

ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE :	COUNTY COUNCIL
DATE :	8 MARCH 2011
TITLE OF REPORT :	BUDGET 2011-12
PURPOSE OF REPORT :	TO DEAL WITH STATUTORY MATTERS
REPORT BY :	CORPORATE DIRECTOR (FINANCE)
ACTION :	ADOPT RESOLUTION

1. INTRODUCTION

The Executive has formulated its proposals to the Council in respect of the 2011-12 budget and the medium term strategy. These are outlined in a separate report in the name of the Executive.

In order to adopt its budget for the year 2011-12 and to determine the level of Council Tax for the year, the County Council is required to adopt a formal resolution which deals in some detail with all connected matters.

This report is my formal advice to the Council as a whole concerning the budget. It deals with statutory matters and other matters required to complete the advice on the budget. The draft budget resolution is intended to give effect to the Executive's proposals and take account of this advice.

This report is based on the Executive's final budget proposals on the assumption that these will be carried by the Council. If there is any amendment to these proposals I may need to reconsider this report. To assist me to do so, the Budget Procedure Rules in the Council Constitution 4.3.2.2.6 provide that three working days' notice of an amendment should be given.

2. ROBUSTNESS OF ESTIMATES

I am required under section 25 (1) (a) of the Local Government Act 2003 to report to the Council on the robustness of estimates made in the course of drawing up the budget. In this year's more challenging situation facing local authorities, CIPFA's Chief Executive in February reminded Chief Finance Officers of their duties in this respect. This assessment summarises my report to the Executive, in which I referred to the following risks potentially affecting the robustness of estimates:-

- Inflation risk
- Interest rate risk
- Grants risk
- Income risks
- Optimism risk
- Over-caution risk
- Salary and Grading risk

I concluded that optimism risk was the greatest. This is mostly the risk of being too optimistic with respect to the delivery of the savings programme. It was estimated that, in relation to the savings proposals.

- About a half are based on decisions already taken, or are already being achieved, or where there is a good track record which gives a high degree of confidence in their delivery;
- About one third depend on decisions yet to be taken because consultation needs to be completed or options need to be evaluated – but which, subject to those being settled, ought to be deliverable;
- The remaining one-sixth are based on targets which have been accepted internally but where there is no complete plan for their achievement.

The mitigation for such risks in part is to over-plan savings, to be prepared to bring forward into 2011-12 the savings plan for later years, and to keep up the pressure throughout the financial year to achieve more savings.

I also drew attention to the risk that, having not completed its salary and grading review, and already having a number of equal pay claims lodged at the Employment Tribunal, the council may be required to pay compensation claims to staff because of alleged unfairness of its pay arrangements. The revised proposals considered by the Pay and Grading Panel are expected to reduce expected costs but may risk more claims, although the risks to the authority in all scenarios have been carefully evaluated by the Panel. This is a long-standing risk which will not go away, and challenges the robustness of the budget as in previous years. In mitigation there remains an annual contingency budget of £0.9 million towards the cost of the new pay structure and an accumulated reserve which by March 2011 is projected at nearly £3m.

Looking to the medium term, there is a risk to the authority from national economic conditions. Inflation affecting pay and prices may affect what can be afforded within the indicative funding totals announced by WAG. Further decline in the economy may threaten those spending totals. In a situation where the budget gap has not yet been bridged for 2012-13 and 2013-14, the prospect of deterioration means a need to over-plan and over-achieve savings.

The revenue budget in Table A includes an unallocated sum which is a net figure of positive budgets offset by projected savings not yet allocated to specific budgets. There are known demands against this unallocated sum, but not yet quantifiable enough to set aside a specific budget. There is uncertainty here, but the fact that the net figure is a positive amount is some mitigation. That mitigation has been reduced by the Executive's decision to reduce its proposed Council Tax increase.

