

County Council

22 February 2012

Budget 2012/13

**Report under Section 25 of Local
Government Act 2003**



Report of Don McLure, Corporate Director, Resources

Purpose of the Statement

- 1 The purpose of this statement 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 budget decisions at County Council on 22 February 2012.

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;
 - 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 Full Council 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 this report in making their decisions.

Robustness of Estimates

- 6 Service Groupings have been building detailed budgets throughout the year. Transfers between Services have been made to reflect more accurately the Service structures and responsibilities. In addition Service pressures have been identified. Reports have been presented to Cabinet and Overview and Scrutiny.
- 7 The budget proposals reflect the current position and forecast outturn spend for 2011/12. The budget is based on extensive work and assurances from Corporate Directors and their finance support staff. Cabinet Members have worked with their respective Directors throughout the process. Overview and Scrutiny have been able to question Service Groupings on current budgets, performance and proposals. The public, trade unions and the National Non-Domestic Ratepayers have been consulted on the proposals.
- 8 Extensive work has also been carried out to produce a balanced Medium Term Financial Plan (MTFP). A range of broad assumptions have been utilised and robustly challenged as part of the MTFP process. More work is needed for years 2, 3 and 4 of the MTFP, but in my view we have taken all reasonably practical steps to identify and make provision for the County Council's commitments in 2012/13.

Adequacy of Reserves

- 9 The Chartered Institute of Public Finance and Accountancy (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.
- 10 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.
- 11 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.
- 12 The most recent bulletin, published in November 2008 highlights a range of factors, in addition to cash flow requirements that Councils 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 MTFP to ensure that this is addressed over time.

- 13 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.
- 14 The setting of the level of reserves is an important decision not only in the budget for 2012/13, but also in the formulation of the MTFP over the next 4 years.
- 15 It is recommended that the County Council adopts a policy for reserves as follows:
 - 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 in the medium to longer-term of at least between 3% and 4% of the budget requirement or at least £13m to £17m in cash terms.
- 16 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 the County Council.
- 17 In my view, if the County Council were to accept the Cabinet's recommended freeze of 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

- 18 It is recommended that:
 - a) Members have regard to this statement when approving the budget and the level of Council Tax for 2012/13.

Contact:

Don McLure

Tel: 0191 383 3550

Appendix 1: Implications

Finance – This report sets out the view of the Council's Section 151 Officer in relation to the robustness of estimates and the adequacy of reserves determined in the 2012/13 budget build.

Staffing – None.

Risk – All relevant risks have been considered by the Section 151 Officer in coming to this view.

Equality and Diversity / Public Sector Equality Duty – None.

Accommodation – None.

Crime and Disorder - None.

Human Rights – None.

Consultation – None.

Procurement – None.

Disability Issues – None.

Legal Implications – Section 25 of the 2003 Local Government Act requires the Authority's Chief Financial Officer to provide assurance upon the robustness of estimates and the adequacy of reserves.