

## **Robustness of Estimates and Adequacy of Reserves (Incorporating the Reserves Policy)**

### **Background**

- 1) Since coming into being on 1 April 2009 Central Bedfordshire has needed to cope with arranging its finances as informed by the spending plans and forecasts of three legacy authorities which historically took differing approaches. In the intervening period there has been a focus on developing and maintaining a robust Budget process.
- 2) The improvements made to the overall budget process over time have meant that there is now sufficient prior year information prepared to the same robust standard as the current year, allowing for greater insight into trends. Improvements continue to be made each year as part of an ongoing process – see “Heads of Service Reviews” below.

### **Robustness of Estimates**

#### **Overall Approach**

- 3) The 2013/14 Budget setting process formally commenced with the approval of the process and Budget Strategy at the Executive in August 2012. The Strategy assessed the initial assumptions in the existing Medium Term Financial Plan in light of the continued adverse economic situation and the Coalition Government’s drive to reduce public spending.
- 4) The 2013/14 Budget process was a modified version of the process undertaken for 2012/13. Introduced for the first time was a system of “Head of Service Reviews” at an early stage during the process. These reviews involved each Head of Service presenting a budget overview which:
  - provided an overview of the service;
  - split the budget into activities and explained the basis for the total budget for each activity;
  - identified pressures and efficiencies, both existing in the previous MTFP and new items;
  - outlined potential options for further savings; and
  - provided benchmarking information on performance and cost.
- 5) As a result the budget process was accelerated compared to the previous year allowing for more consideration of where savings should be made.
- 6) The baseline position for the budget reviews was the 2012/13 agreed budget.

- 7) This process allowed for savings proposals to be developed across the late summer and early autumn. The high level budget position was presented to the Corporate Resources Overview and Scrutiny Committee in October, to which all Members were invited. This presentation covered the changes in Government funding, the budget process and the high level MTFP figures as they then stood. During January all Overview & Scrutiny committees reviewed the Draft Budget and savings proposals, Draft Capital Programme and Fees & Charges.
- 8) The latest position was presented to the Executive, together with the draft budget and the most up to date information on funding, on 8 January. This enabled consultation to commence with the residents of Central Bedfordshire. Staff have also had the opportunity to input into the savings proposals as they have been assessed within directorates.
- 9) The Chancellor of the Exchequer did not deliver the Autumn Statement until 5 December with the subsequent announcement of the Finance Settlement on 19 December. This delay compared to previous years meant that, in order to meet timetable requirements, the draft Budget report was not based on the final settlement. The outcome of the Finance Settlement was presented to the Executive on 8 January as a verbal update.

### **Budget Assumptions**

- 10) The headline assumptions on the budget concern the levels of external support and inflationary pressures as well as the consideration of directorate pressures and efficiencies outlined above. All of this has been considered in the context of the economic conditions within which Central Bedfordshire currently operates.

### External Support

- 11) External support covers Formula Grant, NNDR, specific grants and Council Tax.
- 12) The Local Government Financial Settlement repeated the '4-block model' introduced for 2011/12 but with some significant changes compared to the prior year. These are explained in more detail in the body of the Report. The key changes relate to Council Tax Support and NNDR both of which increase uncertainty for Central Bedfordshire as incoming resources will be predicated partly on the Council's ability to collect and grow revenues rather than funding being guaranteed from Central Government.
- 13) The settlement which is reproduced in full in Appendix F to the budget report covers only two financial years, the second of which is provisional, which naturally gives less certainty over the medium term. However, the

Government has indicated that a new Comprehensive Spending Review will take place during 2013, and therefore amounts for the years following 2013/14 will be subject to change. There is increased risk associated with these future years given the continued state of the economy and Central Government's commitment to reduce public spending.

- 14) Central Bedfordshire will benefit significantly from the New Homes Bonus over the course of the MTFP. The grant is built into the overall resources in the budget and is predicated on tax base growth over the medium term. Clearly any slowing of growth is a risk but there has been a detailed assessment of the value of this grant to the Council.
- 15) Council Tax is frozen for 2013/14, although the loss of potential additional income is compensated by Council Tax Freeze Grants from Central Government across the spending review years up to 2014/15. The Budget includes the 2010 Grant which covers the four years to 2014/15 plus the 2012 Grant which covers 2013/14 and 2014/15 only.

#### Inflation

- 16) The key assumptions are set out in the main body of the report and reproduced below:

Spend type	2013/14 and onwards %
Employees	
Pay	1.0
National Insurance	1.0
Prices	2.0
Contracts	2.0
Income	2.0

- 17) The Council Budget includes a provision of £91.6 million for employee costs and the assumptions for the annual pay award. The outlook for the economy is continuing to give rise to pay restraint and for this reason a 1% increase only is provided for in future years of the plan. All pay awards are subject to national negotiations.
- 18) Price inflation is continuing to make the headlines at present. Although the trend over the past year has been for inflation to reduce, some analysts are querying whether this is sustainable. CPI for November is 2.7% while RPI stands at 3.0%.

