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**THE ROBUSTNESS OF THE 2013/14 BUDGET AND THE ADEQUACY OF RESERVES**

Committee: Council

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[M348]

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1.0 **ISSUE**

1.1 This report considers the robustness of the Council's budget for 2013/14 and the adequacy of the Council's reserves.

2.0 **RECOMMENDATIONS**

2.1 That the Head of Finance's assessment as to the robustness of the estimates and adequacy of reserves as set out are noted.

3.0 **BACKGROUND/OPTIONS**

3.1 Section 25 of the Local Government Act 2003 requires the Council's Chief Finance Officer (Head of Finance) to report to the Council on the following when making the statutory calculations required to determine its Council Tax:

- The robustness of the estimates included in the 2013/14 budget.
- The adequacy of the proposed financial reserves.

3.2 This report fulfils this requirement and provides Members with the assurance that the budgets have been compiled appropriately and that the level of reserves is adequate. It is a statutory requirement that Members must consider this report prior to considering and approving the annual budget and council tax.

4.0 **ROBUSTNESS OF ESTIMATES**

4.1 The proposed budget for 2013/14 has been achieved through the identification of a programme of savings across the 4 year period 2011/12 – 2014/15 in line with the Government's Comprehensive Spending Review's time frame, which was started two years ago in advance of the 2011/12 budget setting process.

4.2 The 2013/14 budget has been prepared using the 2012/13 budget as its base, which has then been amended for any known changes and other assumptions made. The key changes include:

- The addition of unavoidable inflation on service contracts, utility budgets

and insurance but no general inflation for other types of service expenditure.

- Incremental increases in salaries have been included, together with an estimated pay award of 1.5%
- Forecasts of key income streams for fees and charges and investment interest have been reviewed and amended where appropriate.
- Further savings, which were identified two years ago as part of the 4 year savings package and which take effect during 2013/14 have been built into the budget.
- A Council tax increase of 2.00%.

4.3 The detailed budget estimates have been prepared jointly by Heads of Service and staff from the Council's Financial Services team. Throughout the budget build process, reports have been taken to Management Team by the Head of Finance on a regular basis outlining the overall forecast financial position of the Council.

4.4 Given the continuing uncertainties of the economic environment and the continuing scale of the expenditure reductions required across the public sector over the medium term, there will inevitably be significant risks involved in delivering balanced budgets. It is therefore critical that this report sets out the key risks associated with the proposed budget and how they can be managed. This approach is particularly important when it comes to the delivery of savings, the risks associated with their achievement and the implications if they are not delivered as planned.

4.5 Two years ago, when the Council identified an estimated funding gap of £2.679m across the 4-year period 2011/12 to 2014/15, a savings package was approved by Members to fund this budget gap. At the end of 2011/12 over £0.6m of savings was identified ahead of being needed and these were set-aside in an earmarked reserve for future financial years.

4.6 These savings have been regularly reviewed during 2012/13 to assess their likely delivery together with the impact of any savings not being achievable across this 4-year timeframe. In particular, the savings that had been identified as a result of the proposed introduction of car parking charges in July 2012, which did not occur, have been removed from the overall savings and the planned contribution of £0.178m to the Surplus Savings Reserve has now been amended to a small transfer from this reserve at the end of 2012/13.

4.7 Looking ahead to 2013/14, it is anticipated that a further net £0.198m of savings will be transferred into the Surplus Savings Reserve at the end of the financial year. Clearly, it is crucial that these savings are continually reviewed during the course of the year to ensure the Council's financial position remains on course over the medium term.

4.8 Whilst the Council currently finds itself in the favourable position of having identified sufficient savings to balance both the 2013/14 and 2014/15 budgets, there are, nevertheless, risks associated with the 2013/14 budget because it contains levels of savings, which, if not achieved on a recurring basis could revert the Council back to a more challenging financial position. The more significant areas of risk in relation to these savings include:

- The continued savings resulting from the Vacancy Management Strategy may be at risk given the continuing uncertainties in the economy, which may result in lower staff turnover at the Council and therefore lower savings from vacant posts.
- Increases in various income streams and new income streams, some of which may not come to fruition, or may be lower than anticipated. For example, the budget forecasts through to 2016/17 assume that New Homes Bonus will continue to be awarded by the Government, increasing from £1.113mm in 2013/14 to £2.1m in 2016/17. At this stage, the NHB award for 2013/14 is the only year's funding that is certain.
- The introduction of car parking charging in July 2013 is estimated to contribute £0.176m towards the costs of the Council's car parking budget in 2012/13. There is a risk that some of the assumptions made in forecasting this income may be less favourable than estimated.

