

**Adequacy of Reserves and robustness of budget estimates
Report by the Head of Resources and Performance (S151 Officer)**

1. Introduction

Section 25 of the Local Government Act 2003 requires the Section 151 Officer/Chief Financial Officer (Head of Resources and Performance) to formally report to Council as part of the tax setting report her view of the robustness of estimates and the adequacy of reserves. The Council is required to take these views into account when setting the Council Tax at its meeting on 4 March 2013.

2 Financial Controls

- 2.1 Forest Heath District Council operates a comprehensive and effective range of financial management policies. These are contained in the Financial Procedure Rules, which form part of the Council's Constitution. This Constitution is available on the council's internet and intranet.
- 2.2 The Council conducts an annual review of the effectiveness of the system of internal control and reports on this in the Annual Governance Statement.
- 2.3 The Council continues to implement effective risk management policies, identifying corporate, operational and budget risks and mitigating strategies. Capital projects are subject to a comprehensive work plan which includes detailed risk management strategies. The Council operates a monthly Programme Board which monitors the progress of capital and revenue projects.
- 2.4 The internal and external audit functions play a key role in ensuring that the Council's financial controls and governance arrangements are operating satisfactorily.
- 2.5 This is backed up by the review processes of Cabinet, with the Performance and Audit Committee undertaking the role of the Council's Audit Committee.

3 Adequacy of Reserves

Unallocated general reserve

- 3.1 This statement focuses upon the unallocated general reserve. The minimum prudent level of reserves that the Council should maintain is a matter of judgement and cannot be judged merely against the current risks facing the Council as these can and will change over time.
- 3.2 The consequences of not keeping a prudent minimum level of reserves can be serious. In the event of a major problem or a series of events, the Council would run a serious risk of a deficit or of being forced to cut spending during the year in a damaging and arbitrary way.

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3.3 CIPFA (Chartered Institute of Public Finance and Accountancy) have issued a notification from the LAAP (Local Authority Accounting Panel) stating that there should be no imposed limit on level or nature of balances required to be held by an individual Council (except under section 26 where this has been imposed by ministers). Forest Heath's policy has consistently kept a prudent minimum level of balances; this represents £2.0m for the 2013/14 budget requirement.

3.4 When setting the minimum level of reserves, the Section 151 officer has taken into account strategic, operational and financial risks when recommending the minimum level of unallocated General Fund reserves. These include:

- Economy measures and service reductions always contain some degree of uncertainty as to whether their full effects will be achieved;
- The effect of the macro-economy on Forest Heath District Council, and subsequent loss of income from Council Tax, from fees and charges, and a decline in house building;
- The delivery of all savings targets;
- Unforeseeable events such as major inclement weather (floods etc) which may require urgent, material spending to be incurred;
- Risks in relation to litigation;
- Risks of grants being introduced or removed mid year, requiring authority contributions; and
- The need to retain a general contingency to provide for unforeseen circumstances.

As a consequence, it is recommended that the general fund be set at a minimum of 20%, (circa. £2 million) of net revenue expenditure.

3.5 If an event occurs that is so serious it depletes the Council reserves to below the limit of 20% of net revenue budget, then the Council will take appropriate measures to raise general fund reserves to the 20% level in as soon a timeframe as possible without undermining service provision.

Other Reserves

The Council has a variety of other reserves which are earmarked for specific purposes. The significant items to be drawn out as part of the 2013/14 budget setting process are:

- Statutory reserves utilised to create a rolling balancing three year cost neutral service
 - Building Regulation Charging Reserve and Local Land Charges Reserve
- Reserves expected to be utilised/committed to support the new Strategic Plan of the Council
 - Economic Development (LABGI) Reserve
 - Planning Policy Statement Climate Change Reserve
 - New Homes Bonus Reserve
 - Homelessness Legislation Reserve
- Shared Services Cost of Change Reserve - created as part of the 2012/2013 budget process to be utilised/committed to support the

delivery of the shared service agenda and saving requirements of the Council. The prime source of financing has been through the risk and recession reserve and the old corporate priority development reserve.

4 Robustness of Estimates

4.1 The treatment of inflation and interest rates

The 2013/14 pay award for staff has been estimated at 1% in line with the Government's autumn 2012 statement. Non pay related budgets have not been inflated unless there is a contractually committed rate of inflation where services can demonstrate a requirement to do so to maintain service delivery levels. Interest rates for 2013/14 have been assumed at 2.45%. Increases for fees and charges have been set in line with inflation where appropriate.

4.2 Savings proposals

The Council continues to face a budget gap beyond 2013/14 and into the medium and longer term. Broadly, the Council will need to have savings proposals of £1.4m per annum by 2016/17. Clearly, savings from shared services will continue to make an important contribution towards the savings needed over the short term of the MTFS. Further work will need to be done to close the medium to longer term budget gap emerging beyond 2014/15. This will be informed by the review of the council's Medium Term Financial Strategy (MTFS) to be undertaken during 2013/14, paragraph 4.8.3 of the main report refers.

The Council has been very successful in achieving significant levels of savings wherever possible. Indeed it will have delivered circa. £2.8m pa from April 2012. The 'Local Savings and value for money initiatives' or 'banked' savings as they are sometimes referred to, delivered £2.5m in 2011/12 and it is expected that they will deliver £2.8m in 2012/13. The main budget report highlights those saving requirements for 2013/14 in paragraph 4.6.4.

4.3 Budget and Financial management

Forest Heath has a good record of budget and financial management. All relevant reports to Cabinet and Committee have their financial effects identified and the Joint Leadership Team keeps any emerging budget pressures under review during the year. Monthly reports are received by Joint Leadership Team and quarterly reports to Cabinet detail both budgetary and performance indicators.

The Council has a number of demand led budgets and the historically it has been able to manage changes in demand to ensure a sound financial standing at the end of the financial year.

A fundamental review of the council's Medium Term Financial Strategy (MTFS) is to be undertaken during 2013/14.

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4.4 Adequacy of insurance and risk management

Strategic risk management is embedded throughout the Council to ensure that all risks are identified, mitigated and managed appropriately. The Council's insurance arrangements are in the form of external insurance premiums and internal funds to self insure some items.

4.5 Maintaining balances

As discussed above there is a separate risk and recession reserve. The risk and recession reserve includes items of significant revenue risk to the Council and is available to support the revenue budget. If the Council is not at its target level for reserves (i.e. an overspend looks likely in the given financial year) then the risk reserve is available to cushion the Council and help maintain and protect the Council's general fund balances. This helps ensure the Council is in a position to maintain its service provision in the short term without drastic actions.

5 Risk Assessment

A risk assessment is included at Appendix 3 as part of the Scenario and Sensitivity Analysis. All areas will be monitored by the Chief Finance Officer but they are the culmination of individual managers' responsibilities and combine to establish overall corporate responsibility.

6 Conclusion

- (1) Overall, the estimates are robust, taking into account known risks and mitigating strategies and the reserves are adequate for the 2013/14 budget plans.**
- (2) Cabinet and Council are asked to have regard to this report when making their decisions on the 2013/14 budget.**

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