Appendix

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STATEMENT OF CHIEF FINANCIAL OFFICER ON THE ROBUSTNESS OF THE ESTIMATES 2011-14

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1. Executive Summary

1.1 Under Section 25 of the Local Government Act 2003, the Authority's Chief Financ Officer (Director of Finance) is required to report on the robustness of the estimat made for the purposes of the Council's budget calculations. A statement to th effect is set out below for Members' information.

2. Recommendations

2.1 That the Cabinet note the statement set out below.

3. Background

3.1 Budget estimates are exactly that, estimates of spending and income made at point in time. This statement about the robustness of estimates cannot give guaranteed assurance about the budget, but gives members reasonable assuranc 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 were put into place, including:

- the issuing of clear guidance to Business Areas on preparing budgets;
- 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 2010-11 in order to re-align budgets with current demand, for 2011-12;
- a new medium term planning process that highlights priority services;
- a review by the Corporate Management Team of proposed savings and their achievability;
- a Member review and challenge of each Business Areas proposals for the budget;
- review of the budget by the responsible Cabinet 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.

3.2 Notwithstanding these arrangements, which are designed to test the budget throughout its various stages of development, considerable reliance is placed on the Strategic Managers having proper arrangements in place to identify issues, project demand for services, and consider value for money and efficiency.

3.3 A key part of improving these processes is to develop data and information to monitor service volume and unit costs and track changes in both. This will also assist in the Council's Medium Term Strategy Planning.

4 Risk Registers

4.1 Finance staff undertook a formal Risk Register of the Revenue Budget, and propose Balances at an appropriate level compared to the current identified 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.

4.2 Capital Programme and Revenue Budget Risk Registers – by Business Areas, will be completed and approved by Business Area Management Teams by March 2011, following the final determination of both the Capital Programme and the Revenue Budgets for 2011-12.

4.3 The Risk Registers are intended to form part of the '2011-12 and onward' Budgetary Control framework and be used at Budgetary Control meetings with Business Area personnel and reviewed at least quarterly by Business Area Management Teams.

4.4 In the report to the Scrutiny Committee on February 16 2011, Members will be able to assess the robustness of their budgets, the achievability of savings, income and reductions. It is expected that the key risks that remain will be:

- The confirmation of Government grants, of which a number remain currently unknown. A considerable tracking exercise has taken place to identify the destination of grants, for example the Community Services Grants transferring into formula grant, which is set out at Annex 2;
- Changes to staffing arrangements, the process for which is in train;
- The implementation of the New Operating Model, with new budgetary arrangements and management practices;

- The delivery of savings and efficiencies, which is in hand;
- Changes to the Capital Programme, to achieve the policy objective of eliminating Prudential Borrowing, unless it is self funding;
- The improvements in budgeting, implementation of which may throw up funding challenges.

4.5 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.

5 Robustness of Revenue Estimates

5.1 The 2011-12 budget process continues the trend of improving the Council's budget preparation, most notably in the £7.995m of budget re-alignment (see Annex 3) due to cost pressures and Business Critical Growth, balanced by equivalent savings.

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

5.3 A 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.

5.4 The four year position shows a surplus in Year 1, with deficits in Years 2 to 4. Work is taking place through January/early February to identify the broad areas that will address these deficits.

Table 1: Four Year Revenue position £000's

	2011-12	2012-13	2013-14	2014-15
Surplus – Deficit +	-963	+20,171	+17,834	+9,220

5.5 The development of medium term planning in summer 2011 will improve the 2012-15 savings and efficiency proposals. Annex 1 shows the factors taken into account in developing the draft budget.

6 Capital Budget

6.1 The agreed programme is fully funded within the 3 year timescale 2011-14. 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 yet be finalised, again giving rise to potential price variance.

6.2 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.

6.3 There are two main risks:-

- Firstly, the ability to deliver the capital programme within the agreed timescales. Slippage from 2010-11 is fully funded over the MTFS period but this in itself will increase pressure on the Council to deliver the anticipated 2011-12 programme.

- Secondly, the draft 3 year 2011-14 programme has an amount set aside for new starts based on the availability of capital receipts. In today's climate, these receipts may be lower than expected, which will have to be managed.

