STATEMENT OF THE SECTION 151 OFFICER UNDER THE REQUIREMENTS OF SECTION 25 OF THE LOCAL GOVERNMENT ACT 2003

ROBUSTNESS OF BUDGET ESTIMATES AND ADEQUACY OF THE RESERVES

Introduction

This Annex focuses on two new responsibilities under the Local Government Act 2003 for the Council's S151 Officer to report to Members on:

- the robustness of estimates; and
- the adequacy of reserves.

A briefing note was circulated to all members on 9th January 2004 detailing the new statutory requirements in relation to finance contained in the Local Government Act 2003. A full statement was made as part of the 2004-05 budget process, which this statement builds upon.

This Annex updates the December 2004 statement made in proposing the 2005-06 budget. It will be further updated, if necessary, for the full Council at its budget setting meeting in February 2005.

This Annex only deals with unallocated general reserves when setting the budget and excludes school's budgets and school's unspent balances.

Processes

Budget estimates are exactly that, estimates of spending and income made at a point in time. This statement about the robustness of estimates cannot give a guaranteed assurance about the budget but gives members reasonable assurances that the budget has been based on the best available information and assumptions.

In order to meet the requirement on the robustness of estimates a number of key processes have been put into place, including:

- the issuing of clear guidance to Directorates on preparing budgets;
- Work is currently underway with directorates to pilot the Risk Registers with directorates and to refine the approach;
- peer review by finance staff involved in preparing the standstill budget i.e. the existing budget plus inflation;
- the use of budget monitoring in 2004/05 in order to re-align budgets with current demand in 2005/06;
- a new medium term planning process that highlights priority services;
- a review via Finance Strategy Group of proposed savings and their achievability;
- a Policy Development Committee challenge - in October/November 2004 – of the officer estimates prior to them being considered by Cabinet;

- a member review and challenge of each Directorate's proposals for the budget
- review of the budget by the Cabinet Member for Resources;
- the Chief Financial Officer providing advice throughout the process on robustness, including vacancy factors, increments, avoiding unallocated savings and reflecting current demand and service standards (unless standards and eligibility are to be changed through a change in policy); and
- Chief Officers reporting on the robustness of estimates to the relevant Policy Development Committee and subsequent scrutiny by those Committees.

Notwithstanding these arrangements, which are designed to test the budget throughout its various stages of development, considerable reliance is placed on the Chief Officers having proper arrangements in place to identify issues, project demand data, and consider value for money and efficiency.

A key part of improving these processes is to develop data and information to monitor service volume and unit costs and track changes in both. This will also assist in the Council's Medium Term Planning.

Risk Registers

Under the terms of the Finance Service Level Agreement, HBS Finance are to undertake and provide a formal Risk Register of the Revenue, Capital and HRA budgets at an appropriate level compared to the risks.

The development and introduction of these Risk Registers is not intended to replace the Council's existing Risk Register, rather that they should inform the revision of the Council Risk Register in the 'Financial' category.

HBS has discussed draft templates with both the MKC Head of Finance and the Head of Audit and Risk Management for both the Revenue and Capital formats for consistency with the Council's Risk Register.

Capital Programme and Revenue Budget Risk Registers? by directorate, will be completed and approved by Directorate DMTs by March 2005 following the final determination of both the Capital Programme and the Revenue Budgets for 2005/06.

The Risk Registers are intended to form part of the 2005/06 and onward Budgetary Control framework and to be used at Budgetary Control meetings with directorate personnel and reviewed at least quarterly by Directorate Management Teams (DMTs).

Robustness of Estimates

General Fund Budget

The 2005/06 budget process continues the trend of improving the Council's budget preparation, most notably in the £2.6 million of budget re-alignment where current demand exceeds existing resources. In addition to improving efficiency, there is clearly a choice for the Council in this respect:

- to increase financial resources to meet the demand and reduce the risk of overspending in 2005/06; or

- to reduce (where possible) service levels and standards, frequency of service delivery, eligibility for services and reduce the risk of overspending in 2005/06.

As part of developing the budget, members of the administration have considered these options and they are reflected in the proposed budget.

A small number of budgets have also been re-based to ensure they reflect the withdrawal of grant income or income withdrawn from the Formula Spending Share which will in future be funded from grants.
The table below shows the factors taken into account in developing the draft budget.

