
Report to: Council **Date of Meeting:** 6 March 2014

Subject: Local Government Act 2003 – Chief Financial Officer’s Requirements
– Robustness Report

Report of: Section 151 Officer and **Wards Affected:** All
Head of Corporate Finance and ICT

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 6 March 2014.

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 Council is requested to have regard to the matters raised in this report during the final stages of determining the budget for 2014/15

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

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
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:

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 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 2014 and must consider the comments of the Chief Financial Officer before that decision is taken.
Human Resources - None	
Equality	
1. No Equality Implication	<input checked="" type="checkbox"/>
2. Equality Implications identified and mitigated	<input type="checkbox"/>
3. Equality Implication identified and risk remains	<input type="checkbox"/>

Impact on Service Delivery:

None

What consultations have taken place on the proposals and when?

The Head of Corporate Finance is the owner of the report (FD.2843/14)

Head of Corporate Legal Services (LD2148/14) have been consulted and any comments have been incorporated into the report.

This a statutory report to provide advice to Members in determining the Revenue Budget 2014/15.

Implementation Date for the Decision

With immediate effect

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Background Papers:

None

1. Introduction

- 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.

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

- 2.1.1 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 possible combinations to balance the Budget 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.**
- 2.1.2 The issues raised in this report highlight the importance of having previously agreed a financial plan covering two years and the timeframe this process gives for the implementation of the changes required. 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 two year financial plan is estimated to be largely (94%) achieved and the 2014/15 Budget report elsewhere on this agenda identifies actions regarding the 3 items, totalling 6% of the total two year plan which need reconsideration. All options will continue to require close monitoring of implementation and delivery and any non achievement reported and corrected in a timely way. **The 2014/15 Revenue budget and Council Tax should be considered in the context of further savings in the region of £55m needed to balance the 2015/16 and 2016/17 budgets. The use of short term resources now will reduce the Council's ability to respond to the very severe challenges it will face in balancing the Budgets in future years.**

3. **Robustness of Estimates**

3.1. **Estimates of Expenditure and Services Changes**

The Council agreed a two year financial plan which has been amended in the light of further information now available and government funding levels for 2014/15 which have changed since the two year plan was last considered by Council. The Plan:

- 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.

Options presented to Members at the stage of approving the two year plan had 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 February 2013 and has allowed changes in the proposals and the phasing of the financial impact to be revised.

3.2. **Consultation**

The consultation on the two year financial plan was undertaken in the preparation of the Plan and further consultation with service users and staff will continue throughout the implementation of the approved changes..

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 were assessed for each option and presented to Council in February 2013. 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.

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 18th December 2013, with final figures confirmed in February 2014.

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

4.2.1. 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 and growing risk to the Council.

4.2.2. Council Tax Base

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

The application of Council Tax Reduction (instead of Council Tax Benefit) exposes the Council to the 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.

The first year of operating a Council Tax Reduction Scheme has indicated that the prudent estimates of numbers and values of claims is manageable into the second year. However, the number of Council Tax payers that will start the second year of the scheme in arrears, particularly with attachments to benefits will require very careful monitoring as this is a growing risk for the Council.

4.2.3. Monitoring of Resources Available

The Council will need to continue 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.

4.2.4. Public Health Funding

The responsibility for Public Health transferred to the Local Authority in April 2013. This is funded through a ring fenced grant (£19m) and the risk of the transfer of this new responsibility is now considered to be minimal.

4.3. Setting the Council Tax

The Council as part of the budget setting will be required to set the Council Tax at its meeting on 6 March 2014. The long term implications of taking the freeze grant and of increasing the Council tax are both outlined in the report elsewhere on this agenda. Members are asked to note the context of future years resource shortfalls

in the region of £55m in making the decision on the level of Council Tax for 2014/15, which will form the basis of the 2015/16 Budget deliberations over this coming year.

5. **Key Budget Risks**

a) **Pressures on services**

The proposed budget makes assumptions about the level of demand on Adult Social Care Services. The two year financial plan provided 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 increasing demand faced by Sefton, and nationally, will be a key risk throughout the foreseeable future. The budget for 2014/15 anticipates ongoing 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 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 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 complexity of the changes requires a lead in time in excess of six to nine months. To achieve a balanced financial plan over the two year period decisions were 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 necessitated 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 2014 is £6m. This assumes that the 2013/14 position is under spent by £2-4m. Any surplus would ordinarily be added to general balances. The Council is strongly advised to retain balances of at least £4m to meet unexpected events and emergencies.

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.

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 Budget report and certainly I would **strongly advise against the use of short term resources to fund long term budget gaps**. 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 replace any general balances utilised.

10. Conclusion

Based on the assessment included in this report I have concluded that the 2014/15 Budget can be balanced from combinations of resources outlined in the Revenue Budget 2014/15 report, supported by the amended two year financial plan. I also conclude that 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 having a financial plan covering at least two years.