Budget Assumption	**Financial Standing and Management**
1. Estimates of the level and timing of capital receipts.	The Council's policy is to fund its capital programme over the three year MTFS cycle, from three sources: • Supported Borrowing and Major Repairs Allowance; • Grants, Government and Other; • Capital Receipts. The policy objective is to minimise/eliminate: ▪ Prudential Borrowing, and ▪ Revenue contributions, unless the proposed spending can generate its own funding. *The Capital Receipts programme is managed through a monthly officer group, who are to work to income generation targets as part of delivering the 2011-14 capital programme.* *Capital Receipts are invested as part of the Council's normal treasury management activity. The income continues to be used to help to support the Council's revenue expenditure.*

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Human Rights Act Appraisal None.
Environmental Appraisal None.
Risk Management Appraisal The processes behind the Robustness of Estimates is a well understood and seeks to mitigated the level of risk by adhering to its precepts.
Community / Consultations Appraisal None.
Cabinet Member Keith Barrow, Leader of the Council.
Local Member N/A.
Appendices Annex 1: Analysis if Robustness of Revenue Estimates Annex 2: Anticipated Grant Levels for 2011/12 (Not included see Appendix 6 of main report) Annex 3: Budget Corrections and Growth Pressures

Annex 1: Analysis of Robustness of Revenue Estimates

Budget Assumption	Financial Standing and Management
1. The treatment of demand led pressures	Three major demand factors affect the 2011-12 and later years budgets. Th are: • Changes to staffing arrangements – a recasting of the basis of pay is negotiation. The completion of the exercise is still in train, but a prud view of the financial benefits has been assumed in the budget. • Management re-structure. Again this exercise is in train, but a prud view of the financial benefits has been adopted. An application to DCLG for the capitalisation of redundancy costs was agreed at the end December 2010, for £1.379m, below our submission of £5.414m. separate report will address the way forward. • Other pressures – the level of budget corrections are set out in Annex 3 the budget report. All Strategic Managers have reviewed their base budgets including dema led pressures. Business Areas are expected to put forward management a policy actions to manage the additional demand within the relevant legislat either within the relevant budget or reprioritising within their Business Are budgets. If this is not possible, and under-spending management action policy actions in other Business Areas are not sufficient to cover the additio demand, then the minimum level of reserves may have to be used to addre the additional expenditure temporarily. Such an eventuality has been considered in future years' budgets and i assumed that general fund reserves are restored to at least the minim prudent level in the following year. The 2011-12 budget has been based upon budget monitoring and projectio made by Strategic Managers of demand in future years.
2. The treatment of inflation and interest rates.	Pay – 0% has been provided in the 2011-12 budget for the pay award for st 0% in 2012-13 and 1% thereafter. The overall planning total also allowed no increase in the paybill due to increments. Pensions - New contribution rates will take effect in April 2011, following Revaluation during 2010-11. The change in the employers rate has been b into the budget, but mitigated by extending the period over which the defic recovered, from 22 to 25 years. The vacancy factor [VF] built into the 2011-12 budget is 1%, which is broa in line with that 'naturally' achieved. It is based on all Teams with 3 or m staff, but excluding front–line staff (eg, refuse and recycling). Price inflation was treated in a different way for 2011-12. Instead of inflating items, Officers built an alternative approach where inflation is only be provided on contractually or quasi-contractually committed budgets at the r stated in the relevant agreement. Interest rates paid for 2011-12 have been assumed at 5.42% from April 201 for temporary investment and 6.00% for any new borrowing.
3. Estimates of the level and timing of	The budget proposals for 2011-12 assume the following with regard to intere on funds.

Budget Assumption	Financial Standing and Management
capital receipts.	Revenue - that average investment funds of £126m will produce interest at a rate of 0.75%, this income will be available to support the revenue budget. Capital receipts will be treated as general cash balances when investing and any interest earned will be available to support the revenue budget.
4 The treatment of income	Fees and charges have been increased at a rate faster than inflation at I plus 4%.
5. The treatment of efficiency savings/ productivity gains.	All Strategic Managers have a responsibility to ensure the efficient delivery services and, when efficiency savings are proposed, that those savings both realistic in terms of the level of savings and timing. Should the level a timing of such savings vary due to unforeseen events and under-spendi management action or policy actions within the relevant Business Area a corporately, will be implemented.
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 bo by the party best placed to manage that risk. Inherent risks include a guarantee or variation of service throughput (service volumes). If ri materialise the expectation is that such an eventuality will be considered future years' budgets and general fund reserves restored to at least minimum prudent level. Grants – the level of Grants is set out at Annex 2 of this report.
7. The availability of other funds to deal with major contingencies	The minimum level of reserves assumes that management and policy acti will be taken to address major contingencies. Should these be insufficient, minimum level of reserves may have to be used temporarily and restored to least their minimum prudent level or the optimal level through future budg A risk based approach is set out at in a separate report.
8. The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates etc)	The Council has debts of £278m as at December 2010. Were it to fund cap expenditure by borrowing, it would budget prudently for its level of borrowi avoiding external borrowing where cash resources allow. The capital programme assumes that there will a reduction in pruder borrowing, and it will only be retained if the expenditure is self-funding. The revenue budget assumes that external borrowing will be used to fund capital expenditure for 2011-12. The assumed (ultimate) Council Tax collection rate for 2011-12 onwards 98.5%, judged to be achievable. For each 1% not collected, the cos approximately £1.290m in lost income to the Council in 2011-12. Legislat requires that any Collection Fund deficit be corrected through the Council in the next year. The surplus is distributed in 2011-12.
9. The authority's track record in budget and financial management.	The Council's recent track record in budget and financial management 20 2011 shows potential variations of +£2.1m to –£0.3m, a range of £2.4m). trend in the last two years has been one of overspending.

