WIRRAL COUNCIL

CABINET

18 FEBRUARY 2013

SUBJECT	**BUDGET 2013/16 – CHIEF FINANCIAL OFFICER STATEMENT**
WARD/S AFFECTED	**ALL**
REPORT OF	**INTERIM DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER	**COUNCILLOR PHIL DAVIES**
KEY DECISION	**YES**

1.0 EXECUTIVE SUMMARY

1.1 Under Section 25 of the Local Government Act 2003, the Authority's Chief Financial Officer (Director of Resources) is required to report on the robustness of the estimates made for the purposes of the Council's Budget calculations and the adequacy of the adequacy of the General Fund balances and reserves. A statement to this effect is set out below for Members' information.

2.0 BACKGROUND AND KEY ISSUES

2.1 Budget estimates are exactly that, being estimates of spend and income made at a point in time. This Statement about the robustness of estimates cannot give a guaranteed assurance about the Budget, but gives Members reasonable assurances that the budget has been based on the best available information and assumptions.

2.2 In order to meet the requirement on robustness a number of key processes were put into place, including:

- the issuing of clear guidance on preparing budget growth and savings options for the three year period 2013/16;
- peer review by finance staff involved in preparing the standstill [base] budget i.e. the existing budget plus inflation;
- the use of budget monitoring, and the bad budget review, in 2012/13 in order to re-align budgets with current demand, for 2013/14 and future years;
- a review by the Management Team, supported by a series of officer challenge sessions, of proposed savings and their achievability;

- a Member review and challenge of each proposal through the Overview & Scrutiny Committees and Cabinet;

- the Chief Financial Officer providing advice throughout the process on robustness, including inflationary factors, avoiding unallocated savings and reflecting current demand and service standards (unless standards and eligibility are to be changed through a change in policy); and

- extensive consultation with the public and various groups including the business community and voluntary sector.

2.3 Notwithstanding these arrangements, which are designed to test the Budget throughout its various stages of development, considerable reliance is placed on Managers having proper arrangements in place to identify issues, project demand for services, and consider value for money and efficiency.

2.4 A key part of improving these processes is to develop data and information to monitor service volume and unit costs and track changes in both. This will also assist in the Council's Medium Term Strategy Planning.

3.0 RELEVANT RISKS

3.1 Finance undertook a formal Risk Review of the Revenue Budget, and proposed that Balances be set at a level appropriate to the currently identified risks. This was the subject of a report to Cabinet on 29 November 2012 since which time there have been changes to the financial position and an updated review is on this agenda. This is not intended to replace the existing Risk Register but should inform any revision the Council Risk Register.

3.2 Capital Programme and Revenue Budget Risk Registers will be completed and approved following the final determination of both the Capital Programme and the Revenue Budgets for 2013/16. These are intended to form part of the future Budgetary Control framework being reviewed at least quarterly.

ROBUSTNESS OF THE REVENUE ESTIMATES

3.3 The 2013/14 Budget process was improved through the preparation including a more robust process to identify, review and assess both growth and savings proposals. This has seen the production of proposals from the Chief Executive which have been subject to public consultation and review by Elected Members.

3.4 Whilst proposals will be made to Cabinet in order to produce a balanced Revenue Budget for 2013/14 and broad areas identified for 2014/16 that will seek to address the deficits in these years. The development of Medium Term Financial Planning will improve the 2014/16 savings and efficiency proposals. Appendix 1 shows the factors taken into account in developing the draft budget.

3.5 In assessing the robustness of Revenue Budgets, the achievability of savings / reductions and income It is expected that the key risks remaining will be:

- Changes to staffing including equal pay as the Council has yet to conclude its equal pay payments and changes to terms and conditions.
- The ongoing impact of the economic downturn including increasing demand for services and reducing grant funding and income from charges.
- The actual delivery of the approved savings and efficiencies.
- Changes to the Capital Programme, to achieve the policy objective of eliminating Prudential Borrowing;
- The delivery within budget of key housing, schools and regeneration capital schemes.
- The possibility of legal challenge including judicial review
- The confirmation of Government grants, of which a number remain currently unknown.

