

**REPORT TO:** Cabinet

**DATE:** 17 February 2011

**SUBJECT:** Local Government Act 2003 – Chief Financial Officer Requirements Interim Report

**WARDS AFFECTED:** All

**REPORT OF:** Chief Executive and S151 Officer

**CONTACT OFFICER:** Margaret Carney  
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**EXEMPT/CONFIDENTIAL:** No

**PURPOSE/SUMMARY:**

To comply with statute the Chief Financial Officer (CFO) is required to report to Council prior to the approval of the budget and the setting of the Council Tax. The statutory report is intended to give the Council assurance that the budget is robust and that there are adequate reserves and balances. Given the extent of the budget reductions and the timescales, this is an interim report which seeks to identify those issues and risks which may impact on the assessment of robustness. It is important that these risks are identified and mitigated. A final report will be issued to Cabinet and Council on 3 March.

**REASON WHY DECISION REQUIRED:**

The Local Government Act 2003 requires the Chief Financial Officer to report formally on the following issues:-

- a) An opinion as to the robustness of the estimates made and the tax setting calculations.
- b) The adequacy of the proposed financial reserves.
- c) The production of longer-term revenue and capital plans.

The Council on 3 March will be asked to take account of the final report when determining its budget. Given the unprecedented level of savings required and the timescales for implementation, the S151 Officer has decided to issue an interim report to ensure that any issues raised are addressed prior to setting the final budget.

**RECOMMENDATION:**

Cabinet is recommended to consider the report.

**KEY DECISION:** No,

**FORWARD PLAN:** No – see above.

**IMPLEMENTATION DATE:** Not applicable

**ALTERNATIVE OPTIONS:** This report is a statutory requirement and must be considered.

**IMPLICATIONS:**

**Budget/Policy Framework:** Decisions taken as a consequence of this report will influence the Council's Revenue Budget and Council Tax for 2011/2012 and later years.

**Financial:** See above

**Legal:** The Council is required to set a Budget and Council Tax level by 10 March 2011 and must consider the comments of the CFO before that decision is taken.

**Risk Assessment:** Contained within the report

**Asset Management:** None

**CONSULTATION UNDERTAKEN/VIEWS**

**CORPORATE OBJECTIVE MONITORING:**

<u>Corporate Objective</u>		<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		√	
2	Creating Safe Communities		√	
3	Jobs and Prosperity		√	
4	Improving Health and Well-Being		√	
5	Environmental Sustainability		√	
6	Creating Inclusive Communities		√	
7	Improving the Quality of Council Services and Strengthening local Democracy	√		
8	Children and Young People		√	

**LIST OF BACKGROUND PAPERS RELIED UPON IN THE PREPARATION OF THIS REPORT**

## 1. Background

1.1 The Local Government Act 2003 requires the Chief Financial Officer to report formally on the following issues: -

- a) An opinion as to the robustness of the estimates made and the tax setting calculations.
- b) The adequacy of the proposed financial reserves.
- c) The production of longer-term revenue and capital plans.

This report will be produced in full for the Council meeting on 3 March 2011. However, given the level of savings required and the time available to produce a balanced budget, it is felt appropriate to issue an interim report to guide the finalisation of the 2011/12 Revenue Budget

1.3 Given this is an interim report, the assessment will mainly concentrate on the robustness of the budget and the adequacy of financial reserves. All other aspects of the opinion will be considered on 3 March 2011

## 2 Robustness of the Estimates

### 2.1 Estimates Procedures and Processes

At this stage I am satisfied that the procedures and processes have been robust enough to develop the budget to this stage. However, it must be stressed that procedures relating to budget setting have been more radical than in previous years. In addition, they have been developed at pace. As such there is a risk that when the detail has been worked through there may be a margin of error. **I am satisfied at this stage that all opportunities to minimize the potential for error have been put in place but non the less the risk remains.**

### 2.2 Determination of the level of resources available.

In summary we now know the actual level of government resources available to the Council. This was confirmed in the final Local Government Settlement announced on 7 February. This is a two-year settlement and so gives a fair degree of certainty for the next two years. The settlement represents a major reduction to the level of resources available to the Council.

In total savings of £64m will be required over the two-year period to enable the Council to balance the budget assuming no Council Tax increase.

While this is a two-year settlement the Government announced its Comprehensive Spending Review in October, which covered a four-year period. It is clear that there will further reductions in resources to Local Government after 2012/13. However the uncertainty of a formula review from 2013/14 makes planning into the future very difficult.

At this stage it is assumed that Council Tax will be frozen in each of the next two years. This assumes no increase from levying bodies and the police and fire authorities. The Government has announced the availability of an additional specific grant for those Councils that freeze their Council Tax. This is equivalent to around £2.5m for Sefton. It is assumed that Sefton will be eligible for this grant.

