

<b>Report of</b>	<b>Meeting</b>	<b>Date</b>
The Statutory Finance Officer	Special Council	28 February 2012

## **STATUTORY FINANCE OFFICER REPORT**

### **PURPOSE OF REPORT**

1. To provide advice to the Council as required under S25 of Local Government Act 2003.

### **RECOMMENDATION(S)**

2. The Council are recommended to:

Note the Statutory Finance Officer's comments and advice Under S25 of the Local Government Act 2003, as set out in this report and have regard to it when considering the budget proposals for 2012/13.

### **EXECUTIVE SUMMARY OF REPORT**

3. This report is required by statute and the Statutory Finance Officer should set out for members how the budget has been constructed and the assumptions that underpin that budget. The Statutory Finance Officer is required to comment on the proposals so the Council can be reassured that the risks contained in the budget are manageable and do not compromise the delivery of the budget.
4. This paper outlines the key assumptions and risks and identifies that working balances should be maintained to mitigate some of that risk moving forward. In terms of the 2012/13 budget all the key budgets have been reworked to align with expected outturn for 2011/12. The budget now contains only a few targets and is based upon known facts rather than what could be delivered in terms of savings and efficiencies, in other words the budget is forecast to balance.
5. Having reviewed the underlying assumptions and commented on the position in relation to risks and working balances, I am satisfied that the budget assumptions are reasonable, the key financial risks have been considered and the budget is deliverable.

<b>Confidential report</b> Please bold as appropriate		<b>No</b>
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### **REASONS FOR RECOMMENDATION(S)**

**(If the recommendations are accepted)**

6. To comply with the statutory requirement to produce a report for Members of the Council on the risks contained in the budget and the level of working balances required to support that budget.

## ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

7. None.

## CORPORATE PRIORITIES

8. This report relates to the following Strategic Objectives:

Strong Family Support		Education and Jobs	
Being Healthy		Pride in Quality Homes and Clean Neighbourhoods	
Safe Respectful Communities		Quality Community Services and Spaces	
Vibrant Local Economy		Thriving Town Centre, Local Attractions and Villages	
A Council that is a consistently Top Performing Organisation and Delivers Excellent Value for Money			

## BACKGROUND

9. Under the requirement of S25 of the Local Government Act 2003 the Statutory Finance Officer is required to advise members when setting the budget as to the robustness of the estimates and the adequacy of working balances.
10. The Robustness of the Estimates and Risk Issues
11. In terms of the budget proposals, once again for 2012/13, a thorough reassessment of the budget has been undertaken by Directors and their accountants based upon the latest available information. In terms of key assumptions contained, particularly in the 2012/13 budget, these are contained in the Medium Term Financial Strategy but summarised for convenience below.

12. **KEY ASSUMPTIONS**

<b>Assumption</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
Council Tax Increases	0	0	0
Council Tax Freezing Grant	£0.318m	£0.159m	£0.159m
Reduction in Grant Settlement	£0.857m	£0.513m	£0m
Pay Inflation	0	1%	1%
Employees Pension Contribution	0.5%	0.5%	0.5%
New Homes Bonus	£1.044m	£1.044m	£1.044m
Performance Reward Grant	£0.089m	0	0
Supporting People Income	£0.216m	£0.180m	£0.170m
Health Reform Agenda	assumed to be cost neutral		

13. In terms of the key assumptions I would make the following comments to confirm their validity:-

14. Council Tax Increases.

15. The administration's aim in the financial strategy remains to contain future increases below inflation. Accordingly the forecast budget position of the Council does not take account of any potential Council Tax increases in future years.

16. Council Tax Freezing Grant.

17. The administration is proposing to reduce Council Tax in 2012/13 by 1.0%, therefore, the Council will be eligible to receive Council Tax Freezing grant in 2012/13. This grant income has only been included in the budget for one year as this is consistent with the grant's qualifying criteria. This is different to the previous year when the grant was awarded for a four year period.

