

REPORT TO: Cabinet
Council

DATE: 3 March 2011

SUBJECT: Local Government Act 2003 – Chief Financial
Officer Requirements

WARDS AFFECTED: All

REPORT OF: Margaret Carney; Chief Executive and
S151 Officer

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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. This report follows on from the interim report presented in February and seeks to identify those issues and risks which may impact on the assessment of robustness.

This report is based on the proposals contained in the Transformation Report elsewhere on the agenda. Cabinet and Council are asked to note that the proposed budget still contains a number of options which political groups may consider before a final budget is proposed to Council on 3 March 2011. Should significant changes be made or amendments submitted a revised opinion will be given.

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 is required to take account of this report when determining its budget

RECOMMENDATION(S):

Cabinet and Council are recommended to take account of the conclusions in this report before recommending and approving a final Budget and Council Tax.

KEY DECISION: No, this report does not represent a key decision in itself but it does form an integral part of the

Budget process for 2011/12, which has been identified as a key decision for the Council.
No – see above.

FORWARD PLAN:

IMPLEMENTATION DATE: With immediate effect

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 2011/12 and future 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
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1. Background

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 is required to take account of this report when determining its budget. This report represents an interim assessment based on the proposals elsewhere on this agenda. Therefore this opinion will be kept under review and may be revised in the light of final budget proposals or amendments.

2. Summary Opinion

Having taken into account the issues detailed in the report, I am able to give a positive opinion on the robustness of the estimates and the adequacy of financial reserves. This opinion is based on the budget savings already approved and the final proposals presented elsewhere on the agenda; in particular a Council Tax freeze and the limited use of one-off funding. Should any of the assumptions change which require the identification of significant additional savings or the use of other reserves and balances then this opinion will be reviewed.

The proposed budget contains some significant risks given the extent of the savings required plus the pace at which the proposals have been developed. In mitigating these risks close monitoring of implementation and delivery must be undertaken and any non achievement reported and corrected in a timely way.

The previously approved Medium Term Financial Plan has changed beyond recognition following the Government's Spending Review. A medium term approach is still being followed but it will be necessary to formally review the whole MTFP in the light of the strategic prioritisation of the Council's budget and changes to national policies. The Council still needs to identify around £19m of savings over the following two years with the vast majority of this falling in 2012/13. The Transformation Programme will need to support the delivery of these savings and proposals to bridge the gap must be developed in a timely way.

3 Robustness of the Estimates

3.1 Estimates Procedures and Processes

This has been an extraordinary year in the production of the Council's budget. An in-year budget reduction in the current financial year followed by significant reductions in government support has resulted in a requirement to find £44m of budget reductions for 2011/12. As a result the normal budgetary processes of the Council were not appropriate. In preparing the budgets the Council has undertaken a number reviews appraisal and a major prioritisation exercise. In effect an almost zero based approach has been undertaken. In particular the Council has

- Identified a range of tactical savings which identified where services could be delivered at less costs or a reduced service level
- Undertaken a major prioritisation exercise with service activity disaggregated and prioritised into Critical, Frontline, Regulatory and other.
- Stripped out management and support costs to facilitate major savings and to aid council restructuring
- Undertake a major review of earmarked reserves to identify which should be maintained and which should be used to support the council spending

The complexity of this process adds risk to the assessment of robustness compared to an incremental rolling forward of previous years budgets. In addition the scale of reductions and the timescales for implementation further adds to this risk.

The mitigation in respects of these risks has been as follows.

- The budget has been set in the context of a revised medium term financial plan based on the Government's Comprehensive Spending Review. This has been the subject of regular reports to members.
- The processes undertaken have been verified by both the Finance Department and the Transformation Team to minimise error. Service Directors have also undertaken challenges and reports have been presented to the Overview and Scrutiny process.
- In-year financial monitoring is undertaken regularly and reported to members. In year monitoring has identified both actual and potential budget variations and appropriate corrective action has been considered.
- As the Council's Chief Financial Officer, the Chief Executive has certain statutory responsibilities for financial management issues and exercises these through the Council's management structure

and by maintaining sound and effective arrangements for internal audit.

Having considered all the above factors, I can confirm, that in my view, the Council has robust procedures in place. It is clear that the risk is greater than in previous years and as such in year procedures will need to be refined to monitor and manage this additional risk.

3.2 Determination of the level of resources available.

We now know the actual level of Government resources available to the Council. This was confirmed in the final Local Government Settlement announced on 1 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 next two financial years, to enable the Council to balance the budget assuming a Council Tax freeze.

