

REPORT TO: Cabinet
Council

DATE: 4 March 2010

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. This report fulfils those requirements based on the draft budget scenarios presented to Cabinet on 4 February 2010 and Overview and Scrutiny Committee on 16 February 2010. Cabinet and Council are asked to note that the budget still contains a number of options which political groups may consider before a final budget is proposed to Council on 4 March 2010. This may change the conclusions in this report.

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 consider the report before approving a Budget and Council Tax to Council

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 2010/2011, which has been identified as a key decision for the Council.

FORWARD PLAN: No – see above.

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 2010/2011 and the Medium Term Financial Plan. They therefore shape the Council's financial plans for the coming three years.

Financial: See above

Legal: The Council is required to set a Budget and Council Tax level by 10 March 2010 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

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 of the position as at this stage the budget proposals have yet to be finalised. Therefore this opinion will be kept under review and may be revised in the light of final budget proposals.

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 scenario presented to Cabinet on 4 February 2010, in particular a Council Tax increase of 2.8% to 3.2% and the strategic use of one-off funding. Should any of the assumptions change which require the identification of significant additional savings then this opinion will be reviewed.

The medium term financial plans of the Council have been prepared prior to any firm indication of future Government Grant levels and therefore will need to be reviewed when the public spending plans are firmer. However the Council still needs to identify over £11m of savings for the following two years and constant effort will be required to identify how this is to be achieved. In particular effective workforce planning and prioritisation processes will need to be introduced and maintained if changes are to be implemented successfully.

3 Robustness of the Estimates

3.1 Estimates Procedures and Processes

In giving a positive opinion on the robustness of the Estimates and Council Tax procedures I have relied on the factors summarised in Annex 1. These include the compliance with the approved Medium Term Financial Strategy, the well established and tested procedures, the identification of risk and the assessment by the Audit Commission as part of the Use of Resources judgment. I can confirm that in my view the Council has robust procedures in place. These procedures will need to be reviewed and revised for future years particularly in the light of public sector spending constraints.

3.2 Determination of the level of resources available.

The 2010/11 Revenue Support Grant settlement is the third year of the Government's three-year cycle. The grant forecast for this year has been confirmed and the level of resources is known and therefore the 2010/11 budgets are presented on the basis of the final level of government grant. However there is no indications of the level of resources for future years and as members will be aware a general election will need to be held within the next five months. This makes planning into the future very difficult particularly with the heavily publicised indications of significant reductions in public spending.

At this stage an indicative Council Tax increase for Sefton services only of 2.17% has been used for 2010/11 rising to 3% in the following two years. This position will be kept under review for future years. This rate does not include the estimated impact of the levies and the police and fire precepts.

3.3 Affordability of Spending Plans and the implications for Council Tax increases.

In assessing this issue the following factors have been taken into account:

- **The level of Council Tax increase considered politically acceptable both locally and nationally.** The Government has already indicated that increases are expected to be significantly below 5%. The Cabinet recommendation is within this figure.
- **The unavoidable pressures faced by certain services.** The proposed budget includes over £6.6m resource to fund the assessed additional demand in Childrens and Adult Social Care. 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.
- **Key risk areas within the budget and any mitigating action.** (See paragraph 3.4 below)
- **Achievability of required Strategic Budget Review savings.** Savings and variations to pay/price assumptions totaling £9.3m have been approved for 2010/11 with a requirement for more than £11m across the following two years. These levels are considered achievable but will need to be kept under regular review.
- **The use of one-off resources to support the budget.** The spending plans in front of members include the managed use of £9m of one-off resources. Members may recall when the parameters of the MTFP

were being considered that the issue of the sustainable use of one off funding was raised. In effect it was agreed that the Council should only use one off funding to cover non-recurring revenue spending and/or the implementation period of savings proposals. The Council should not be reliant on one-off funding to balance the budget as this would merely transfer a bigger problem to a future year. The budget plans in front of members comply with this approach.

3.4 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 important that these risks are identified and mitigated but ultimately that we have resources to cover the implications should they materialise. The key areas of risk are detailed below.

