cannot be changed during the year, so allowance for risks and uncertainties that might increase service expenditure above that planned, must be made by:
 - a) making prudent allowance in the estimates for each of the services, and in addition;
 - b) ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.
- 4 Section 25 of the Local Government Act 2003 requires that an authority's chief financial officer reports to the authority when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that Members will have authoritative advice available to them when they make their decisions.

- 5 Section 25 also requires Members to have regard to the report in making their decisions.

Robustness of Estimates

- 6 This has been a challenging budget to prepare, bringing together Districts and County Budgets and reallocating sums in accordance with the structural design and determining where investments are needed and savings can be made.
- 7 The budget process has involved Members, Corporate Directors and their staff, the District Council finance officers and my own staff in a thorough examination of the budget now recommended to Cabinet.
- 8 Adjustments for proposed savings from the Local Government Review (LGR) process and investments identified in the document submitted to Government as a Bid for a Unitary Council have been made to the combined budget requirements of the former District and County Council.
- 9 Detailed reports have been completed by Corporate Directors reviewing their services, explaining Service pressures and the need for resources to fund Service pressures in line with corporate priorities and identifying areas for savings. From these, decisions have been taken to incorporate some of these areas into the budget for 2009/10 which will flow through to the medium term financial plan.
- 10 In coming to the decision to include funding for investments and savings in the budget, risks have also been identified. It is anticipated that these risks can be managed using contingencies and if necessary, reserves.
- 11 The budget has been the subject of consultation and challenge. Corporate Directors have worked with Cabinet Members and members of the Overview and Scrutiny Committee. The Citizens Panel, Trade Unions and the representatives of the National Non-domestic Rate-payers have also had the opportunity to comment on and challenge the proposals in a series of consultation meetings.
- 12 Whilst more work will be done to refine Service detailed proposals, all practical steps have been taken as far as possible to identify and make provisions for the County Council's commitments in 2009/10 and prepare a robust budget.
- 13 In my view, the robustness of the estimates has been achieved by the budget process, which has enabled all practical steps to be taken to identify and make provision for the County Council's commitments in 2009/10.

- 14 It is accepted that work for the years 2010/11 and 2011/12 has yet to begin in earnest.

Adequacy of Reserves

- 15 The CIPFA Local Authority Accounting Panel (LAAP) has issued a guidance note on Local Authority Reserves and Balances (LAAP Bulletin 77) to assist local authorities in this process. This guidance is not statutory, but compliance is recommended in CIPFA's Statement on the Role of the Finance Director in Local Government. It would be best practice to follow this guidance.
- 16 The guidance however, states that no case has yet been made to set a statutory minimum level of reserves, either as an absolute amount or a percentage of budget. Each local authority should take advice from its Chief Financial Officer and base its judgement on local circumstances. A well run authority, with a prudent approach to budgeting should be able to operate with a relatively low level of general reserves.
- 17 Reserves can be held for three main purposes:
- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
 - A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
 - A means of building up funds, earmarked reserves, to meet known or predicted requirements.
- 18 The most recent bulletin, published in November 2008 highlights a range of factors, in addition to cash flow requirements that Council's should consider; these include the treatment of inflation, the treatment of demand led pressures, efficiency savings, partnerships and the general financial climate, including the impact on investment income. The bulletin also refers to reserves being deployed to fund recurring expenditure and indicates that this is not a long-term option. If members choose to use reserves as part of this budget process appropriate action will need to be factored into the medium term financial plan to ensure that this is addressed over time.
- 19 The risk management process has identified a number of key risks which could impact on the County Council's resources. In particular a number are likely to impact in the short-term.
- 20 The setting of the level of reserves is an important decision not only in the budget for 2009/10, but also in the formulation of the medium term financial strategy.
- 21 The County Council has adopted a policy for reserves as follows:

'that the County Council will -

- Set aside sufficient sums in earmarked reserves as it considers prudent to do so. The Corporate Director Resources will be authorised to establish such reserves as are required, to review them for both adequacy and purpose on a regular basis reporting appropriately to the Cabinet Portfolio Member for Resources and to Cabinet.
- Aim to maintain, broadly, general reserve levels of between 3.5% and 4.5% of the budget requirement or about £16m to £20m.

- 22 Earmarked reserves have been established to provide resources for specific purposes. Of these reserves, the use of schools balances is outside of the control of County Council but the Insurance and other reserves will be used as required.
- 23 In my view, if the County Council were to accept the Cabinet's recommended increase in council tax, funding for unavoidable service pressures and investments, proposals for savings and for capital then the level of risks identified in the budget process, alongside the authority's financial management arrangements suggest that the level of reserves is adequate.

Recommendation

- 24 It is recommended that:
- a) Members have regard to this report when approving the budget and the level of council tax for 2009/10.

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Appendix 1: Implications

Local Government Reorganisation

(Does the decision impact upon a future Unitary Council?)

Yes – the MTFP and the budget year strategy will impact onto the new Authority.

Finance

This paper is the basis of the County Council's budget and MTFP

Staffing

Budget decisions will have consequences on this area.

Equality and Diversity

None

Accommodation

Budget decisions will have consequences on this area.

Crime and disorder

Budget decisions will have consequences on this area.

Sustainability

Budget decisions will have consequences on this area.

Human rights

None

Localities and Rurality

Budget decisions will have consequences on this area.

Young people

Budget decisions will have consequences on this area.

Consultation

Widespread consultation on budget proposals.

Health

Budget decisions will have consequences on this area.