Budget Assumption	**Financial Standing and Management**
1. The treatment of inflation and interest rates.	2.95% has been provided in the 2005/06 budget for the pay award for staff. Inflation on teachers' pay has also been provided at 2.95% within the school's passport. An increase in employers' pension contributions of 0.6% per annum from 2006-2007, (there will be no increase in 2005/06). This excludes increased pension contributions that are to be met within the schools passport The current vacancy factor [VF] built in to the 2003-04 budget is 3%, which is broadly in line with that 'naturally' achieved, according to a December 2003 Internal Audit check. This excludes any areas considered to be high risk i.e. where cover is required at all times or where teams are so small as to make a vacancy factor impractical. A further 1% has been added to bring the VF up to 4%, with the funds released being directed to pay for a new budget for recruitment costs. Price inflation has only been provided on contractually or quasi-contractually committed budgets either at 3% or the rate stated in the relevant agreement. Interest rates for 2005/06 have been assumed at 4.5% for temporary investment and 5.25% for new borrowing. The effect of each 1% change in interest rates is approximately £0.230m for interest on balances (estimated average balances during the year).
2. Estimates of the level and timing of capital receipts.	The Council's policy is to place no reliance on funds that may be generated by General Fund capital receipts from the future sales of assets. Unbudgeted receipts received during the year are added to the unearmarked General Fund Capital Reserve and taken into account as a funding source for the following financial year, subject to revenue budget considerations. The reserve currently stands at £8.823m, (with a further £966k the subject of an interest bearing loan to a local secondary school). The draft 2005-06 capital programme, which will go to Cabinet and Council in February 2005 for approval, allows for 789k of the reserve to be applied to fund the Council's capital expenditure. The budget proposals for 2005-06 are that the balance of £8.034m will be kept in reserve in order to generate additional interest on the debt-financing budget. This will help to support the Council's revenue expenditure.
3. The treatment of demand led pressures	All Directors have reviewed their base budgets including demand-led pressures. Directorates are expected to put forward management and policy actions to manage the additional demand within the relevant legislation either within the relevant budget or reprioritising within their Directorate budgets. If this is not possible, and under-spending through

Budget Assumption	Financial Standing and Management
	management action or policy actions in other Directorates are not sufficient to cover the additional demand, then the minimum level of reserves may have to be used to address the additional expenditure temporarily. Such an eventuality has been considered in future years' budgets and it is assumed that General Fund reserves are restored to at least the minimum prudent level in the following year. The 2005/06 budget has been based upon budget monitoring and projections made by Directors of demand in future years. There is one area of possible pressure in 2005-06, the Children's budget. An earmarked balance is proposed, to provide cover for any possible overspend, and, time to see whether the pressure will occur, and, if that is likely, to plan remedial action.
4. The treatment of efficiency savings/ productivity gains.	All Directors have a responsibility to ensure the efficient delivery of services and when efficiency savings are proposed that those savings are both realistic in terms of the level of savings and timing. Should the level and timing of such savings vary due to unforeseen events and under-spending, management action or policy actions within the relevant Directorate and corporately are not sufficient to cover the variation then the minimum level of reserves may have to be used to address the additional expenditure temporarily. Such an eventuality has been considered in future years' budgets and it is assumed that general fund reserves will be restored to at least the minimum prudent level in the following year.
5. The financial risks inherent in any significant new funding partnerships, major outsourcing deals or major capital developments	The Council is currently engaged in a PPP arrangement where the sharing of risk is in accordance with the principle of the risks being borne by the party best placed to manage that risk. Inherent risks include any guarantee or variation of service throughput (service volumes) and pension risks. If risks materialise the expectation is that such an eventuality will be considered in future years' budgets and General Fund reserves restored to at least the minimum prudent level. It should be noted £100,000 has been provided for additional costs outside the agreed Service Level Agreements. In the past the Council has benefited from under-spends delivered by services that are the subject of transfer. The loss of this flexibility is an increase in risk that requires the non-transferred budgets to be balanced against a medium range of demand, rather than a lower range. The Council's strategic partnership with HBS became effective from 1 January 2004. In the light of experience it will not be unusual that certain issues arise about the liability for certain costs. Officers will endeavour to resolve these issues with HBS. Notwithstanding this there remains a risk during 2005/06 while these issues are resolved. In the medium term there may also be opportunities for savings and efficiency gains.
6. The availability of other funds to deal with major contingencies	The minimum level of reserves assumes that management and policy actions will be taken to address major contingencies. Should these be insufficient, the minimum level of reserves may have to be used temporarily and restored to at least their minimum prudent level or the optimal level through future budgets. In relation to the schools' budget the Council will submit its Transitional Support Plan to the DfES which gives access to £315,000 in 2005/06

