
Report to: Council **Date of Meeting:** 5 March 2015

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

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

Is this a Key Decision? No **Is it included in the Forward Plan?** No

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 Council at this meeting.

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 2015/16 and the two year financial plan for 2015/16 and 2016/17.

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:

This is advice which Members should be consider in making their budget decisions.

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 2015/16 and thereby shape the Council’s financial plan for 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 2015 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:

This is in line with the impacts contained within the budget report elsewhere on the agenda.

What consultations have taken place on the proposals and when?

The Head of Corporate Finance (FD 3443/15) is the author of the report.

Head of Corporate Legal Services (LD.2735/15) have been consulted and any comments have been incorporated into the report.

Are there any other options available for consideration?

This is advice to Members which they are requested to consider in making their budget decisions.

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. 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 by Council on the 22 January 2015, and the Cabinet recommendations 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.**
- 2.2. The issues raised in this report highlight the level of financial risks the Council will face over the coming two years and the level of risk which it is possible to mitigate. The importance of agreeing a financial plan covering two years must be stressed because the timeframe this process gives for the implementation of the changes required is one essential factor in giving an opinion that the recommended budget is a robust one. The financial forecasts themselves are only estimates of future political, economic, environmental and demographic forecasts which contain many variables and degrees of uncertainty.

The budget proposals made to date contain some risks given the extent and the impact of the £114m savings Sefton has already achieved and the £55m further savings required in 2015/16 and 2016/17. The Council have been made aware of the consultations conducted since 2011 in determining the equality impact and risks of the reductions and reconfigurations of services. All options require close monitoring of implementation and delivery and any non-achievement reported and corrected in a timely way.

- 2.3. **The budget and its robustness must be seen in the context of a decade of budget reductions which started in 2010 and is estimated to continue until 2018/19. In this financial climate the ongoing ability of the Council to both mitigate risk and balance its budget is increasingly difficult. Members are made aware that as the levels of risk increases so should the level of general balances to support the risk. The use of one-off resources, unless**

properly managed, will limit the Council's long term ability to respond to unanticipated costs or to invest in key priorities.

3. Robustness of Estimates

3.1. Estimates of Expenditure and Services Changes

In March 2013 the Council agreed a two year financial plan which has been delivered according to the policy changes agreed at the same time. The 2015/16 and 2016/17 represent the fifth and sixth successive year of budget reductions for Sefton Council and will inevitably require more challenging solutions to achieve a balanced budget and two year financial plan. The approach taken by officers, and approved by Cabinet, was to undertake a risk based assessment of services and to identify those services which most closely aligned to the strategic priorities identified in the Council report of 22nd January 2015.

In order to inform the allocation of a significantly reduced resource the core purpose of the Council is assumed to be :

- **Protect the most vulnerable** i.e. those people who have complex care needs with no capacity to care for themselves and no other networks to support them.
- **Commission and provide core services** which meet the defined needs of communities and which are not and cannot be duplicated elsewhere.
- **Enable/facilitate economic prosperity** i.e. maximise the potential for people within Sefton to be financially sustainable through employment/benefit entitlement.
- **Facilitate confident and resilient communities** which are less reliant on public sector support and which have well developed and effective social support networks.

Options presents to Members at each stage of approving the two year plan 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 October 2014 and has allowed changes in the proposals and the phasing of the financial impact to be revised.

3.2. Consultation

The consultation undertaken during the last three years, at different times has informed the assessment of risk and equality impact assessments. Consultation with service users and staff will continue throughout the implementation of the approved changes.

Where new consultations have been required 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 January 2015. 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 2015/16 and 2016/17 was notified to the Council by Government on 18 December 2014, with final figures confirmed in January 2015.

4.2. The change in the funding arrangements for local government particularly in relation to Adult Social Care and the introduction of the Better Care Fund bring new financial risks which the Council will need to consider in the determination of the 2015/16 budget and the two year financial plan.

4.2.1. Business Rates and Council Tax Base

The Council gave detailed consideration to the levels of income and the tax bases for the Business Rates and Council Tax at its meeting on 22 January 2015.

The application of Council Tax Reduction continues to expose 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 two years of operating the Council Tax Reduction Scheme have indicated that the prudent estimates of numbers and values of claims is manageable into the third year. However, the number of Council Tax payers that will start the third 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.

4.2.2. 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. The financial plans reflect the current over achievement of these resources and will continue to be carefully monitored to ensure sustained levels of income. The achievement of higher levels of business rates has been partially supported by additional retail and small business rate reliefs that are annually determined by the DCLG. The Parliamentary Elections in May 2015 bring an additional risk that this may change in 2016/17.

4.2.3. Adult Social Care/Better Care Fund

The introduction of a pooled budget in 2015/16 to manage £24m of Health CCG resources and local authority adult social care funding will bring about a new governance of commissioning for an area of high demand and changing service delivery. The level of change will cause some additional risk to the Council which

has been assessed and mitigations included in the Better Care Plan to manage these risks.

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 5 March 2015. The long term implications to 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 that all indications for the period up to 2018/19 show reducing Public Sector, and in particular Local Government spending levels.

5. Key Budget Risks

a) Pressures on services

The proposed budget makes assumptions about the level of demand for Adult Social Care Services and Children's Services. The two year financial plan assumes that demand can be met from within existing resources and the BCF Plan: The services are being reconfigured to maximise impact on the most vulnerable service users and to improve efficient use of resources. The ongoing demand faced by Sefton, and nationally, will be a key risk throughout the foreseeable future.

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 and managed. In year budget management will be crucial to ensure that required savings are achieved within the planned timescales and financial phasing. The Council should take some assurance from the high level of delivery from the previous four years budget reductions which has meant that there has been no unplanned call on general balances.

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 2017. This approach is supported by the Council's external advisors. The longer term view will 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 Cabinet and Council cover a two year period. Assessment of the deliverability of the options has been undertaken and a robust project plan has been prepared particularly for those complex changes requiring significant change and consultation. To achieve a balanced financial plan over the two year period decisions have been taken in November 2014 and January 2015 relating to efficiency changes and service policy changes to be actioned throughout 2015/16 to achieve the required savings for 2015/16 and 2016/17.

Early budget forecasts for 2017/18 and future years clearly indicate further reductions in expenditure beyond the level included in the two 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

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.

The 2014/2015 budget includes the use of £2.8m of balances and estimated balances as at 31 March 2015 are **£7.2m**.

The current phasing of budget savings result in the use of £1.2m of balances in 2015/16 so estimated balances as at 31 March 2016 are £6m.

The Council will be required to identify either savings from VCF/Advocacy and the Early Help reviews throughout 2015/16 and 2016/17 or identify other savings during 2015/16 to avoid the need for one-off resources during 2016/17.

10. **Longer Term Plans**

The Council is aware of the general continuing reduction in public sector expenditure for the foreseeable future. There are no indications that this forecast would change as a result of the General Election in May 2015.

I anticipate that beyond the two years presented to this Council meeting there will be further reductions of a similar level in the Council's Government Grant beyond 2016/17. In this position I can only assure Members of the robustness of this proposed two year financial plan and will give a cautionary note regarding the Council's ability to respond to cuts in funding beyond the level contained in this plan.

11. **Conclusion**

Based on the assessment included in this report I have concluded that the 2015/16 Budget can be balanced from combinations of resources outlined in the Revenue Budget 2015/16 report, supported by the 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.

I remind Members of my expressed concerns regarding the financial position and robustness of the Council in the years beyond this financial plan when further cuts will likely be required.