18. Reduction in Grant Settlement

19. The most recent Comprehensive Spending Review brought about reductions in Central Government grant. As a reminder, the table below summaries the year on year decrease in formula grant awarded to Chorley Council in the two year settlement in respect of years 2011/12 and 2012/13.

20. To alleviate this an adjusting dampening mechanism was put in place for 2011/12 and 2012/13, that means the full impact will not be felt until 2013/14 being the £0.513m reduction in grant shown in the table below. The Government has also announced a funding review for Local Government to take effect from 2013/14 therefore there will be

further amendments to the Formula Grant from next year onwards. As there are no detailed indications as to what these will be no assumptions have factored into the budget at this stage.

#### Decrease in Formula Grant

<b>Decrease in Formula Grant – Year on Year</b>			
	<b>2011/12 %</b>	<b>2012/13 %</b>	<b>2013/14 %</b>
% reduction	-13.6	-12.8	-7.9
£ reduction	-1.814	-911	-513
Dampening in effect	660	522	0

#### 21. Pay Inflation

The assumptions for pay inflation are based on the fact that pay has been frozen for a number of years and thus it is more likely that a pay award will be negotiated. The pay budget has been accounted for in line with the Council's Pay Policy which is contained within the agenda for formal Council approval.

#### 22. Pension Contribution

23. The Local Government Pension Scheme for Lancashire was valued as at March 2010 with a new employer contribution rate taking effect from April 2011. The revaluation indicates that the Council's target contribution will be subject to a stepped increase of 0.5% per annum until 2014/15.

24. The value of the pension fund has been adversely affected by depressed financial markets and in particular the fall in the value of equity prices. The performance of the fund and the assumptions made in terms of liabilities will have a major bearing on the future employer rate.

#### 25. New Homes Bonus

26. The inclusion of New Homes Bonus (NHB) in the 2012/13 budget forecast has been limited to that received 2012/13. This is due to the fact that the amount receivable is re-calculated each year and dependent on fluctuating bases i.e. the number of new properties built in the borough each year. This approach serves to mitigate risk in respect of variable funding levels by restricting the reliance of the Council on this income stream to balance its budget. This also allows for maximum flexibility with regard to its future use as all future allocations and receipts of NHB are currently uncommitted.

#### 27. Performance Grants and Supporting People Income

28. The provision for above grants has been reduced in the budget for the forthcoming years. This is to reduce the Council's reliance on these income streams as their continuation and levels are uncertain.

29. Health Reforms

30. Within the public sector environment there are currently proposals to fundamentally reform the way in which Health Care services are operated and delivered with particular regard to the commissioning of health care services. As the details of this reform are as yet unknown it has been assumed that there will be not financial implications for the Council's budget. This position will be monitored and any amendments to this assumption will be notified to the Council.

29. **OTHER SIGNIFICANT ISSUES**

30. 2012/13 New Budget Growth Package

31. The administration's budget for 2012/13 contains both a reduction in Council tax and a package of both revenue and capital budget growth items totalling £0.853m and £7.150m respectively.
32. With regard to the proposed Capital Programme schemes, £6.650m is fully recoverable from the Primary Care Trust and the remaining £0.500m capital expenditure provides the potential for re-development and also for short term income generation opportunities.
33. The revenue budget package of £0.853m is allocated between a requirement to provide for a recurring budget provision in the sum of £0.278 with the balance being for 2012/13 schemes only. This provides the Council with the facility to review the proposal level of total investment and amend it to respond to possible future budget pressures.