Budget Assumption	Financial Standing and Management
	of central government funding strictly for the purpose of assisting eligible schools to eliminate their deficits by March 2007. This fund will cease after 2005/06 The 2005/06 budget is supported by £3.865m of Targeted Support Grant (TSI) from English Partnerships. Unless other funding takes its place, or further TSI is approved, this funding stream will cease from 2006-07. The use of the TSI to support the budget means that these funds are not available to meet major contingencies that may arise during the year. However, they have enabled budgets to reflect current and projected demand at the current standard of service in most instances. The Council will be pleased to note that the 1999-2000 Housing Benefit Subsidy claim has now been agreed with the Department for Work and Pensions (DWP) without penalty. There remain outstanding Housing Benefit and Council Tax Benefit Subsidy claims for 2000-01, 2001-02, 2002-03 and 2003-04 for which there is a reserve of £988,000 on the balance sheet.
7. The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates etc)	The Council budgets prudently for its level of borrowing, avoiding external borrowing where cash resources allow. The assumed (ultimate) Council Tax collection rate for 2005/06 onwards is high, at 98.7%, but achievable. For each 1% not collected, the cost is approximately £0.676m in lost income to the Council in 2005/06. Legislation requires that any collection fund deficit be corrected through the Council Tax in the next year.
8. The authority's track record in budget and financial management.	The Council's recent track record in budget and financial management shows potential variations of less than +/- 1% of the net budget (equivalent to £2.6m on the draft 2005/06 budget): Amount % of budget ▪ 2000-2001 – under spent by (£75k) (0.04) ▪ 2001-2002 – under spent by (£1,244k) (0.65) ▪ 2002-2003 – over spent by £419k 0.21 ▪ 2003-2004 – over spent by £271k 0.12 ▪ 2004-2005* – under spent by (£811k) (0.34) * As projected at Period 9 monitoring However this has been achieved by considered management and policy actions to ensure spending is in line with the budget each year. It is the Council's policy to clawback overspends identified at the year end from the following financial year. Base budget under provision, the full year effect of previous decisions, demographic growth and legislative change have been identified and will continue to be identified during the budget and Medium Term Planning process. Ultimately, financial performance relies on all budget managers and Directors actively managing their budgets and complying with financial regulations, including not committing expenditure if there is no budget provision available.

9. The authority's capacity to manage in-year budget pressures	See comments above and on minimum and optimal level of reserves.
10. The strength of the financial information and reporting arrangements.	The strength of financial information and reporting arrangements has improved recently and will continue to improve during 2005-2006. The SLA with HBS assumes improved information, reporting and accountability arrangements over 3 years. During 2004/05 the Council introduced commitment accounting, and from 2005/06 new financial information systems (SAP) will be implemented.
11. The authority's virement and end of year procedures in relation to budget under/overspends at authority and departmental level.	The Council's virement and carry forward rules are clear. The Council is operating management disciplines to ensure management and policy actions are considered in relation to overspending budgets. Generally virement is considered at a corporate level against corporate priorities, including the contribution towards the optimal level of General Fund reserves. The Council operates a policy of clawing back overspends from the relevant Directorates in the following year – a discipline which needs to be maintained. In 2004/05 the previous year overspends were clawed back from the 2004/05 budgets for those Directorates. If the position is not corrected during 2004/05 the overspend could be clawed back in 2005/06.
12. The adequacy of the authority's insurance arrangements to cover major unforeseen risks.	The Council's insurance arrangements are a balance between external insurance premiums and internal funds to "self-insure" some areas. External premiums are also managed by an excess payable by MKC for claims received. Premiums and self-funds are reactive to external perceptions of the risks faced by the Council which includes both risks that area generic to all organisations e.g. Sept 11th and those specific to the Council / Local Government e.g. "no win - no fee" companies. Both those issues produced large increases in risk and thus premiums/costs in recent years that required increases to reserves. Trend analysis indicates that these have now settled and provide confidence that no substantial increases in risks and costs should be seen in near future. But of course, by its very nature, insurance is a service that manages unforeseen risks, and reserve levels must be kept under constant review in this area. The recommended reserves strategy takes this uncertainty into account. The level of the Insurance Reserve has been reviewed for 2003-04 and 2004/05 and is judged to be adequate, the position being that estimated outstanding liabilities are covered by the balance on the Reserve.