3. ADEQUACY OF RESERVES

Under section 25(1)(b) of the Local Government Act 2003, I am required to report to the Council on the adequacy of financial reserves. Formally this relates to the reserves at the start and at the end of the financial year of the budget. Again, CIPFA's Chief Executive has reminded of this requirement, and drawn attention to professional guidelines in Bulletin 77 of the Local Authority Accounting Panel.

Earmarked reserves have been established to deal with known commitments, plans or risks. In assessing the level of reserves I have assumed that commitments will be honoured, that plans, if still planned, will be delivered, and the provision for risk is reasonable given its amount and likelihood. The assessment of general balances considers risks and uncertainty not provided for as earmarked reserves or contingency budget.

The level of reserves is reviewed regularly. This assessment draws on my report to the Executive on 23 February, which took account of the third quarter budget monitoring report on 2010-11.

The Welsh Audit Office preliminary corporate assessment in September 2010 reported that:-

“The level of unallocated financial reserves is low, though not dangerously so. The planned use of reserves in 2009-10, lower funding settlements in future, and the financial risks associated with the implications of job evaluation across the Council and in implementing a Single Status Agreement place further pressure on reserves.”

In my report to the Executive, which also dealt with other categories of reserves, I referred to:-

- Schools reserves at 31 March 2010 being in total and in relative terms the highest in Wales;
- That on 31 March 2008 (the latest year for which we have comparable data), earmarked reserves in total and in relative terms were about average in Wales and general balances among the highest;
- That a projected improvement in the 2010-11 year, and anticipated clawback of underspends to the centre, led to a projected improvement of general balances by 31 March 2011 to £7.6 million.

The projected improvement in 2010-11 leads to the general balances being above the level I would judge “adequate” and enabled the Executive to release up to £2.5 million to finance severance costs. Originally, this was to be repaid from service budgets over four years but the improvement has allowed that first repayment to be deferred until 2012-13. The position can be reviewed again next year. While this strategy is expected to leave the authority with adequate reserves by the end of 2011-12, the danger must be of deterioration after that if other risks manifest themselves.

4. THE PRUDENTIAL CODE AND TREASURY MANAGEMENT

The legislative framework introduced by the Local Government Act 2003 requires the Council to have regard to The Prudential Code for Capital Finance in Local Authorities. The Executive has already affirmed this.

The primary requirements of the Prudential Code are that authorities should have regard to affordability and prudence.

Affordability

The Executive's budget proposals have regard to affordability. As always, the capital budget is financed by a combination of external grants, capital receipts, revenue funds and borrowing. Anticipated funding from grants is linked to what is approved or realistically achievable; some spending proposals are to be included in the capital budget but subject to confirmation of grants: if the grants are not confirmed, the schemes will fall. Capital receipts are based on sales made or in progress; amounts expected but not yet confirmed as definite have been discounted, with any surplus or shortfall being carried forward to future years' budgets. Revenue funding is in place, consistent with the revenue budget.

Unsupported Borrowing

The Treasury Management report deals with the circumstances in which unsupported borrowing is used. Unsupported borrowing within the Housing Revenue Account and consistent with the approved Housing Stock business plan continues, as does the contingent use of unsupported borrowing by the Council Fund to support spend-to-save schemes.

The medium term revenue budget strategy allows for capital financing costs on up to an additional £2 million a year of unsupported borrowing from 2011-12 in order to compensate for loss of WAG capital. This helps to demonstrate that such borrowing would be affordable. However, the interim capital plan and budget and the proposed Treasury Management policy do not assume this borrowing will take place, and the Council is not yet asked to authorise this additional level of borrowing. Only when specific capital expenditure plans are in place that requires this borrowing will the Council be asked to authorise this.

Treasury Management Strategy

The necessary Treasury Management policies are included this year in Annex A to this report. I recommend that these should be adopted.

5. COUNCIL RESOLUTION

The draft Council resolution covers all matters on which a decision is required arising out of the Executive's proposals and this report.