Budget Assumption	Financial Standing and Management
	Amount £k ▪ 2005-2006 – underspent by 196- ▪ 2006-2007 – underspent by 303- ▪ 2007-2008 – underspent by 133- ▪ 2008-2009 – overspent by 2,141+ ▪ 2009-2010 – overspent by 919+ ▪ 2010-2011* - overspend of 316+ Total overspend 2005-2011 2,744+ * As projected at M8 monitoring However this has been achieved by considerable management and po actions to ensure spending is in line with the budget each year. Base budget under provision, the full year effect of previous decisio demographic growth and legislative change have been identified and continue to be identified during the budget and Medium Term Plann process. Ultimately, financial performance relies on all budget managers and Strate Managers actively managing their budgets and complying with finan regulations, including not committing expenditure if there is no bud 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 pressur The following steps have been put in place. Re-set the rules for dealing w overspends. Improve the accuracy of estimates. Improve the monitor system, in terms of accuracy, the frequency of reporting and the challen process. Act earlier in the year to correct any over/underspends. Deliver w was planned. The 2010-11 projected overspend, at M8 (November) reported in Janu 19th, was at £316k, and is being responded to. Equally, the ability to manage in-year pressures has been recognised in risk appreciation of the level of Reserves, resulting in the implementation plans to increase the level over a period of years.
11. The strength of the financial information and reporting arrangements.	It has been recognised that the financial information and report arrangements needs to be strengthened. The Council needs to f implement commitment accounting, and improve the usability of the system non-financial users. During 2011-12, improvements to the new financial information system will pursued with a view to implement significant service improvements a financial savings. The draft MTFS is based on a gross expenditure model, that will strengt the basis of reporting. Annex's to the Budget report will show the budget o the three years 2011-14.

Budget Assumption	Financial Standing and Management
	The following tasks were completed by mid-January, • base salary estimates • risk based balances calculation; • prudential borrowing – a model was tested with advisors. • inflation – move to an exception basis. to be incorporated into the Council Tax recommendation.
12. The authority's virement and end of year procedures in relation to budget under/overspends at authority and departmental level.	The Council's virement and carry forward rules are clear. The Counci operating management disciplines to ensure management and policy acti are considered in relation to overspending budgets. Generally virement considered at a corporate level against corporate priorities, including contribution towards the optimal level of general fund reserves. The Cou operates a policy of clawing back overspends from the relevant Busin 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. Premiu 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. The level of the Insurance Reserve has been reviewed for 2011-12 and is judged to be adequate, the position being that estimated outstanding liabiliti 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.

Appendix 12

Annex 3 - Budget Corrections and Growth Pressures

	CYPS £	Community Services £	Development Services £	Resources, CEX and L&DS £	Total £
Offsetting List 2 Savings:					
Cover for shortfall in Landfill Allowance Trading Scheme assumptions			200,000		200,000
Offsetting List 3 Savings:					
Loss of School Meals Grant			350,000		350,000
Animal Health & Welfare Grant			71,000		71,000
Loss of Road Safety Fund Grant			610,000		610,000
School Travel Advisors Grant			71,000		71,000
Highways Development Control Income			83,000		83,000
Development Management Income			550,000		550,000
Unachievable List 2 saving - Road Sweeping			145,000		145,000
Unachievable List 2 saving - CCTV			70,000		70,000
Unachievable List 2 saving - Minerals & Pre Apps Advice			11,000		11,000
Environmental Maintenance - reduce recharge to LTP			160,000		160,000
Unachievable List 1 saving - Kerbside Card Collections			40,000		40,000
Growth pressures:					
Waste Management			556,000		556,000
Planning Inquiry			20,000		20,000
Loss of income - planning and highways development			633,000		633,000
Transformation programme				1,300,000	1,300,000
Capitalisation of redundancy				1,300,000	1,300,000
Looked After Children	1,000,000				1,000,000
Demography - Older People		200,000			200,000
Demography - Adults with Learning Disabilities		625,000			625,000
	1,000,000	825,000	3,570,000	2,600,000	7,995,000