While this is a two-year settlement, the Government's Comprehensive Spending Review announced in October covered a four-year period. It is clear that there will be 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. It reflects a nil increase from levying bodies and the police and fire authorities. The Government has announced the availability of an additional specific grant for those Councils which freeze their Council Tax. This is equivalent to around £2.5m for Sefton. It is assumed that Sefton will be eligible for this grant. The proposed Council Tax is within the indicative capping limit set by Government which is 3.5%

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.

3.3 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 has made this budget extremely difficult and with 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 Childrens and Adult Social Care and the new recycling arrangements. This is based on a full assessment of potential demands and recognises 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. This again will add some resilience to the budget going forward.

In my view the inclusion of the above adjustments 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 achievability of approved budget savings –** As indicated elsewhere in the report, the extent and timing of the required savings brings an inherent risk. Significant effort has been made to minimise the risk of non achievement. High level implementation plans plus full decommissioning plans have been completed and these will be closely monitored. In year monitoring will be crucial to ensure that required savings are achieved within the timescales specified.
- (c) **The use of one-off resources to support the budget.** At its meeting on 17 February the Cabinet considered a report on the result on a review of the Council's earmarked reserves. Approval was given to the re-appropriation of £12m to support the Council's spending plans over the next two years; in particular the costs of redundancies (£10m) and general support (£2m). 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 final budget proposals include a recommendation to use £1.5m of the available resource to support the 2011/12 budget. Of this amount only £500k is non-recurring and therefore the additional £1m will need to be found in 2012/13. Given the extent of the reduction in the Councils resources this is considered reasonable if not ideal.

3.4 Budget Assumptions

In the interim report to the last meeting of Cabinet a number of the budget proposals had assumptions which were not yet verified. The majority of these issues are addressed in the Transformation Report elsewhere on the agenda. In summary: -

There is sufficient confidence regarding deliverability to include the following issues in the final budget proposals

- Management and Support reduction of 25% (£3.8m) – Whilst a balance remains to be identified this should be achieved through restructuring in 2011/12.
- Terms and Conditions (£3m) – Package approved by Cabinet and being implemented.
- Reduction in the cost of commissioned adult social care (£3m) – Expression of interests advertised.
- The passporting of the funds from the PCT to the Council relating to social care (£4.2m) – Informal agreement reached and formal agreement being drafted.

The consideration of savings from Tier 2 of “Other Services” is being considered by Cabinet at this meeting.

3.5 Political Group Budget Amendments

At the stage of writing this report I have not been informed of any amendments from political groups to the proposed budget. Should any be forthcoming they will need to be assessed and if necessary this opinion will be revised.

In summary, therefore it is my view that reasonable steps have been taken to mitigate the budget risks. However residual risk remains which will need to be monitored and managed. The proposed use of one off resources is also reasonable given the Council current financial position.

3.6 Medium term Financial Position

The medium term financial plan is still indicating a deficit of over £19m for 2012/13 and 2013/14, of which £17m relates to 2012/13.

The Councils 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.

The current year’s budget has been set in the context of the medium term position and some additional savings have already been built in for 2012/13.

The medium term financial position of the Council remains extremely challenging and work must begin immediately to address the forecast budget gap in future years.

3.7 Advice on the level of general balances.

The estimated level of uncommitted balances at 31 March 2011 is £3.6m. This assumes that 2010/11 position is balanced. Current monitoring reports suggest that that the 2010/11 budget could achieve a surplus of between £1-2m, however some recent pressures in Adult Social care may impact on the final position. Any surplus would ordinarily be added to general balances. There are no planned contributions to or from General Balances in the MTFP and this remains the recommended position.

General fund balances are amounts set aside to cushion the impact of unexpected events and emergencies. They should not ordinarily be used to underpin the budget unless it is part of a strategic plan and sufficient balances remain to cover potential risks 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 by the District Auditor 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 materialise. 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 appropriate to meet the potential risks. It is not recommended that balances should be reduced to support the budget. 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 and in these circumstances it would be necessary to replace any general balances utilised. .

3.8 Advice on the level of earmarked reserves.

A full analysis of earmarked reserves held by the Council was reported in detail to the last meeting. Following this review it is considered the level of individual reserves is appropriate for the purpose it was set up for.

4. Conclusion

Based on the assessment included in this report I have concluded that the budgets as proposed, and the associated systems and processes are sound, and the levels of General Balances/Reserves are adequate. This is subject to no amendments being made to the budget proposals that would impact on this assessment.