

Report of	Meeting	Date
Statutory Finance Officer	Council	2 March 2010

STATUTORY FINANCE OFFICER REPORT ON THE BUDGET

PURPOSE OF REPORT

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

RECOMMENDATION(S)

- The Council are recommended to:

Note the Statutory Finance Officers 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 2010/11.

EXECUTIVE SUMMARY OF REPORT

- 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.
- This paper outlines the key assumptions and risks and identifies that working balances should be increased to mitigate some of that risk moving forward. In terms of the 2010/11 budget all the key budgets have been reworked to align with expected outturn for 2009/10. The budget now contains fewer 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.
- 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.

REASONS FOR RECOMMENDATION(S)

(If the recommendations are accepted)

- 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

- None.

CORPORATE PRIORITIES

7. This report relates to the following Strategic Objectives:

Put Chorley at the heart of regional economic development in the Central Lancashire sub-region		Develop local solutions to climate change.	
Improving equality of opportunity and life chances		Develop the Character and feel of Chorley as a good place to live	
Involving people in their communities		Ensure Chorley Borough Council is a performing organization	✓

BACKGROUND

8. 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.

9. The Robustness of the Estimates and Risk Issues

In terms of the budget proposals, once again for 2010/11, 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 2010/11 budget, these are contained in the Medium Term Financial Strategy but summarised for convenience below.

Table1: Key Assumptions

Key Assumptions	2010/11 %/£'000	2011/12 %/£'000	2012/13 %/£'000
Pay Award	0.5%	1.5%	1.5%
Increase Pension Contribution	1%	2%	2%
Increase in Grant Settlements	£129	0	0
Increase in Council Tax	0	0	0
Performance Reward Grant	£150	£150	0
Housing and Planning Delivery Grant	£127	0	0
LAGBI	£75	£75	0

In terms of the key assumptions I would make the following comments:

10. Pay Award

The assumptions are based on the fact that inflation is set to increase over the financial planning period. That said the Local Government employer organisations have recently informed the unions that it will not accept requests for any increase in Local Government pay for 2010/11. Thereafter the policy on pay is unclear but the possibility of a pay freeze over the period is real. For that reason I believe the risk to the forecast is on the downside with actual awards likely to be less than the forecast.

11. Pension Contribution

The Local Government Pension Scheme for Lancashire was last valued as at March 2007 with a new employer contribution rate taking effect from April 2008. The revaluation indicates that the Council's target contribution rate would be 21% resulting in a stepped increase of 1% per annum until 2011/12. The pension fund is due to be revalued at March 2010 with the new employer rate taking effect from April 2011.

12. 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. I have therefore factored in a 2% annual increase to reflect the current value of the fund.

13. In the longer term major structural change is needed to the terms offered by the fund if the current deficit is to be reduced and/or eliminated.

14. Revenue Support Grant 2010/11

Next year 2010/11, will be the final year of the Governments most recent comprehensive spending review (CSR07). The CSR provided Local Authority funding details for three years (2008/09 – 2010/11). The figure for 2010/11 was confirmed last month (January 2010) and is exactly in line with the "indicative" announcement made at the commencement of the CSR.

15. As a reminder, the table below summaries the year on year percentage increase in formula grant awarded to different types of Local Authority when compared on a like for like basis. As can be seen from the table District Councils will have received on average the lowest increases of all authority types over the period of the CSR.

Table2: Increase in Formula Grant

Increase in Formula Grant – Year on Year			
	2008/09	2009/10	2010/11
	%	%	%
Overall	3.5	2.8	2.6
Metropolitan Districts	3.7	2.9	2.6
Unitary	4.8	3.4	3.0
County Council's	5.2	4.2	4.1
Shire Districts	1.7	1.4	1.3
Chorley BC	2.7	1.7	1.5

16. Revenue Support Grant Settlement 2011/12 and Future Years

Whilst the CSR (2007) originally provided local authorities with certainty of funding for three years, as it is not a "rolling" three year period, there is no official notification of funding levels beyond 2010/11. The next spending announcements are expected to be after the forthcoming general election and take effect from April 2011. Naturally this brings

significant uncertainty in trying to assess future grant funding and represents a key risk for the Council's Medium Term Financial Strategy.

17. The Revenue Budget Forecast contained in the Medium Term Financial Strategy assumes grant funding for 2011/12 and beyond continues at the same level as 2010/11. However general consensus is that public expenditure will be reduced in future years, including support for local authorities. Therefore any reduction in funding will merely serve to increase future years forecasts of the expected revenue budget funding gap.
18. The table below demonstrates the grant levels we could expect to receive and the financial impact of several grant funding scenarios.