**In summary therefore the level of resources available to the Council is known for the next two years and this is reflected in the latest budget projections. The position after this period remains uncertain and therefore will require close monitoring and analysis**

### **2.3 Key Budget Risks**

No budget is without its risks particularly given that it is a forecast of spending for a period which ends over 12 months after its approval and, of course, even longer for the medium term budgets. It is however my view, given the extent of required savings plus the timescale to determine and implement them, that this year's budget has been extremely difficult to prepare and has significant risks that need to be managed and mitigated. It is vitally important that these risks are identified and mitigated but ultimately that we have contingency arrangements in place should they materialise. The key areas of risk are detailed below.

- (a) **The unavoidable pressures faced by certain services.** The proposed budget includes over £5m to fund the assessed additional demand in Children's and Adult Social Care and recycling. This is based on a full assessment of potential demands and minimises the risk of overspend during the year. These are considered to be the major unavoidable pressures although it is recognised that other services will need to manage certain pressures to live within the approved budget. However careful monitoring of demand will need to continue given the impact that external pressures may have on the cost of social care services in particular

In addition the budget process for 2011/12 has included an adjustment for a number of items, which have been long standing budget issues e.g. non-achievement of income targets.

**In my view the inclusion of the above reduces the risk on in year overspends and helps to ensure that budget holders have realistic estimates to manage. However, strict management arrangements will need to be in place to ensure that additional pressures are identified and mitigated.**

- (b) **The use of one-off resources to support the budget.** A report elsewhere on the agenda indicates the result on a review of the Council's earmarked reserves. This identifies a significant sum which could be used to support the Council's spending plans over the next

two years. The Council has previously agreed that one off funding should only be used to cover non-recurring revenue spending and/or the implementation period of savings proposals. The conclusions of that report are in line with this policy. The priorities for the use of this resource must be to fund redundancies that can't be capitalized and the implementation period for approved savings. It may even be necessary to retain a proportion of these funds as a contingency against the non achievement of savings proposals due to unforeseen implementation issues. **This issue will need to be addressed further in the final report.**

(c) Interim Budget Assumptions

The Council's interim budget plans include a number of areas where significant sums have been identified but where assumptions have been made or reviews need to be completed. These cover: -

- Management and Support reduction of 25% (£3.8m)
- Terms and Condition (£3m)
- Reduction in the cost of commissioned adult social care (£3m)
- The review of Tier 2 services to determine if and how a 50% reduction in costs can be achieved (£3.2m)
- The passporting of the funds from the PCT to the Council relating to social care (£4.2m)

It is vital that these issues are addressed in sufficient detail before the budget is set on 3 March.

- (d) The Medium Term Financial Plan is still indicating a deficit of over £24m for 2012/13 and 2013/14. The Council's transformation programme will need to identify savings of at least this amount if the budget is to be balanced. Given the significant reductions already identified for 2011/12 the achievement of these savings will be extremely challenging and work has already begun to identify options

**In summary, therefore, it is my view that while reasonable steps are being taken to mitigate the budget risks, further work is required prior to finally setting the budget. The use of one-off resources should in my view be used in line with the existing policy. The medium term financial position of the Council remains extremely challenging.**

## **2.4 Advice on the level of general balances.**

The estimated level of uncommitted balances at 31 March 2011 is **£3.661m**. This assumes that 2010/11 position is balanced; which is reasonable given the latest budget monitoring statement. There are no planned contributions to or from General Balances in the MTFP.

General Fund balances are amounts set aside to cushion the impact of unexpected events and emergencies. There is no scientific way in which the adequacy of these balances can be assessed. It is a judgment based on risk and potential exposure, the strength of financial reporting arrangements and the Council's track record in financial management. Views have been expressed in the past that the level of general balances needs to be increased. It is certainly the case that based on the potential risks identified in this report, general balances may be called upon should some of these risks materialize. However, given the mitigations also identified in the report, it is my view that, at this stage, the Council's current level of balances is sufficient to meet the potential risks. Obviously if all the potential risks were to materialise it would have a significant impact on the level of general balances available for later years.

### **3. Conclusion**

This report is an initial assessment of the robustness of the budget in order to guide members before a final budget is set. The major risk areas have been identified and will be reviewed again before the 3 March. In particular, it is essential that detailed proposals are approved regarding those areas still subject to review and confirmation and the use of one off resources. The extent of the budget reductions and the pace of determination and implementation means there is an inherent risk of underachievement. This will need to be closely managed throughout the year and it may be necessary to create a one-off contingency to support general balances. This issue will be kept under review and a final recommendation will be made on 3 March