

RESERVES AND THE ROBUSTNESS OF THE 2004/05 BUDGET

The Local Government Act 2003 requires me, as the Council's Chief Financial Officer, to report on the robustness of the estimates and the adequacy of reserves when you consider the budget and the consequent Council Tax.

Robustness

The Council has tended in recent years to underspend its budget. This demonstrates that it has budgeted prudently and that managers have taken a mature approach to budgetary control rather than spend any spare sums on low priority items. Thus there is consistent, effective application of financial controls and a sound base for setting future budgets. The current base review will result in tighter budgets but managers were asked to propose only reductions that could be achieved without affecting service levels.

The 2005/06 budget has been prepared using the budget for 2004/05 as a base, and amending it for known changes, particularly -

- ◆ Inflation, including National Insurance, pension contributions, insurance, gas and electricity, which are all in excess of general inflation
- ◆ Expected pay rises
- ◆ The impact of MTP schemes
- ◆ Forecast interest rates, which have a significant impact on our investment income

There will always be some items that emerge after the budget has been prepared. These are normally met by compensating savings elsewhere in the budget, the use of the contingency (£126k) or, if necessary, the use of revenue reserves.

The most significant predictable risks to the budget are -

- ◆ higher inflation than anticipated
- ◆ lower interest rates

A ½% increase/reduction in general and pay inflation, assuming no mitigating increase in interest rates, would result in a net cost variation of approximately £100k.

A ¼% increase/reduction in interest rates would result in a net cost variation of approximately £150k.

Certain types of eventuality are mitigated in other ways. Most other significant risks are insured against, so losses are limited to the excesses payable. The Government's Bellwin Scheme meets a large proportion, over a threshold, of the costs of any significant peacetime emergencies (e.g. severe flooding).

Considering all these factors, I believe that the 2005/06 budget is adequately robust.

Revenue Reserves

These are estimated to be £17.4m at April 2005 and £15.5m at March 2006. This is significantly above what would be considered a safe minimum level, which would be in the region of £2m.

David Oliver
Director of Commerce and Technology