Table 3: Projected Levels of Grant

	2010/11 £million	2011/12 £million	2012/13 £million
Grant Freeze	8.487	8.487	8.487
At 3% Reduction in Grant:		8.232	7.985
<i>Cash Reduction</i>		<i>0.255</i>	<i>0.502</i>
At 5% Reduction in Grant:		8.063	7.660
<i>Cash Reduction</i>		<i>0.424</i>	<i>0.827</i>

19. Council Tax and Performance Grants

Without more robust information in respect of the level of Government Grant it is unrealistic to attempt to anticipate future Council Tax increases. The administrations aim in the financial strategy remains to contain future increase below inflation. However, without knowing or understanding the capping criteria to be used in the next CSR period or the affect of the economic downturn or inflation it is not possible to predict accurately. Accordingly no account of any potential Council Tax increase has been used in the forecasts and the same approach has been adopted to the Government Grant issue.

20. The same scenario also applies to a number of grants currently available as performance reward grant, the future of which is unclear. I expect some of these to be replaced with others as successive Governments have used this approach to deliver on policy objectives. What is unclear at this stage is what they will be and whether Chorley will be eligible, therefore no assumption has been made in future years forecasts regarding potential replacements.

Other significant issues

21. Icelandic Bank

Monitoring reports detailing the most up to date position as regards the Councils deposits frozen in Landisbanki have been presented to members previously. The officers of the Council continue to work proactively with the Local Government Association to recover the frozen funds. In respect of Landisbanki, the following is the current position:

- Our claim has been accepted as having preferential creditor status, but this position is being challenged by the unsecured creditors. The LGA legal advisors remain confident of being able to defend this challenge.

- Agreement has now been reached on the terms of the deal that will compensate creditors of the old Landisbanki and the latest valuation and forecast would suggest that recovery will be now equal to (or exceed the estimate of 83p in the pound)
- The capitalisation direction has been refused and on this basis funds should be set aside to cover the estimated improvement.

22. Concessionary Bus Travel

The demand led nature of concessionary travel expenditure and the materiality in terms of the Councils overall spending mean that this continues to represent a key risk. There are a number of issues that could affect both spending on concessionary travel and future Government funding.

23. Firstly, the negotiation with a bus operator over the subsidy reimbursement level that they recover from local authorities in Lancashire will have a bearing on the amount the Council spends. At present the bus operator have offered 61% with a counter offer being made by the Lancashire Authorities of 59.5%. At the time of writing the report the matter is still unanswered. In addition the current pooling arrangement that Chorley benefits from is likely to be amended for 2010/11, again this matter is unresolved at this point.
24. Finally the Government has announced its intention to transfer the responsibility for concessionary travel to County Councils with effect from April 2011. Whilst from a financial risk perspective this may appear to be helpful to District Councils, there is growing concern that, in disaggregating the grant support for concessionary travel, this may result in a net loss of funding. The Government is expected to publish its initial thoughts on the topic in the summer.

25. Free Swimming

Presently the Council receives Government Grants to part fund free swimming for the under 16's and over 60's. Together with a contribution from our leisure provider Active Nation and a further grant from the PCT, the cost is neutral to the Council. This arrangement however, is only due to last until the end of this forth coming financial year 2010/11. Thereafter the funding arrangements are unclear, so no provision at this stage has been made in the budget post the end of the scheme.

26. Other Risks

The length and depth of the recession is likely to continue to have an impact on the Councils budget both on revenue in terms of income generation and on capital in terms of the Councils ability to release capital receipts from both preserved right to buy sales and on the sale of its own assets. However as there is an element of latitude contained in the estimates of the level of likely receipts, I am content that the risk to some extent has been mitigated.

27. Level of Reserves

The budget for 2010/11 has been established based upon not using working balances to fund recurrent expenditure. Whilst this was done in 2009/10 as a short term measure, part of the budget strategy for 2010/11 was to return to the balanced position and the budget proposals achieve this key aim.

28. The risks outlined in my statutory report on the budget indicate that post the general election, the public finances and funding for some parts of Local Government is likely to diminish either in cash or real terms. On this basis I believe it would be prudent to look to

increase the level of working balances during 2010/11 and 2011/12 in anticipation of future potential funding issues.

29. The level of balances is a matter of judgement but given the uncertainty moving forward I propose that the level of working balances is increased to a target of £2m by the end of March 2011/12. The current forecast position as at the end of this financial year 2009/10 is shown in the table below.

Table 4: Forecast Balances as at 31st March 2010

	£'000
General fund working balance forecast Feb monitoring	1,262
VAT recovery 09/10 and 10/11	545
Recovery of Parkwise sums in dispute	59
Set aside for impairment of Icelandic bank deposit	(310)
Forecast balances 31/03/2010	1,556

IMPLICATIONS OF REPORT

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

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		No significant implications in this area	

Financial implications are indicated in the body of the report.

GARY HALL
DIRECTOR OF TRANSFORMATION

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Gary Hall	5480	3 February 2010	Appendix D