34. New era for Local Government Core Funding

35. Local Government funding is entering into a new regime with regard to the methodologies used to distribute the total funding available from central Government between authorities. Large proportions of core grant, previously included in four year settlements, are being allocated between Councils via new grant funding models, for example, New Homes Bonus applicable from 2012/13 and the forthcoming Retention of Business Rates as part of the Local Government Funding Review. Both of these new sources of grant income are calculated on an annual basis using variable factors, thus, annual fluctuations will become the norm as part of the budget setting cycle and medium term financial forecasts.
36. To mitigate against changing year to year funding levels the Council has not committed any estimated future receipts of NHB at this stage to balance its budget. Given the Council's current performance in attracting NHB this action currently provides financial resilience and a degree of flexibility to possibly offset further expected, but as yet unknown, reductions in funding.

37. Medium Term Financial Strategy (MTFS)

38. The MTFS sets out the Council's plans to bridge the funding gap as summarised below:

Year	Budget (Headroom)/Gap £000	Cumulative £000
2012/13	(58)	(58)
2013/14	878	820
2014/15	367	1,187

39. The budget efficiency plan totalling £1.425m over the forthcoming years is intended to generate a budget surplus at the conclusion of 2014/15. The plan is predominantly made up of finding productivity gains of £0.500m within a total budget value of £10.968m and the generation of additional income in projects that are already well advanced in the form of property rental. By focussing on back office support functions and also income streams budgetary efficiencies can be achieved in a delivery model that mitigate risk against any negative impact on front line services.

40. Icelandic Bank

41. Significant progress has been made with regard to the repayment of the Icelandic Deposits currently held and earning interest in Landsbanki. The Council has been awarded Priority Creditors status and repayment has now commenced.

42. Other Risks

The length and depth of the recession is likely to continue to have an impact on the Council's budget both on revenue in terms of income generation and on capital in terms of the Council's ability to release capital receipts from both preserved right to buy sales and on the sale of its own assets.

43. In terms of the policy options that vast majority have been implemented and achieved. The budget, therefore, only contains the following items with the restructure of Shared Financial Services having a confirmed and achievable implementation date in 2012/13.

<b>Policy Option</b>	<b>£'000</b>
Generation of Rental Income from Bengal Street following relocation of the depot.	(35)
Shared Financial Services – Restructure to be implemented in September 2012	(32)
<b>Total</b>	<b>67</b>

44. It should be noted, however, that although the above budget adjustments are targets they are not significant in terms of the robustness and delivery of the 2012/13 budget.

45. **LEVEL OF RESERVES**

The budget for 2012/13 has been established based upon not using working balances to fund recurrent expenditure. Part of the budget strategy for 2012/13 was to return to the balanced position and the budget proposals achieve this key aim, with a surplus actually being generated. Projected budget shortfall of £1.187m offset by planned efficiencies of £1.425m.

46. The risks outlined in my statutory report on the budget indicate that the public finances and funding of Local Government has diminished. The MTFS indicates that budget savings will need to be achieved over the next two financial years and as such as a minimum working balances should be maintained at the target level of £2m.

47. The level of balances is a matter of judgement but given the uncertainty moving forward I propose that the level of working balances is maintained to a target of £2m by the end of March 2014/15. The current forecast position as at the end of this financial year 20011/12 is shown in the table below.

48. Forecast Balances as at 31 March 2012

	£m
<b>General fund working balance forecast Dec monitoring</b>	2.076
<b>Contribution to General Balances</b>	0.185
<b>Use of General Balances for Debt Restructuring within MTFS</b>	(0.250)
<b>Forecast balances 31/03/2012</b>	<b>2.011</b>

*Source: Revenue Budget Monitoring period ending December 2011.*

#### IMPLICATIONS OF REPORT

49. This report has implications in the following areas and the relevant Directors' comments are included:

Finance		Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

#### COMMENTS OF THE STATUTORY FINANCE OFFICER

50. Please refer above.

#### COMMENTS OF THE MONITORING OFFICER

51. The report is designed to ensure that the relevant legislation is complied with in terms of Statutory Officer advice.

GARY HALL  
STATUTORY FINANCE OFFICER – CHIEF EXECUTIVE

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Susan Guinness	5101	20 February 2012	***