Report to:	Council Cabinet	**Date of Meeting:**	**28 February 2013**
Subject:	Local Government Act 2003 – Chief Financial Officer's Requirements – Robustness Report		
Report of:	Margaret Rawding Section 151 Officer and Head of Corporate Finance and ICT	**Wards Affected:**	All
Is this a Key Decision?	Yes	**Is it included in the Forward Plan?**	Yes
Exempt/Confidential		No	

Purpose/Summary

To comply with statute the Chief Financial Officer is required to report to Council prior to the approval of the budget and the setting of the Council Tax, to give assurance that the budget is robust and that there are adequate reserves and balances. The report is based on the proposals presented to Cabinet and Council in preparation for the Council meeting of 28th February 2013.

Recommendation(s)

The Local Government Act 2003 (section 25) (as amended) requires the Chief Financial Officer to report formally on the following issues:

a) An opinion as to the robustness of the estimate 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 Cabinet and Council is requested to note the issues raised in this report during the final stages of determining the financial plan for 2013/14 and 2014/15 and budget for 2013/14.

How does the decision contribute to the Council's Corporate Objectives?

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

Reasons for the Recommendation:

As set out above

What will it cost and how will it be financed?

(A) Revenue Costs

Decisions taken as a consequence of this report will influence the Council's Revenue Budget and Council Tax for 2013/14 and 2014/15 and thereby shape the Council's financial plans future years.

(B) Capital Costs

None

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal –	The Council is required to set a Budget and Council Tax level by 10 March 2013 and must consider the comments of the Chief Financial Officer before that decision is taken.
Human Resources - None	
Equality 1. No Equality Implication 2. Equality Implications identified and mitigated	√ ☐

☐

3. Equality Implication identified and risk remains

Impact on Service Delivery:

What consultations have taken place on the proposals and when?

The Head of Corporate Finance (FD2153/13.) and Head of Corporate Legal Services (LD1469/13) have been consulted and any comments have been incorporated into the report.

Are there any other options available for consideration ?

This a statutory report to provide advice to Members in determining the two year financial plan and the budget 2013/14.

Implementation Date for the Decision

With immediate effect

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Background Papers:

There are no background papers available for inspection

1. Introduction

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 will be required to take account of this report when determining its budget. This report represents an assessment based on the proposals elsewhere on this agenda. Therefore this opinion may be revised in the light of any changes to the budget proposals as presented in this agenda.

2. Summary Option

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 the financial reserves. This opinion is based on the budget savings already approved and the final proposals presented elsewhere on the agenda; in particular the Council tax options 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.**

2.1. The issues raised in this report highlight to the Council the importance of agreeing a financial plan covering at least two years and the level of risks which these financial plans go some way to mitigating. The financial forecasts themselves are only estimates of future political, economic, environmental and demographic forecasts which contain many variables and degrees of uncertainty.

2.2. The budget proposals made to date contain some risks given the extent of the savings. The consultation process and the evaluation of responses will help to mitigate the risks to vulnerable groups. All options require close monitoring of implementation and delivery and any non achievement reported and corrected in a timely way.

3. Robustness of Estimates

3.1. Estimates of Expenditure and Services Changes

The Council has built on the method established over the last few years for the prioritisation of resources and continues to keep all areas under review, reporting changes through the year to the Cabinet and Council. In particular the Council has:

- Identified further tactical savings where services can be downsized and delivered at less cost

- Reviewed all remaining expenditure to identify the minimum level of services that must be provided
- Continued to reduce managements and support costs through restructuring and contract renegotiation
- Identified saving options arising from downsizing of services, integration of functions and the cessation of discretionary services.

The options presented to Members have been quality assured by a multi-disciplinary group of senior officers to consider the risks of implementation and impact. This process has been ongoing since September 2012 and has allowed changes in the proposals and the phasing of the financial impact to be revised. The group considers legal, social, economic and financial risks and equality impact assessments of all options have been undertaken.

3.2. **Consultation**

The consultation with all stakeholders has been more targeted than in previous years to support the identification of key risks for vulnerable groups and service users. All party involvement in the determination of consultation activity has ensured appropriate methods and targeting of consultation. Consultation with staff has been extensive to ensure timely appropriate solutions to integration and downsizing options.

A range of consultation methods have been used to give greatest benefit to the understanding of the impact on service users and stakeholders. All consultations have been available for any person to respond to issues even where more targeted consultation has supplemented the generic approach.

3.3. **Risk Assessment**

The key risks in achieving the services changes required by the proposed budget savings have been assessed for each option. The assessments have covered the legality of the option, timescales needed to achieve the change, impact on service users and stakeholders, long term implications of the changes and any contractual restrictions which may impact on achieving the savings. These assessments have been presented to Cabinet and Council at each stage of the decision making process to highlight any risks relating to each option.

4. Determination of the Level of Resources Available

4.1. The forecast level of available resources for 2013/14 was notified to the Council by Government on 19th December 2012, with final figures confirmed in February 2013. Indicative figures for 2014/15 have been provided as part of the Local Government Finance announcement. The Chancellor's Autumn Statement in December 2012 also indicated the longer term financial trend of further reductions from 2015 to 2019. The settling of the two year plan and the 2013/14 budget must be seen in the context of ongoing reductions in funding for several years beyond the 2013- 2015 plan.

4.2. The change in the funding arrangements for local government from April 2013 brings new financial risks which the Council will need to consider in the determination of the 2013/14 and 2014/15 budget plan.