Many Council contracts have an annual inflation index built in which will put pressure on costs in 2013/14 over and above the general 2% uplift included in the Strategy.

- 19) Income has been increased at 2% across the board. In specific cases, following careful review, additional increases above this amount have been applied and some charges have been held or increased by smaller amounts.

#### Service Expenditure

- 20) The robustness of estimates for each of the directorates has been considered during the budget setting process with an assessment of the general robustness of service budgets as well as the impact of pressures, growth and efficiencies.
- 21) The Base Budget build provides assurance that budget and activity are aligned and that budgets are at the correct level for 1 April 2013.
- 22) There is an Efficiencies Implementation Group in place which will oversee the delivery of all efficiencies with a specific focus on those categorised as 'red' or high risk. This is a continuation of previous years' practice which has successfully overseen the delivery of significant savings. Nevertheless, continued delivery of further savings year on year, including £16 million of savings in 2013/14 is a significant challenge.
- 23) This successful track record demonstrates a sound corporate approach to the delivery of budgeted savings and gives a measure of confidence that the 2013/14 Budget is realistic and achievable. Nevertheless each year it becomes harder to deliver savings whilst maintaining service levels and there will be significant challenges to be faced in the years ahead.

#### **Adequacy of Reserves**

##### Introduction

- 24) A recent report by the Audit Commission noted the following: "Reserves are an essential part of good financial management. They help councils cope with unpredictable financial pressures and plan for their future spending commitments." The degree of unpredictability has increased this year, with major changes to a number of funding streams from Central Government. These are set out in the budget report but principally affect Council Tax Support and local retention of an element of NNDR.
- 25) In light of this, a review has been undertaken of the level of reserves this council should seek to hold. It is recognised that this level needs to balance resilience against financial shocks whilst guarding against

unnecessary build up when services are facing pressures to maintain delivery.

- 26) Monitoring of both general and earmarked reserves takes place every month, to ensure these are correctly identified and are being used appropriately. The creation of new earmarked reserves, and transfers to and from reserves, are subject to approval by Executive as part of the final outturn position. The reserves position is therefore transparent to all Members.
- 27) Central Bedfordshire inherited £14.4 million of reserves from the legacy authorities at 1 April 2009 but a significant element of this was taken up by transition costs in setting up the new authority. Central Bedfordshire's General Fund balance as at 31 March 2010 was £5.1 million.
- 28) One of the key objectives of previous budgets has been to increase General Fund reserves to a risk assessed minimum prudent level. The 2012/13 Budget aimed to achieve this objective by March 2014, by planning contributions of £1.4 million in each of the three years 2011/12 to 2013/14, which was estimated to take the reserves to £11.2 million at 31 March 2014.
- 29) However, as a result of efficiency savings, coupled with a favourable outturn position in 2011/12, the expectation is that the minimum prudent level will be achieved by March 2013 and there will be no need for additional planned contributions to reserves beyond this date.
- 30) The General Fund planned reserves as at 31 March 2014 are now £11.9 million after allowing for a £0.4 million contribution to manage budget pressures in 2013/14. Reserves can provide an important short term support to the budget but long term reliance on reserves is not a sustainable position. Whilst it is therefore acceptable to use a relatively small amount of reserves to support the 2013/14 budget in this way, the Executive will need to develop new savings proposals in order to ensure that the later years of the MTFP are balanced without reducing reserves to an unacceptable level.

### Policy

- 31) The reserves policy is to have a minimum level of reserves which would equate to 3% of gross expenditure. This level is based on the need for greater financial resilience as a result of the changes in funding for local government and the greater variability in the net expenditure.
- 32) This would provide a minimum prudent level of reserves of £11.1 million based on the 2013/14 budget.
- 33) With the changes to the way in which local government is funded being introduced this year, a much greater volatility in revenues is implied. Experience gained in 2013/14 of the impact of the new funding

methodology will greatly enhance the ability to assess what level of reserves needs to be held in future years. It is therefore envisaged that a comprehensive review of all reserves will inform the next round of budget setting.

### Risk Assessment

In addition to General Balances Central Bedfordshire holds £13.0 million of reserves earmarked for specific purposes. Appropriate use of these is included within the budget estimates presented, although in some cases the use may span more than one year. As an emergency measure these earmarked reserves could provide additional resilience and therefore assist as a mitigation of risk to the Council.

- 34) The above assessment of the robustness of estimates has identified a number of risks in the budget. A risk register is being compiled to enable these risks to be scored and monitored during the new financial year.