Taking into account the above and building on the work over the past 3 years, the proposed budget is significantly more robust than in previous years.

In reports to the Policy Development Committees during January 2005, all Directors, with the support of their financial support services, assessed the robustness of their budgets, the achievability of savings, income and reductions. The key risks are:

- volatility of income in the Environment Directorate;

- Planning Performance Grant being reliant on performance of the planning service;
- the impact of major public health crises, particularly in Neighbourhood Services;
- demographic trends being even slightly higher than projected or estimated;
- de-stabilisation of the independent sector social care market upon which the Council relies significantly;
- changes in Housing Benefit funding and structure;
- increases in the number or unit costs of adult social care placements;
- increases in the number or unit costs of Children's Services placements and special educational needs provision; and
- changes in policy or non-implementation of policy changes built into the budget.

These assumptions and potential changing circumstances will require the forecasts for future years to be reviewed early in each financial year leading to more detailed budgets being prepared for the next financial year and the medium term during the autumn of each financial year.

Capital Budget

Projects included in the capital programme were prepared by the Directorate project managers, with full adherence to the corporate project appraisal procedures and in line with financial regulations. All projects are signed off by the relevant corporate director and Cabinet member with portfolio. The agreed programme is fully funded.

Projects have been costed at current year prices with many subject to tender process after inclusion in the programme. This may lead to variance in the final cost. In some areas, particularly in the case of schools, the design brief may not be finalised, again giving rise to potential price variance.

Directorates are required to work within the given cash envelope so any under or over provision must be found within these limits.

The risk of the Council being unable to fund variations outside of the programme is minimal mainly due to phasing of projects. If necessary the Council can choose to freeze parts of the programme throughout the year to ensure spend is kept within the agreed financial envelope.

The main risk to the capital programme is the ability of the Council to fully deliver it within the agreed timescales. Slippage relating to 2004/05 is fully funded but this in itself will increase pressure on the Council to deliver the anticipated 2005/06 programme.

Housing Revenue Account

The factors taken into account in developing the draft budget are shown below:

Budget Assumption	Commentary on Robustness
The treatment of inflation and interest rates	2.95% has been provided in the 2005/2006 budget for the pay award. The effect of 1% on the pay award in 2005/06 is £0.036m. The current vacancy factor built in to the 2005/06 budget is 4%. This has been increased from its previous level of 3% to direct funds to a new budget for recruitment costs. A 3% vacancy provision was identified by a 2003 Internal Audit report as "naturally" achievable.
Estimates of the level and timing of capital receipts	Useable capital receipts of £2m from council housing right to buy sales are anticipated in 2004-05 to support the 2004-05 HRA capital programme. This figure has been revised downwards from £2.25m forecast at the start of the year, to reflect the current slow-down in activity in the housing market. Around £750k of the anticipated receipts is currently uncommitted. The draft 2005-06 capital programme, which will go to Cabinet and Council in February 2005 for approval, assumes further HRA useable capital receipts of £2m in 2005-06. The housing investment plan will be reviewed on an ongoing basis throughout the year, and will be re-phased if the timing or level of receipts varies, or looks likely to vary, from that budgeted.
The Directorate's track record in budget and financial management.	The Directorate's recent track record in budget and financial management is: Amount • 2000/01 – over spent by £2.74m • 2001/02 – over spent by £1.71m • 2002/03 – over spent by £0.34m • 2003/04 – under spent by (£1.09m) Current year expenditure and income are forecast to generate a surplus of £1.39m greater than budget. This is a result of lower than expected loss of income through Right to Buy, and savings in repairs costs from a delay to implementation of new partnering contracts. Better financial monitoring has been achieved through improvements in the way in which budget managers work with finance colleagues. Problem budgets have been highlighted much more quickly, enabling the Director to take action and identify management action plans and contingency arrangements.
The Directorate's capacity to manage in-year budget pressures	There is normally limited scope to make savings in year, as the housing service operates to published performance standards. Over time, savings could be made to reflect declining numbers of dwellings.