3.6 These assumptions and potential changing circumstances will require the forecasts for future years to be reviewed early each financial year leading to more detailed budgets being prepared for the next financial year and the medium term during the Autumn of each financial year.

ROBUSTNESS OF THE CAPITAL PROGRAMME

3.7 The agreed Capital Programme includes projects costed at current year prices with many subject to a subsequent tender process which lead to variance in the final cost. In some areas, the design brief may not yet be finalised, again giving rise to potential price variance.

3.8 In assessing the robustness of the Capital Programme the risk of being unable to fund variations outside of the Programme is minimal mainly due to phasing of projects. If necessary, the Council can choose to freeze parts of the Programme throughout the year to ensure spend is kept within the agreed budget.

3.9 There are two main risks:-

- The ability to deliver the Programme within the agreed timescales. Slippage from 2012/13 is fully funded but this will increase pressure on the Council to deliver the anticipated 2013/14 Programme.

- The future Programme has amounts for new starts based on the availability of capital receipts. In today's climate, these receipts may be lower than expected, which will have to be managed.

ADEQUACY OF THE GENERAL FUND BALANCES AND RESERVES

3.10 The Council had for a number of years identified 2% of the Revenue Budget as being an appropriate and minimum level of balances. Cabinet on 29 November 2012 agreed to a different approach in determining the level of General Fund balances and reserves. This recommended a locally determined approach based upon an assessment of the financial risks that the Council may face in the future.

3.11 The Level Of General Fund Balances For 2013/14 report on this agenda provides an update in the light of budgetary developments since the November report.

4.0 OTHER OPTIONS CONSIDERED

4.1 None as the Statement of the Chief Financial Officer is a legal requirement.

5.0 CONSULTATION

5.1 None as the Statement is that of the Chief Financial Officer.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are no implications arising directly from this report.

7.0 RESOURCE IMPLICATIONS

7.1 In the Budget 2013/16 - Initial Proposals report to Cabinet on 20 December 2012 the Budget Projections 2013/16 indicated a shortfall between spend and resources of £109 million. At that time officer savings options totalled £78 million. Cabinet agreed, in principle, savings options totalling £30 million taking the total to £41 million and on 24 January 2013 agreed savings to Council Tax discounts and exemptions realising £2.2 million of savings.

Table 1 : Summary of the Budget Funding Gap

Funding Gap	2013/14	2014/15	2015/16	Total
	£m	£m	£m	£m
Funding Gap	39	43	27	109
Cumulative Gap	39	82	109	

Table 2 : Summary Of Agreed Savings By Approval Date

Cabinet	2013/14	2014/15	2015/16	Total
	£m	£m	£m	£m
November Efficiency Fund and Council Tax Support Scheme	7.2	2.0	2.0	11.2
December Agreed in principle a range of options	14.5	6.2	8.9	29.6
January Council Tax Discounts	2.2	-	-	2.2
Totals	23.9	8.2	10.9	43.0

7.2 In respect of 2013/14 the budget gap was £39 million and the savings agreed, including those in principle, totalled £24 million. The Chief Executive's savings proposals are included in the Budget Report.

7.3 Since the December report a number of exceptional items have been identified which add to the financial difficulties. Whilst discussions are on-going with the Government these remain to be resolved.

Table 3 : Exceptional Items

Item	2013/14	Actions being pursued
	£m	
Under-budgeting in previous years	17.1	To reduce requirement by £3.4m with £13.7m addressed through use of balances 2013/14
Review of outstanding debts – potential write-off	6.1	To be funded from reserves per the Revenue Monitoring report to Cabinet 24 January
Redundancy costs from reduction in workforce	5.0	To seek Government permission to treat as capital spend what are revenue costs

7.4 There are no staffing, asset or IT implications arising directly out of this report.

8.0 LEGAL IMPLICATIONS

8.1 The Chief Financial Officer is required under Section 25 of the Local Government Act 2003 to produce a report on the robustness of the estimates made for the Council's budget.

8.2 The Council is required to agree a Budget for 2013/14 by 10 March 2013. The report concerns the duty of the Council to avoid a budget shortfall which is not just an academic exercise in balancing the books. The Chief Financial Officer of a local authority has a personal duty under Local Government Finance Act 1988 section 114A to make a report to the executive if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.

