

Report of	Meeting	Date
Statutory Finance Officer	Council	1 March 2011

## 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 2011/12.

### 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 maintained to mitigate some of that risk moving forward. In terms of the 2011/12 budget all the key budgets have been reworked to align with expected outturn for 2010/11. The budget now contains 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.
- 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

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			X

## 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

In terms of the budget proposals, once again for 2011/12, 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 2011/12 budget, these are contained in the Medium Term Financial Strategy but summarised for convenience below.

Table1: Key Assumptions

Key Assumptions	2011/12 %/£'000	2012/13 %/£'000	2013/14 %/£'000
Pay Award	0*	0	2
Increase Pension Contribution	½	½	½
Decrease in Grant Settlements	(1,814)	(911)	(513)
Increase in Council Tax	0	0	0
Area Based Grant received via LCC for community safety	£0.058m	£0.058m	£0.058m
Supporting People Income	£0.189m	£0.154m	£0.144m
New Homes Bonus	250	250	250

\*Allowance made for those earning 21,000 or less

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

### 11. 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 2011/12. 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. I have made a small allowance for pay awards for staff earning 21,000 or less which is on the basis of discussion ongoing within the civil service.

12. Pension Contribution

The Local Government Pension Scheme for Lancashire has been 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 rate would be 20.8% resulting in a stepped increase of ½% per annum until 2014/15.

13. 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. The Hutton review on public sector pensions will take place within the next 12-18 months with the intention of reducing the burden on employers.

14. 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 and this I something the Hutton review is likely to address. Broadly speaking a 1% calculation in employee contributions will reduce the employer contribution by the same amount.

15. Revenue Support Grant 2010/11

The most recent CSR provided Local Authority funding details for two years (2011/12–2012/13) albeit 2012/13 is indicative.

16. As a reminder, the table below summaries the year on year decrease in formula grant awarded to Chorley Council.

Table2: 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

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

As expected there was significant cuts to government grant and the next two-three financial years, with significant front loading. To alleviate this a dampening mechanism has been put in place for 2011/12 and 2012/13 that means the full impact is not felt until 2013/14. The Government has announced a funding review for Local Government to take effect from 2013/14, but there is some certainty for the next two financial years.

18. The Revenue Budget Forecast contained in the Medium Term Financial Strategy assumes grant funding based upon what is currently shown.

19. Council Tax and Performance Grants

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.

- 20 The same scenario also applies to a number of grants. I reported last year that I expect some of these to be replaced with others as successive Governments have used this approach to deliver on policy objectives. In that respect that recent consultation on both the new homes bonus and planning fees are important. However to date details have not been firmed up and accordingly contained in the forecast are £250k for new homes bonus and a target of £40k for charging for enforcement. Based upon the consultation the new homes bonus could amount to £1.2m by 2013/14, but only year one is included in this forecast. The sum included also allows for an element of redistribution of the grant to upper tier authorities.

#### 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:

- The priority status of Local Authority deposits has been challenged by other creditors and a test case involving 5 authorities has been heard in the Icelandic courts in the last few days. The court's judgement is expected within a month. If the priority status is upheld it is hoped that the court will declare the test judgement to be binding in all authority deposits. Ant decision could be challenged in the Icelandic Supreme Court; such an appeal would be heard in the summer. There would also remain the possibility of further appeal to the European court.
- Estimates of the recoverable amount are anticipated to be between 85% and 90%.

22. Concessionary Bus Travel

The Local Government Finance Settlement confirmed that with effect from 1 April 2011, the responsibility for operating the concessionary bus travel in two-tier local authority areas will be transferred from District to County Councils. This has resulted in the basis for District Council grant formula being adjusted by an amount equivalent to the cost incurred in operating concessionary travel in 2009/10 (including non statutory services) uplifted for inflation less the specific concessionary travel grant previously received, which is also withdrawn. The consequence of this transfer is that we no longer have the funding for either the statutory or discretionary aspects of the concessionary travel scheme which will be determined and funded by Lancashire County Council.

23. Community Safety Funding

The abolition of area based grant means that the future arrangements for the Community Safety Partnership are still to be confirmed by the Government/County Council. The Police authority has now confirmed the Government has announced its intention to ring fence the Neighbourhood Policing Fund, which help support Police Community support Officers, for a further two years. At present we received a sum of £58k from area based grants with an equivalent sum expended on community safety activity. Officer time is mainstreamed into the Council budget so historically £58k has been used to help fund partnership initiatives. Once more details emerge I will report on the impact.

24. 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. We have not anticipated significant levels of receipts into the budget, so the risk of non delivery is low.

25. In terms of the policy options not yet achieved, the budget contains the following items, excluding the new homes bonus.

	£'000
New charges for planning fees - target	40
Inflationary increase – fees and charges (excl. planning; car parking and Building Control)	30
Additional income from new car parking machines	19
<b>Total</b>	<b>89</b>

26. Whilst there will be various levels of activity the parking income target represents a figure of 1 in 30 tickets being misused, which is a relatively low target.
27. The inflationary increase required to achieve additional income in the region of £30,000 is 4%.
28. The new regime for locally determined planning fees proposed by Government is still in the consultation stage and therefore final guidance is not available at present. At this stage it is intended that the above target will be met from a review of both enforcement and Discharge of Conditions certification charges.

29. Level of Reserves

The budget for 2011/12 has been established based upon not using working balances to fund recurrent expenditure. Part of the budget strategy for 2011/12 was to return to the balanced position and the budget proposals achieve this key aim, with a surplus actually being generated.

30. The risks outlined in my statutory report on the budget indicate that the public finances and funding of Local Government has diminished either in cash or real terms. That MTFS indicates that significant savings will need to be achieved over the next 2-3 financial years and as such as a minimum working balances should be maintained at the target level of £2m.
31. 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 2013/14. The current forecast position as at the end of this financial year 2010/11 is shown in the table below.

Table 4: Forecast Balances as at 31 March 2011

	<b>£'000</b>
General fund working balance forecast Feb monitoring	1,667
Contribution to general balance	219
2010/11 Budget Management	100
Marginal off street parking increase from LCC	158
<b>Forecast balances 31/03/2010</b>	<b>2,144</b>

### IMPLICATIONS OF REPORT

32. 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.

<b>Report Author</b>	<b>Ext</b>	<b>Date</b>	<b>Doc ID</b>
Gary Hall	5480	3 February 2010	Appendix D