- (i) The projected outturn for 2009/10 is currently indicating an overspend of £1.1m. In the main this is concentrated in the Adult and Childrens Social Care Services and is partially offset with surpluses from other departments. In addition there has been recent additional spending required in Highways to reflect the winter weather conditions. A provisional allocation of £1.5m is included as part of the strategy around one-off resources identified at paragraph 3.3. The position will continue to be managed, as should the overall budget overspend increase above this level it would have an impact on the Council's general balances.
- (ii) The Council in common with others is currently undertaking a Pay and Grading Review. It has been necessary to identify significant resources to minimise the Council's equal pay risk and to fund the implementation of Job Evaluation. It has been assumed that the equal pay costs can be capitalised and an allocation is included within the revenue budget in 2011/12 and 2012/13. While these estimates are considered robust and resources specifically identified there is always the potential that further resources will need to be found. This remains a risk for the Council.
- (iii) The medium term spending plans are based on an estimate of government grant. The certainty of a general election coupled with potential reductions in public spending mean that these estimates are uncertain. The prospect of reduced resources from 2011/12 onwards is a major risk for the Council and will need to be kept under regular review.
- (iv) The medium term financial plan is still indicating a deficit of over £11m for 2011/12 and 2012/13. The Councils transformation programme will need to identify savings of at least this amount if the budget is to be balanced. This reductions can only be achieved through a managed approach to workforce planning. The decision to accept redundancies has been agreed in principle and will only be

used as a last resort. However a programme of transformation activity will be developed and approved which achieves investment in council priorities alongside a sustainable financial position.

In summary therefore it is my view that the estimates presented are robust and that all reasonable steps are being taken to mitigate the associated risks. The medium term financial position of the Council is challenging and will require concerted effort in the current climate.

3.5 Advice on the level of general balances.

The estimated level of uncommitted balances at 31 March 2010 is £3.6m. This assumes that the deficit in the 2009/10 budget is less than the £1.5m of one-off resources available to fund any overspend. It is anticipated that this level will be increased through 2010/11 to £4.1m.

General fund balances are amounts set aside to cushion the impact of unexpected events and emergencies. In order to assess their adequacy, a systematic approach has been adopted. This approach is based on identification of the key financial risks following which an amount of 'potential' exposure is calculated based on the impact of the risk and the possibility of its occurrence. It should however be noted that this is not a precise science and that local circumstances, the strength of financial reporting arrangements and the Council's track record in financial management will also be a key influence on the actual potential of any individual risk materialising.

Based on the risk assessment above, 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 during 2010/11 and later years.

3.6 Advice on the level of earmarked reserves.

An analysis of earmarked reserves held by the Council is provided in Annex 2. The review has revealed that the level of individual reserves is either appropriate for the purpose it was set up for or processes are in place to monitor levels and action plans are in place to address any specific issues.

Some of the key issues are referred to below:

- Insurance Reserve - this is required to cover potential liabilities arising from self-insurance of certain fire and motor vehicle claims and is reviewed on a regular basis and increased as necessary. A recent review has indicated that the level of this reserve is greater than currently required. Therefore a contribution of £6m from this reserve will be used as part of the Medium Term Financial Plan.
- Schools Reserves – school surpluses and deficits are monitored on a regular basis. Where balances are causing concern action plans are

agreed with the schools and reviewed regularly. The estimated level of school balances at 31 March 2010 is £14m.

- Modernisation Fund - This was established to deal with one-off funding issues within the Council, in particular costs associated with Job Evaluation.

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 level of General Balances/Reserves are adequate. This is subject to no amendments being made to the budget proposals that would impact on this assessment. In particular no approved amendment should require a contribution from General Balances or increased contribution of one-off resources.

ROBUSTNESS OF THE ESTIMATES MADE FOR THE PURPOSES OF THE BUDGET

1. Introduction

Part 2 of the Local Government Act 2003 introduced a requirement for the Chief Financial Officer to report upon the robustness of the estimates made for the purposes of the budget and tax setting calculations and the adequacy of the proposed financial reserves.

