

Adequacy of Reserves and robustness of budget estimates

1. Section 25 of the Local Government Act 2003 requires the Section 151 Officer (Head of Finance) to formally report to Council as part of the tax setting report his 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 3rd March 2011.

2 Adequacy of Reserves

2.1 This statement focuses upon the unallocated general reserve and excludes schools' budgets and schools' unspent balances, which will be reviewed by the schools funding forum when Governing Bodies have submitted their budgets. 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.

2.2 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.

2.3 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). West Berkshire Council policy has consistently kept a prudent minimum level of balances of 5% of net revenue expenditure (NRE); this represents 5.6m for the 2011-12 budget requirement. An amount of £1m should be added to the 5% of NRE for the additional risks in the budget and due to the size and complexity of the organisation. The general fund balance currently stands at just over £7.1m.

2.4 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 West Berkshire Council, and subsequent loss of income from Council Tax, from fees and charges, and a decline in house building and the corresponding impact on new house building.
- The impact of significant increases in demand to Council budget areas, specifically in Adult Social Care and Children's Social care
- The delivery of all savings targets
- Unforeseen events such as the flooding during July 2007
- Risks in relation to litigation.
- Risk of changes from specific grants to the non ring fenced government grants.
- Risks of grants being introduced or removed mid year, requiring authority contributions.
- The need to retain a general contingency to provide for unforeseen circumstances.
- The need to retain reserves for general day to day cash flow needs and avoid unnecessary temporary borrowing
- Risk of reduced income due to deferred income and social care client's property decreasing in value

As a consequence, it is recommended that general fund and the risk fund balances be set at a minimum of 5% of net revenue expenditure plus £1 million, which allows for these additional risk items.

3 Robustness of Estimates

3.1 The treatment of inflation and interest rates

The 2011-12 pay award for staff has been estimated at 0% (with £250 increases for those staff earning under £21k). The Medium Term forecast also contains projections of 0% for 2012-13. Non pay related budgets have been inflated at either 1.5% or the contractually committed rate of inflation where services can demonstrate a requirement to do so to maintain service delivery levels. Interest rates for 2011/12 have been assumed at 5% for new borrowing.

3.2 Efficiency saving and productivity gains

The budget contains proposals to deliver over £8m of savings. The medium term financial strategy includes a four year savings programme to ensure that future revenue budgets remain in financial balance to ensure the council has adequate resources to deliver its Council Plan outcomes. The savings programme will also help to ensure that Council Tax increases are kept to as low levels as possible and deliver efficiency local services. The proposals set a far greater level of required savings than in past years and there are inherent risks to the delivery of a balanced budget at the end of the 2011-12 financial year.

3.3 Budget and Financial management

West Berkshire has an excellent record of budget and financial management. The level of under and overspends in recent years is as follows

- 2005/06 £ 279k underspend 0.17% of budget
- 2006/07 £ 246k underspend 0.15% of budget
- 2007/08 £ 196k underspend 0.22% of budget excluding DSG
- 2008/09 £ 351k overspend 0.34% of budget excluding DSG
- 2009/10 £ 5k underspend 0.01% of budget excluding DSG
- 2010/11 £ 393k underspend forecast

This level of control is achieved by significant management and policy action to ensure that spending is kept within budgets each year. All relevant reports to the Executive have their financial effects identified and Management Board keeps any emerging budget pressures under review during the year. Monthly reports are received by Corporate Board and quarterly reports to the Executive and Resource Management Select Committee detail both budgetary and performance indicators. A traffic light system of indicators is used to focus attention.

The Council has a number of demand led budgets. The Council has historically been able to manage changes to demand to ensure a sound financial standing at the end of the financial year. The revenue budget includes some £3.2m for adult social care demand, and the council has embarked on an adult social care system transformation programme to help prepare the authority for increasing demand due to demographic changes in the district's population.

3.4 Adequacy of insurance and risk management

Strategic risk management is being embedded throughout the Council to ensure that all risks are identified, ameliorated and managed appropriately. The Council's insurance arrangements are a balance of external insurance premiums and internal funds to self-insure some areas. As well as an internal risk manager the Council also make use of an external consultant to advise on the level of funds required to underpin those risks not externally insured.

3.5 Overall financial standing of the authority

West Berkshire Council now borrows money to support the Council's capital programme. It has calculated its capacity for borrowing within the provisions of the prudential framework and budgeted accordingly. The assumed Council Tax collection rate is 99.6% and this is an

achievable if demanding target. Each 1% uncollected amounts to approximately £790,000 and any surplus or deficit on the collection fund is apportioned between the Council and its major precepting bodies the Royal Berkshire Fire and Rescue Authority, and the Thames Valley Police Authority.

4 Maintaining balances

- 4.1 To help ensure that the Council maintain its level of reserves, there is a separate risk fund. The risk fund 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 over-spend looks likely in the given financial year) then the risk fund is available to cushion the Council and help maintain and protect the Council's general fund balances. This helps ensure that the Council is in a position to maintain its service provision without drastic actions.
- 4.2 If an event occurs that is so serious it depletes the Council reserves to below the limit of 5% of net revenue budget, then the Council will take appropriate measures to raise general fund reserves to the 5% level in as soon a timeframe as possible without undermining service provision.

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