4.9 In addition to the risks associated with savings, the introduction of the new Business Rates Retention Scheme and the Localised Council Tax Support Scheme could impose further risks on the Council; the financial impact of which cannot be quantified at this stage. These changes could cause potential in – year volatility in the Council's revenue budget.

4.10 In mitigation of these risks the Council's budget will continue to be closely monitored throughout 2013/14, together with continued frequent reporting to Management Team and Members. Particular attention will also be paid to the progress being made against the 4-year savings package. If the proposed savings fail to materialise as anticipated, then the Council will have to either draw down from the Surplus Savings Reserve ahead of schedule or identify alternative compensatory savings. Any service overspending in 2013/14 should not be met from the Council's General Fund Reserve.

## 5.0 ADEQUACY OF RESERVES

5.1 Within the existing statutory and regulatory framework, it is the responsibility of a Council's Chief Finance Officer to advise Members about the level of reserves that the Council should hold and to ensure there are clear protocols for their establishment and use.

5.2 At the end of 2011/12, the Council's General Fund Reserve stood at £1.797m.

5.3 There is no statutory minimum level set for a Local Authority's reserves. This

is a matter for the Local Authority's own judgement after taking into consideration the strategic, operational and financial risks it faces. However District Councils similar to East Cambridgeshire have tended to work on a minimum level of reserves of 10% of its net revenue budget. The revised net budget for 2012/13 is £9.028m and therefore the General Fund Reserve balance at 1 April 2012 of £1.797m is clearly at an adequate level of 19.9%. Whilst in percentage terms, the General Fund Reserve is nearly double the minimum recommended level; smaller district councils should also consider the adequacy of this reserve in monetary terms and in comparison to the potential size of any known future financial challenges.

- 5.4 Currently, there are no plans to either increase or utilise the General Fund Reserve during 2013/14. The strategy for this reserve is that it will not be used to fund any on-going expenditure. Instead, the reserve will be used as a last resort when any unanticipated financial pressures arise. The changes to the Business Rates Retention Scheme and the Localised Council Tax Support Scheme from 2013/14 onwards and the inherent risks associated with these changes mean we may see the General Fund Reserve being utilised in the medium term.

## 6.0 ARGUMENTS/CONCLUSIONS

- 6.1 Two years ago, the Council committed itself to reviewing its financial position over the 4-year period to the end of 2014/15 and to identifying sufficient savings to achieve a balanced budget within this timeframe.
- 6.2 It has been possible to produce a balanced budget for 2013/14 as a result of this ongoing work, which has included the continuing micromanagement of the Council's finances during 2012/13 which successfully identified further in-year savings to successfully offset the majority of the forecast over spend on the homelessness service.
- 6.3 The Council's General Fund Reserve now stands at the adequate level of £1.797m, putting the Council in a stronger financial position than was the case a few years ago.

## 7.0 FINANCIAL IMPLICATIONS

- 7.1 Through the continuing micro management of the Council's finances, it has been possible to produce a balanced budget for 2013/14 and to maintain the Council's General Fund Reserve. However, the 2013/14 budget does include areas of risk, as noted earlier in this report, which if they do not come to realisation, will require either further budget rationalisation during the year and / or the utilisation of the Savings Surplus Reserve. The Council's financial position over the medium term will also continue to be closely monitored.

## 8.0 APPENDICES

- 8.1 None.

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<b><u>Background Documents</u></b>	<b><u>Location</u></b>	<b><u>Contact Officer</u></b>
Agendas and minutes of relevant policy and scrutiny committees October 2012 to January 2013	Room 214A The Grange Ely	Linda Grinnell Head of Finance (01353) 665555 E-mail: <a href="mailto:linda.grinnell@eastcambes.gov.uk">linda.grinnell@eastcambes.gov.uk</a>