4.3. Business Rates

The current arrangements for local government funding from National Non Domestic Rates (NNDR) uses a national pooling of all NNDR receipts and protects individual authorities from changes in the actual collection levels within its area. From April 2013 the Council funding is based on a government assessment of the expected level of Business Rates to be collected by Sefton. All variations against this baseline will be borne equally by the government and the local authority. Changes arising from non payment, successful appeals and reducing Business Rateable properties will be an ongoing risk to the Council which now become a significant risk in the future viability of financial forecast and budget setting.

4.4. Council Tax Base

The changes from government funded Council Tax Benefit to locally funded Council Tax Reduction will add further significant risk in determining the level of resources available.

The application of Council Tax Reduction (instead of Council Tax Benefit) will give the Council new exposure to risk of falling incomes of residents as the cost of the reduction in Council Tax Bills will have to be met from the local authority and its precepting bodies.

There is inadequate forecasting information to predict with high levels of certainty the number of applicants who previously had been discouraged from applying for a benefit but may apply for a Council Tax reduction. The Council will also have to carry the risk of increased bad debt from non payment of Council Tax as the amount payable by previous working age Council Tax benefit claimants increases.

4.5. Monitoring of Resources Available

The Council will need to carefully monitor the achievement of Business Rate collection levels and the value of Council Tax Reduction claims. This will be a new risk which will need to be factored into the planning of balances and the actuals regularly reported as part of the budget monitoring reports to Members.

4.6 Public Health Funding

The responsibility for Public Health transfers to the Local Authority from April 2013. This is funded through a ring fenced grant (£19m) and the transition plan has been monitored throughout the year to minimise any risk of the transfer of this new responsibility.

4.7 Other Funding

Other grant notifications have yet to be received relating to Disabled facilities grants, and capital allocations. Funding from the GP Commissioning Groups is also a new arrangement from 2013 and will require ongoing monitoring.

4.8. Setting the Council Tax

The Council as part of the budget setting will be required to set the Council Tax at its meeting on 28th February 2013.

The budget for 2013/14 has been based on the Council not increasing Council Tax. The two year plan assumes increased Council tax in 2014/15. Any increase in Council Tax in 2013/14 would necessitate a referendum and would change the opinion given in this report.

5. Key Budget Risks

a) Pressures on services

The proposed budget does make assumptions about the level of demand for Children and Adult Services. The increasing demand faced by Sefton, and nationally, will be a key risk throughout the foreseeable future. Current overspends in the Adults Care budget has been supported by additional external funding received during the year. The budget for 2013/14 and 2014/15 will fact similar pressures and although additional resources have been identified to support this demand it will require robust monitoring and management to minimise the risk to overspend.

b) Achievability of approved budget savings

Significant effort has been made to minimise the risk of non-achievement. High level implementation plans and early consultation have been completed and these will be closely monitored. In year monitoring will be crucial to ensure that required savings are achieved within the planned timescales and financial phasing.

6. Budget Assumptions

The majority of these issues are addressed in the budget report elsewhere on this agenda. The more significant challenges around setting the budget are the assessment of the timescales within which service change can be achieved and the estimation of the effect of re-commissioning services. Variations to the estimated figures will be met from the general reserves. The two year financial plan provides funding for additional social care expenditure in 2013/14 and 2014/15 of £7m to support the changes in demographic pressures for social care.

The budget also assumes the continuation of the current low bank interest rates until at least 2015. This approach is supported by the Council’s external advisors. The longer term view would be monitored closely.

7. Political Group Budget Amendments

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

8. Delivering of Financial Plan

The budget options considered by the Cabinet and Council cover a two year period. Assessment of the deliverability of the options has been undertaken and a robust challenge has been applied to the timeframe for achieving the options, in particular those complex options requiring significant service change and consultation. Those complex changes require a lead in time in excess of six to nine months. To achieve a balanced financial plan over the two year period decisions need to be taken in February 2013 relating to service policy changes to be actioned throughout 2013/14 to achieve the required savings for 2014/15.

The high level of savings required necessitates the significant level of change to be agreed for action for implementation throughout 2013/14 for financial savings in 2014/15. The budget forecasts for 2015/16 and future years clearly indicate further reductions in expenditure beyond the level included in the 2 year plan. It is therefore imperative that the financial stability of the authority is maintained as the level of risk will increase as expenditure levels reduce further. The financial robustness of the Authority will only be sustained if actions are implemented in a timely manner to achieve future budget requirements.

9. Advice on the level of General Balances

The estimated level of uncommitted balances at 31st March 2013 is £4m. This assumes that the 2012/13 position is balanced. Current monitoring reports suggest that the 2012/13 budget will be in line with the projections reported to Cabinet in January 2013. Any surplus would ordinarily be added to general balances. The planned contributions from general balances in 2012/13 within the MTFP have been reported to Cabinet as part of the 2012/13 monitoring reports.

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 judgement 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 by the external auditor that the level of general balances is below the level he would recommend. It is certainly the case that based on the potential risks identified within this report, general balances may be called upon should some 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 general balances should be reduced to support the budget other than as identified within the two year plan. Obviously if all the 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 replaces any general balances utilised.

The external auditor has also expressed an opinion on the low level of provision for doubtful debts held by the Council. This has been the subject of significant review over the last year and the provision for doubtful debt has been increased in the financial plan, especially with reference to the introduction of the Council tax reduction scheme which was identified and reported to Council at its meeting of 24 January 2013.

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10. **Conclusion**

Based on the assessment included in this report I have concluded that the budgets proposed and supported by the two year financial plan, along with the associated systems and processes are sound and the level of General Balances and Reserves are adequate for supporting the risks with mitigating actions. Should any of the assumptions change which require the identification of significant additional savings or the use of reserves or balances then this opinion will be reviewed.

The issues raised in this report highlight to the Council the importance of agreeing a financial plan covering at least two years and the level of risks which this plan goes some way to mitigating.