

OVERVIEW AND SCRUTINY BOARD

4TH October 2005

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| Robustness of Budget Calculations |
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| Paul Slocombe – Director of Resources |
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Introduction

1. Section 25 of the Local Government Act 2003 requires an authority's Chief Finance Office (CFO) to advise members on: -
 - a. the robustness of the budget forecasts; and
 - b. the adequacy of the proposed level of financial reserves.
2. This report sets out the Director of Resources opinion on the above issues in respect of the 2005/2006 Budget for consideration by Members.

Robustness of Budget Calculations

3. The Director of Resources advice in setting the 2004/2005 and 2005/2006 Budget was based on work undertaken across all Council Services regarding the detailed preparation of expenditure and income forecasts. It followed a series of consultation meetings with Members, Partners, Community Council Representatives and Council Officers.
4. It is the opinion of the Director of Resources that the Budget calculations for 2005/2006 were robust in that;
 - a. proper medium term budget planning and monitoring processes are in place and maintained which ensure that known commitments are provided for budgets are set in real terms with the effect on service delivery clearly identified;
 - b. appropriate provisions are made within the budget for pay and inflation;
 - c. a prudent view of the net costs of the Authorities overall cash flow and Prudential borrowing is taken;

- d. an analysis of financial risks effecting the budget is completed; and
- e. appropriate consideration is given to the level of Council Tax and external funding available to the Council.

Adequacy of Financial Reserves

- 6. The Council is required to maintain an appropriate level of Reserves and Balances. Whilst current guidance is not prescriptive, all Authorities are required, when reviewing, their Medium Term financial plans to consider the establishment and maintenance of reserves.
- 7. Proper consideration has to be given to:-
 - a. working balances to help cushion the impact of uneven cash flows and to avoid unnecessary temporary borrowing;
 - b. general fund reserves to provide a contingency for the impact of unexpected events or emergencies; and
 - c. specific earmarked reserves to meet known or predicted liabilities
- 8. The Director of Resources has advised that he feels it is appropriate to maintain a minimum of 2% of General Fund net expenditure. This equates to between £3.5m and £3.8m over the medium term. This advice is based on the extent to which budget monitoring processes are work effectively and the extent to which specific provisions are made to meet known and expected liabilities.
- 9. Indicated within the following table is the expected reserves position at 1/4/2005: -

| | £`m |
|--------------------------|--------|
| As at 31 March 2004 | 4.472 |
| 2004/2005 Outturn | 0.813 |
| Planned use in 2004/2005 | -0.420 |
| | 4.865 |

- 10. Proper provision has been made for the impact of housing stock transfer and the associated Pension Fund liabilities. Any residual Housing Revenue Account balances will become available for use by the Council during 2006/2007;
- 11. The Council was successful in achieving an increase in the population assumptions made by the Office of National Statistics. The advice from the Director of Resources which has been accepted by Members is that any backdated grant should be applied against new infrastructure initiatives rather than being applied to support ongoing expenditure
- 12. Appropriate earmarked provisions have been made for known liabilities, including equal pay and insurance liabilities.

Summary

13. In accordance with section 25 of the Local Government Act 2003 it is the Director of Resources (Chief Finance Officer) view that
 - a. the budget forecasts for 2005/2006 are robust; and
 - b. that the proposed level of financial reserves are adequate.

14. Members of the Overview and Scrutiny Board are requested to note and consider the contents of the report.

**Report prepared by
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