

## Appendix 5

### **The Robustness of the 2007/08 Budget and the Adequacy of Reserves**

Section 25 of the Local Government Act 2003 places a requirement on the Chief Financial Officer of each local authority (in Rossendale this is the Head of Financial Services) to advise councillors during the budget process on “the robustness of the estimates made for the purposes of the budget calculations and the adequacy of the proposed financial reserves”. This provision is designed to ensure that councillors have information which will support responsible financial management over the longer term

This section of this paper deals with these issues and the advice provided by the Chief Finance Officer is highlighted below.

The robustness of the budget estimates and the adequacy of the proposed financial reserves are both aspects of how the Council manages the financial risks facing it. Initially it is worth outlining the key potential risk areas and how these have been addressed:

***Pay and Pensions*** – This represents the largest element of the Council’s budget. Given that 2006/07 was the final year of a three year pay agreement and that 2007/08 and beyond has not yet been agreed, provision has been made for 2.95% within the budget, being the same as the final year of the previous settlement. This compares to the Sept 06 RPI of 3.6%, which is the rate that will impact on many state benefits for 2007/08. However, The Chancellor has indicated that wage settlements in the public sector should be significantly below inflation. With this regard it would seem that other neighbouring local authorities a budgeting for wage inflation of between 2.5% and 3.0%, therefore Rossendale is at the upper end of this range. Some assumptions have been built in to the budget in relation to improvements in levels of sickness absence, particularly in

Street Scene & Liveability where agency has been used; however, generally these will feed into increased productivity rather than reduced costs. The key risk in this area is around the implementation of the Single Status pay agreement where costs are not known. However, provision has been made within the Medium Term Financial Strategy to fund any transitional costs; it does however remain the Councils policy that ongoing this exercise must be cost neutral. Finally, the Council has budgeted for all staff posts to be occupied throughout the year whereas the likely event will be that there will be some vacancies arising during the year.

**Running Expenses** – In these cases provision has only been made for a limited range of price increases (such as energy costs) with most budgets being treated as cash sums. While there is a risk that there might be overspends in this area the impact on the budget overall is unlikely to be significant and should be manageable within service budgets.

**Major Contracts** – At present the Council's major contracts cover Leisure Management, IT Services and most recently Revenues, Benefits and One Stop Shop Management. These are based on agreed inflationary increases for the core contracts with volume issues being dealt with through separate negotiation. Given this the risks around the core contracts are limited.

**Volatile Expenditure Budgets** – The key volatile expenditure budgets, which are demand led, are for concessionary fares and benefit payments. These budgets have been set using the best information available.

i) Concessionary fares assume no change to current arrangements both the charging (eg 50p cross boundary) and reimbursement (to transport operators) mechanisms and the number of trips taken by customers. The Council could potentially see some adverse effects as a result of the introduction of accurate

data from smartcards to the charging mechanism. This is a significant change from the current practice of allocating cost shares across the Lancashire districts based on historical sample analysis. The change is expected to come in the second half of 2007, however based on our knowledge of bus usage from Rossendale Transport Limited, we expect the costs to be at least neutral. In addition County Officers are currently in negotiation with the wider transport company's group with regard to payments made by Councils for concessionary travel.

ii) Housing Benefit payments at over £16M represent both the Councils largest cost area and grant to be reclaimed. The Council has over recent years seen differing fluctuations on the net impact to Council resources. The budget has taken a prudent view and assumes a net positive impact on resources of £101,000 this compare to last full year available figure (05/06) of £175,000 net gain.

***Income Budgets*** - In general inflationary increases in fees and charges which are set locally have been assumed, with no change in volume of activity. However, in the case of planning fee income the trend in the current year would indicate an increase in the budget of £40k above the 2006/07 forecast outturn. In addition pressure on market stalls income has resulted in a reduction of £60k. Similarly, Court cost income has also been reduced by £60 to reflect the increase in Council Tax and NNDR collection rates.

***Capital Financing and Interest*** – These budgets are based on the forecasts provided by the Council's Treasury Management advisers together with the latest available cash flow information. There is always a risk that interest rates will move adversely, however this has been dealt with through the use of prudent assumptions on both interest rates and cash flows. For example the Council's

treasury advisers have predicted interest base rate ranges over 07/08 averaging 5.2% to 5.3%, however the budget is based on 5%

**Major Procurement Processes** - The budget does not assume any cost impact from major procurement activity. Though a partnership for Street Scene and Liveability and/or a waste transfer station still remain potential projects, at this stage the budget assumption is that any new arrangements will be cost neutral. However, this will only be certain on completion of due diligence and any final negotiations concluded. It is a prerequisite that any change in service provision will be based on a sound business case that has explored all the options and risks. In addition it should be possible through the negotiating process to manage any negative impact which might cause the Council a financial issue in 2007/08 and beyond.

### **Conclusion and adequacy of Reserves**

No budget is without some exposure to risk. However, the position in Rossendale is such that risks have been identified and either provided against or a considered view taken that the scale of them is manageable.

The degree of risk that remains evident in the budget influences the view which should be taken on the level of reserves which the Council should maintain, which is the second strand to this statutory advice. The Council's financial strategy suggest that Members consider a target range for general reserves of £0.5-£0.75m. General reserves as at 31<sup>st</sup> March 2006 were £647k but are expected move to £500k as at 31<sup>st</sup> March 2007, due to an unforeseen legal claim. This reserves, together with the availability of c. £1m as at 1<sup>st</sup> April 2007, being the residual balances made available from the March 2006 Housing Stock Transfer, and other smaller earmarked reserves, will allow a cushion against the sorts of risk which have been identified and those unforeseen incident which may from time to time arise. As stated such an unforeseen case did arise in 2006/07

which has now been absorbed. The Medium Term Financial Strategy includes a forecast of all reserves over the medium term.

In conclusion I am able to give positive assurance to Members as to the adequacy of General and earmarked reserves to address the risks against which they are held and the robustness of the budget for 2007/08.

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**Head of Financial Services**

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