2. Budget Strategy

The Council's overall framework for its medium term budget is contained in the Medium Term Financial Strategy approved by members in April 2009 as supplemented by other regular reports on the Strategic Budget Review and the Transformation Programme. This provides for Council wide involvement in supporting an integrated approach to the preparation of soundly based capital and revenue plans. The main purpose of the strategy is to ensure that: the Council's overall financial resources and service spending is totally aligned to the achievement of the Council's priorities. In order to achieve our strategy we actively seek ways to access additional funding, reprioritise resources and align funding with local priorities.

We work towards meeting these objectives through 5 specific aims:

- a) To produce medium term Revenue and Capital budget plans which enable the Council's three year corporate strategy priorities to be achieved and facilitates effective and integrated service and resource planning
- b) To ensure the Council maximises the generation of resources
- c) To ensure the Council spends within its available resources and maintains a risk assessed level of reserves
- d) To ensure ownership and accountability for financial resources is at the lowest appropriate level and that this is reflected in the Council's processes and procedures
- e) To support the Council's transformational change programme and achieve Value for Money in service delivery

It will be necessary to undertake a fundamental review of the MTFP to ensure that it is totally aligned with the revised corporate plan and prioritisation which will take place early in the new municipal year.

3. Budget & Tax Setting Process

The annual budget preparation and tax setting process involves the development of robust three-year revenue forecasts and capital plans.

Budget principles and a timetable to govern the budget setting process were prepared in consultation with services and was approved by Cabinet in April 2009. They address issues such as pay and price inflation, fees and charges, external funding and consultation.

During the budget process issues relating to the budget and tax setting have been subject to scrutiny at meetings of the Overview and Scrutiny Committees during the year.

4. In year Financial Monitoring Process

A report updating members on the corporate financial position is submitted to Cabinet and Overview and Scrutiny regularly throughout the year. In year monitoring has identified both actual and potential budget problems and appropriate corrective action has been considered.

5. Role of Chief Financial Officer

The Chief Executive is currently designated the Council's Chief Financial Officer for a temporary period while the recruitment of a new finance director takes place. Therefore 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.

6. Comprehensive Performance Assessment – Use of Resources

The Audit Commission undertakes an annual assessment of the Council's Use of Resources and provides a scored judgment. The use of resources assessment focuses on financial management but links to the strategic management of the Authority. It looks at how financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. For 2008/09 the Audit Commission judgment was 2 out of a maximum of 4, which reflects that the Council is performing adequately with regard to how it uses its financial resources.

REVIEW OF EARMARKED RESERVES

Earmarked reserves are amounts set aside to provide for specific areas needing funding. The following table lists the more significant earmarked reserves, the purposes for which they are held and provides advice on the appropriate levels.

Purpose of Reserve	Appropriate Level	Estimated Balances 1 April 2010	Planned Additions / (Withdrawals)	Estimated Balances 31 March 2011
		£000	£000	£000
Insurance Reserve This reserve has been established in order to finance costs (e.g. claims and premium payments) associated with fire and motor vehicle risks.	There is no set level for this reserve. £4.5m will be utilised over the next three years to support the revenue budget. However, given the uncertain nature of insurance claims, it is considered prudent to retain a reasonable level of balances in the Reserve.	6,500	(4,500) (2010/11 – 2012/13)	2,000
Modernisation Fund This reserve was set up to provide funding for a range of non recurring specific liabilities	There is no set level for this reserve, and it will be utilised for addressing one-off issues during 2010/11.	1,500	(1,500)	0
Environmental Warranties	This warranty requires the Council to remediate any environmental contamination found on land / property that has been transferred to One Vision Housing Ltd Resources are being set-aside over the coming years as a prudent measure against a potential cost.	6,000	2,000	8,000

<p>Schools Reserves * In accordance with the Education Reform Act, 1988 the scheme of Local Management of Schools provides for the carry forward of individual school surpluses/deficits.</p>	<p>Schools are discouraged from going into unmanaged deficits or building up excessive surpluses but the level of this reserve is largely determined at school level. These balances must be kept available to schools and cannot be used by the Authority for other purposes.</p>	<p>14,000</p>	<p>(2,500)</p>	<p>11,500</p>
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