Overall, the Director considers the estimates to be robust within the assumptions made. However, the following changes in circumstances may occur which may affect the estimates during the year include:

- Right to Buy sales at other than the budgeted 350 dwellings. Each additional dwelling sold results in lost rent of approximately £3,300 for a full year.

- The cost of the new repairs contracts being agreed at other than 20% above current levels. Each additional 5% is an extra cost of £325,000.
- Decisions being made regarding the future of the housing stock. These could be fundamental to the estimates (both HRA and General Fund revenue and capital budgets) if they included partial or whole-stock disposal, or transfer to an ALMO.
- A difference between estimated recharges from other departments or HBS incorporated in the budget and the actual figures.

These are considered as prudent and reasonable.

Adequacy of the Reserves

General

Under the 2003 Act the Secretary of State has reserve powers to set a minimum level of reserves. The most likely use of this power is where an authority is running down its reserves against the advice of their Chief Financial Officer.

Determining the appropriate levels of reserves is not a precise science or a formula e.g. a percentage of the Council's budget. It is the Council's safety net for unforeseen or other circumstances and must last the lifetime of the Council unless contributions are made from future years' revenue budgets. The minimum level of balances cannot be judged merely against the current risks facing the Council as these can and will change over time.

Determining the appropriate levels of reserves is a professional judgement based on local circumstances including the overall budget size, risks, robustness of budgets, major initiatives being undertaken, budget assumptions, other earmarked reserves and provisions, and the Council's track record in budget management.

A budget strategy should also include a reserves strategy.

The consequences of not keeping a minimum prudent level of reserves can be serious. In the event of a major problem or a series of events, the Council would run a serious risk of a deficit or of being forced to cut spending during the year in a damaging and arbitrary way.

Unallocated General Fund Reserves

During the CPA process, the following definition of adequacy was advanced:

Audit Commission's measure of reserves

Either, the aggregate of the following items is expected to be in surplus at 31 March,

- General Fund balance;
- Other earmarked GF revenue reserves; and
- Liabilities not recognised in financial statements [excluding FRS17 unfunded pension liabilities]

and the GF balance is expected to be at least equal to 5%*, [but not exceeding 100%] of forecast net operating expenditure (excluding schools budgets). There are plans agreed by members on how to use these reserves, which link to the Council's strategic aims.

OR

There is a formal financial risk management process operating which the authority uses to:

- Justify a lower level of reserves;
- Determine its minimum level of reserves; and
- To adhere to this level.

* Equivalent to £6.9m for 2005/06.

The Chief Finance Officer has developed a risk management approach to the level of reserves. Whilst these are in the process of discussion with the Audit Commission, the approach supports the current reserves policy

The recommendation on the minimum prudent level and optimal level of reserves has been based on the robustness of estimate information (above). In addition, the other strategic, operational and financial risks taken into account when recommending the minimum level of unallocated General Fund reserves include:

- The Council will need to budget for provision for the cost of any redundancies necessary to achieve any budget savings and restructuring to the extent they are not continued in budget proposals. The Council's policy is that redundancy costs are contained in the budget proposals.
- There is always some degree of uncertainty over whether the full effects of any economy measures and/or service reductions will be achieved. Directors have been requested to be prudent in their assumptions and that those assumptions, particularly about demand-led budgets, will hold true in changing circumstances.
- The Bellwin Scheme Emergency Financial Assistance to Local Authorities provides assistance in the event of an emergency. The local authority is able to claim assistance with the cost of dealing with an emergency over and above a threshold set by the Government (MK's threshold for 2004/05 has been set at £464,875, 0.2% of budget). The assistance is usually 85% of any eligible costs over the threshold. In the case of a severe threat in London, Milton Keynes would be required to assist, which would be costly. Any incident for which assistance is sought must involve conditions, which are clearly exceptional by local standards and the damage to local authority infrastructure or communities must be exceptional in relation to normal experience. In the first instance these initial costs will have to be met from reserves.
- The risk of major litigation, both currently and in the future.
- Risks in the inter-relation between the NHS and Social Service authorities.
- The adequacy of the earmarked reserve in relation to refunds under S117 of the Mental Health Act, which, under a court ruling requires authorities who have made charges for relevant services to refund such charges. The current earmarked reserve stands at £0.1 million.

