

<b>Report of</b>	<b>Meeting</b>	<b>Date</b>
The Statutory Finance Officer	Special Council	28 February 2013

## **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 2013/14.

### **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 2013/14 budget all the key budgets have been reworked to align with expected outturn for 2012/13 and reflect the ongoing costs of delivering the current level of service. 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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### **CORPORATE PRIORITIES**

6. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	

## BACKGROUND

7. 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.

### The Robustness of the Estimates and Risk Issues

8. In terms of the budget proposals, once again for 2013/14, 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 2013/14 budget, these are contained in the Medium Term Financial Strategy but summarised for convenience below.

### 9. KEY ASSUMPTIONS

Assumption	2013/14	2014/15	2015/16
Pay Award	1.0%	1.0%	1.0%
Council Tax Increases	0.0%	0.0%	0.0%
Grant for Freezing Council Tax	£0.225m	£0.225m	£0.000m
Pension Contribution Increase	0.5%	0.0%	0.0%
Reduction in Grant Settlement (AEF)	£0.435m	£0.824m	-
Business Rates Retention	£0.171m	£0.171m	£0.171m
New Homes Bonus in Base Budget	£1.044m	£1.044m	£1.044m
New Homes Bonus – estimated receipts in future years from 2013/14	£0.739m	£1.500m	£2.300m

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

#### Council Tax Increases.

11. 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, but the Medium Term Financial Strategy models the impact of limited Council Tax increases for the future. As the Council Tax is decided annually, it will be for the council to determine if any increases are actually implemented.

### Council Tax Freezing Grant.

12. The administration is proposing to freeze Council Tax in 2013/14, therefore, the Council will be eligible to receive Council Tax Freezing grant in 2013/14. This grant income has only been included in the budget for two years as this is consistent with the grant's qualifying criteria.

### Reduction in Grant Settlement

13. 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.

#### Decrease in Formula Grant

<b>Year</b>	<b>Reduction £000</b>	<b>%</b>
2011/12	1,154	-13.6
2012/13	857	-11.7
2013/14	435	-7.4
2014/15	824	-15.1
<b>Total</b>	<b>3,270</b>	

14. 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. The Government has also announced a review for Local Government to take effect from 2016/17 therefore there may be further amendments to the Formula Grant from next year onwards. The funding from Government is now in two parts which includes the new business rate retention scheme. Whilst the baseline funding has been agreed for 2013/14 this will mean future years will have further variances as the grant received will be dependent upon maintaining and increasing the business rate valuation and collection.

### Pay Inflation

15. 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 for future years. 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. Recent communications between employee and employer representatives indicate that a 1 % pay offer could be made for 2013/14.

### Pension Contribution

16. 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 indicated that the Council's target contribution was subject to a stepped increase of 0.5% per annum until 2014/15. Therefore a revaluation is to be undertaken during 2013/14.
17. 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. A number of changes have been made to the benefits staff will receive in their pensions and the levels of contributions employees make. It remains to be seen if this will

result in a reduction in the level of employers' contributions, the revaluation exercise will establish this.

### New Homes Bonus

18. The inclusion of New Homes Bonus (NHB) in the 2013/14 base budget forecast has been limited to that received prior to 2013/14. 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.

It is estimated that if the funds allocated for the NHB Scheme were redistributed using the formula grant model, the total Chorley would receive would be circa £500k. The risk in terms of a change in the distribution nationally is significant and represents probably the biggest single risk contained within the budget although the methodology is unlikely to change in the next two financial years.

### Supporting People Income

19. 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. A new methodology for the distribution of supporting people grant is now in discussion with the County Council and the recipients of support people grant.

### Health Reforms

20. 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.

## **OTHER SIGNIFICANT ISSUES**

### 2013/14 New Budget Investment Package

21. The administration's budget for 2013/14 contains both a freeze in Council tax and a package of both revenue and capital budget growth items totalling £ 1.349m and £1.475m respectively.
22. The revenue budget package of £1.349m is allocated between a requirement to provide for a recurring budget provision in the sum of £0.120m with the balance being for 2013/14 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.

### New era for Local Government Core Funding

23. Local Government funding as entered 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 New Homes Bonus. The Retention of Business Rates supports Local Government Funding. 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. 2013/14 is a transitional year with baseline funding being

allocated, therefore the 2013/14 budget is robust, it is the future years where the uncertainty lies.

24. 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. The key risk is that if this method of grant distribution is changed, it is unlikely to happen prior to the next general election in 2015 and the next comprehensive spending review is the same period, but the reasons are outlined in Paragraph 18.

#### Medium Term Financial Strategy (MTFS)

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

Year	Budget (Headroom)/Gap £000	Cumulative £000
2013/14	(495)	(495)
2014/15	1,441	946
2015/16	644	1,590

26. The plan indicates that, in the medium term, the Council has the opportunity to generate additional revenues and review its operation with a view to becoming more efficient. In terms of managing this, the Council is not dependent upon one approach and the level of productivity gains needed should not undermine the Council's ability to continue to deliver services within the Borough.

#### Icelandic Bank

27. 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. Whilst it is anticipated that it will be 2018 before the recovery period is complete, the latest indication are that a 100% recovery will be achieved.

#### Other Risks

28. The current economic conditions are 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.
29. In terms of the savings options that vast majority have been implemented and achieved. The budget, therefore, only contains the following items that represent targets for efficiency other than decisions that have already been made and will result in savings being made.

Policy Option	£'000
Asset rationalisation	50
Review of Governance	25

<b>Total</b>	<b>75</b>
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### **LEVEL OF RESERVES**

30. The budget for 2013/14 has been established based upon not using working balances to fund recurrent expenditure. Part of the budget strategy for 2013/14 was to maintain the balanced position and the budget proposals achieves this key aim, with a surplus actually being generated
31. The risks outlined in my statutory report on the budget indicate that the public finances and funding of Local Government will diminish. 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 £2.0m.
32. 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 £2.0m by the end of March 2014/15. The current forecast position as at the end of this financial year 2012/13 is shown in the table below.
33. Forecast Balances as at 31 March 2013

	<b>£m</b>
General fund working balance forecast Dec monitoring	2.587
Use of General Balances for Debt Restructuring within MTFs	(0.450)
Contribution to Investments funding in 2013/14	(0.115)
<b>Forecast balances 31/03/2013</b>	<b>2.022</b>

*Source: Revenue Budget Monitoring period ending December 2012.*

34. The rationale for this position is based upon the following:
- (a) the Council has uncommitted working balances that would enable it to cover the loss of any deposit should this occur. This was one of the criticisms the audit commission made of some councils' who did not have sufficient reserves should the Icelandic Bank collapse resulting in a loss of significant proportion of these deposits.
- (b) There is likely to be further variances in the level of Government grant received by the Council following the introduction of the business rate retention scheme. Some protection is in place in that a safety net exists over the council's loss of income if a reduction in its business rate reaches £0.200m.
- (c) The Comprehensive Spending Review in 2015 may result in further reductions in local government funding. The current Government's policy is to protect education and the NHS as much as possible. Consequently the reduction in local government funding is likely to continue. This represents a significant risk in the medium term.

## IMPLICATIONS OF REPORT

35. 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

36. These are contained within the report.

## COMMENTS OF THE MONITORING OFFICER

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

GARY HALL  
CHIEF EXECUTIVE

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Susan Guinness	5101	8 February 2013	Statutory Finance Officer Report Special Council 080213