

REPORT UNDER SECTION 25 OF LOCAL GOVERNMENT ACT 2003

(To be read in conjunction with the Council Budget Report – 26 February 2014)

<p>1. Purpose:</p> <p>1.1 The purpose of this report is to provide Members with information on the robustness of the Councils estimates and the adequacy of reserves so that Members have appropriate advice available when they take their budget and Council Tax decisions.</p>
<p>2. Background:</p> <p>2.1 Section 25 of the Local Government Act 2003 requires that an authority's statutory officer(s) reports to the authority when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals.</p>
<p>3. Robustness of Estimates</p> <p>3.1 The Council has a well established and robust budget processes that comply with statutory and best guidance requirements. These have been followed when compiling the 2014/15 budget and medium term projections.</p> <p>3.2 The Council has three sets of inter-dependant 'guiding principles' that need to be adhered to when setting the budget – these are the "medium term financial strategy <i>guiding principles</i>" and the "<i>modelling for recovery</i>" and "<i>budget containment</i>" principles. These provide the cornerstone of the Councils financial planning. The draft budgets under consideration by the Council generally adhere to these guiding principles.</p> <p>3.3 The above are supplemented by the Councils 'Budget Delivery Framework' – a set of workstreams that have successfully delivered ongoing efficiency savings to help ensure that the Council continues to achieve a balanced budget. These are very much focused upon 'adding value' rather than concentrating on reducing inputs.</p> <p>3.4 Members attention is drawn to the comments and advice provided in Section 4.14 of the main body of the Council budget report.</p> <p>3.5 The assumptions used in the estimates will require close monitoring during the year. The national economy has a direct impact through such things as interest rates and utility costs – the past year has seen the latter vary considerably.</p> <p>3.6 Looking ahead, as identified in last years report. The risk transfer from central government to local government around such issues as Business Rates (yield and appeals) and Council Tax support (caseload and future grant levels) continues to bring with it unpredictable and new levels of financial risks. The Council has used the best information that it has available when putting together the financial projections – these will require constant updating as we move through time.</p>

3.7 The period from April 2015 continues to look somewhat uncertain. The Council continues to focus on the medium term and trying to influence what the post April 2015 'world' may look like – this is in accordance with the Council's guiding principles and is considered a good use of resources, any small changes that take place at a national level can have significant financial implications for the Council's budget. The time taken to try and influence the shape of the new system(s) is an investment by the Council and is time well spent.

4. Adequacy of Reserves

4.1 There is no statutory requirement in relation to revenue reserves. Best practice guidance from CIPFA suggests that each local authority should consider their own local circumstances (and levels of associated risks) and take proper advice from its Officers.

4.2 Reserves can be held for two main purposes:

- ◆ A working balance to help cushion the impact of uneven cash flows and unexpected events emergencies;
- ◆ Earmarked reserves to build up funds to meet known or predicted requirements.

4.3 One of the Council's guiding principles is that *"Revenue balances should not fall below £1m and overall revenue reserves should not fall below 10% of net revenue expenditure"* – the Council's medium term financial projections comply with this provided that the required levels of ongoing efficiency savings are delivered in each year.

4.4 The Executive Committee have an established policy whereby any budget savings (over and above those required to set a balanced budget) will be used to supplement earmarked 'smoothing' reserves. These reserves have been created specifically to deal with the uncertainty that exists in the local government environment from April 2013 and to provide some additional flexibility to deal with the challenges that the Council is likely to face. This is a sensible policy to follow and recognises the potential scale of the financial risks.

4.5 As identified in the budget reports that have been under consideration during this budget process, the Council does not hold any significant 'cash backed' reserves. It is likely that the Council will have to take on some external long-term debt in the near future (as identified in the Treasury Management strategy report approved by the Executive Committee on 12th February 2014).

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18th February 2014