- Risk of changes from hypothecated grant to unhypothecated FSS.
- The risk of costs falling to the Council as a result of the PPP with HBS as responsibilities for items of expenditure and income become clearer.
- The risk of losing subsidy arising from outstanding Housing Benefit and Council Tax Benefit Subsidy claims for 2000-01, 2001-02, 2002-03, and 2003-04, although it should be noted that the 1999-2000 claim has be agreed with the DWP without penalty.
- The risk of grants being introduced mid-year that require the Council to contribute.
- Unplanned volume increases in major demand led budgets, particularly in the context of high and accelerating growth.
- Potential short term differences between the Council's Insurance Reserve and outstanding liabilities, although these should be remedied in the following fiscal year.
- The need to retain a general contingency to provide for any unforeseen circumstances, which may arise.
- The need to retain reserves for general day to day cash flow needs.

As a consequence, it is recommended that the minimum prudent level of general fund reserves is £5m for 2005/06, and an optimal level of £7m to be achieved over the medium term.

The 3-year forecast and continuation budget include a contribution to increase the level of reserves by £0.75m each year from the current budgeted level of £4.25m as at 31 March 2005.

The recommendations of the Chief Financial Officer are:

a) The Council maintains a minimum prudent level of general fund reserves (excluding schools) of £5m at the end of any financial year from 2005/06. The minimum level is designed to cope with unforeseen circumstances, which cannot be addressed by management or policy action within the year.

b) That an optimal level of general fund reserves is £7m. The optimal level of reserves is designed to allow the Council to withstand a measure of changes in circumstances during the year or minor variations in projected resources or spending over the period of a Medium Term Strategy;

c) However the £5m target does not represent a medium / long term safe level of reserves reliant as it is upon being able to accommodate just a single significant event. As this year has shown, putting budgets right, demands reducing services to achieve the approved budget, and is critical to the level of reserves and setting a realistic budget.

d) A prudent approach would accommodate an ability to correct any single significant event over multiple years by creating a longer-term resilience. It also emphasises the need to ensure discipline over the clawback of overspends in future years.

e) The reserves are currently £0.96m above the General Fund unallocated reserves target. This is after taking £0.39m from un-earmarked reserves as agreed by Cabinet on 21st December 2004 to meet the Collection Fund deficit relating to MKC. It is recommended that a sum of £0.566m is allocated to provide cover for possible expenditure pressures in the Childrens service.

f) Based on that approach, a reserves figure of £7m is recommended to be accumulated within the next 4 years, with at least £6.5 million achieved within 3 years.

Housing Revenue Account

HRA reserves at the beginning of 2004/05 were £2.56 million.

The HRA is currently on target to achieve a surplus of over £5.6 million by 31 March 2005. This is judged to be higher than the level of reserves required over the medium term, and a stock options appraisal, which is currently being conducted, will consider how excess reserves should be used. Options could include support for the HRA capital programme in addressing the requirements of the Decent Homes Standard.

HBS – Comment on the Robustness of Estimates

HBS have undertaken the preparation of the 2005/06 Revenue and Capital budgets in accordance with guidelines and timetables issued by the Chief Finance and Corporate Services Officer.

HBS Finance Teams have worked with the individual Directorate DMTs and MKC Strategic Finance to review the development of the budgets and to ensure a co-ordinated approach has been adopted.

HBS Finance Teams have played an active part throughout the various levels of review and scrutiny of the budgets by officers and members and have provided support as required to Directorate Management Teams in the development of the draft budget and budget options.

HBS Finance Teams have met with MKC Strategic Finance on a frequent basis to discuss the development of the budgets and any technical issues that have arisen as well as reviewing the general progress of the budgets.

The Revenue Budget model, originally the responsibility of HBS Finance, was passed to MKC Strategic Finance in mid October. HBS Finance Teams have been following the protocol for budget amendments since that date and have continued to maintain their own copies of the budget models, and have reconciled them to the official MKC model to ensure that all amendments have been processed.

HBS has commenced a process of Peer Group Reviews in regard of the budget preparation that will continue during the rest of the budget development. Further, HBS will make the budget working papers available for review by MKC if requested.

Budgets are exactly that, estimates of spending and income made at a point in time. HBS believe that the framework provided by MKC Strategic Finance and the processes followed by HBS have been sufficiently robust that the developing budgets are accurate within acceptable levels of materiality consistent with the requirements of the Service Level Agreement and are based upon the best available information and assumptions at this time.