9.0 EQUALITIES IMPLICATIONS

9.1 There are none arising directly from this Statement. When taking Budget decisions the individual decisions may have Equality Implications. Equality Impact Assessments have been completed in relation to the options and these will be re-assessed as the options progress and updated where appropriate. A cumulative assessment will accompany the Budget proposal.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are no implications arising directly from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are no implications arising directly from this report.

12.0 RECOMMENDATIONS

12.1 That the Statement of the Chief Finance Officer be noted.

13.0 REASON FOR RECOMMENDATION

13.1 Under Section 25 of the Local Government Act 2003, the Authority's Chief Financial Officer (Director of Resources) is required to report on the robustness of the estimates made for the purposes of the Council's Budget calculations and the adequacy of the adequacy of the General Fund balances and reserves.

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APPENDICES

Appendix 1 Analysis Of The Robustness Of Revenue Estimates.
Appendix 2 Analysis Of The Robustness Of Capital Estimates.

SUBJECT HISTORY

Council Meeting	**Date**
Cabinet	
Budget Projections	19 July 2012
Level Of General Fund Balances	29 November 2012
Budget 2013/16 – Initial Proposals	20 December 2012
Council Tax Discounts and Exemptions	24 January 2013
Council Tax Base	24 January 2013

APPENDIX 1

ANALYSIS OF ROBUSTNESS OF REVENUE ESTIMATES

Budget Assumption	Financial Standing and Management
1. The treatment of growth pressures	Two major demand factors affect the 2013/16 budgets:- • 2012/13 budget pressures continuing into 2013/14 and future years. A number of pressures identified through the 2012/13 budget monitoring include the failure to deliver agreed savings and bad budgets arising from the failure to address recurring overspends. • Demographic demand pressures have been identified within Social Care - the elderly, children and the vulnerable. This relates to both the previous years under-budgeting as well as growth included for 2013/14. The 2013/14 Budget has been based upon 2012/13 budget monitoring reports and projections made by Managers of demand in future years.
2. The treatment of inflation and interest rates.	Pay – 1% has been provided in the 2013/14 Budget and future years for pay awards for staff. The overall planning totals have provided for an estimate for the implementation of equal pay. Pensions – Employer rates fully reflect the most recent actuarial review in 2010 The next review is in 2013. Price inflation is only been provided on contractual arrangements at the rate stated in the relevant agreement. Price inflation has also been applied to utility budgets to reflect in 2012/13 and 2013/14 to reflect price increases.
3. Surplus cash balances (income, capital, receipts and grants)	At any time the Council will have a number of positive cash income streams, such as capital receipts and government grants, etc. These will be invested as part of the overall and day-to-day cash flow management activities undertaken by the Treasury Manager. This income will be available to support the revenue budget during 2013/14. Cash investments can be liquidated at short notice and are available at any point in time to meet the Council's day-to-day requirements for cash funding.
4 The treatment of income	Changes to fees and charges have been presented as individual budget options and have generally been reviewed in light of prevailing inflation. The review of previous years under-budgeting included adjustments of £4 million made to reduce unrealistic / undeliverable income targets.
5. The treatment of efficiency savings / productivity gains.	All Managers have a responsibility to ensure the efficient delivery of services and, when savings are proposed, they are realistic in terms of the level and the timing. Should these vary due to unforeseen events management action or policy actions within the relevant Business Units and corporately, will be implemented.
6. The financial risks inherent in any significant new	The sharing of risk is in accordance with the principle of the risks being borne by the party best placed to manage that risk. Inherent risks include any guarantee or variation of service throughput (service

Budget Assumption	Financial Standing and Management
funding partnerships, major outsourcing deals or major capital developments	volumes). If risks materialise the expectation is that such an eventuality will be considered in future years' budgets and General Fund balances restored to at least the minimum prudent level. Responsibility for Public Health transfers to the Council from 1 April 2013. For 2013/14 and 2014/15 funding has been provided by the Government in the form of a specific grant to cover the costs. From 1 April 2013 the Council has to have in place a Local Council Tax Support Scheme and a Local Welfare Assistance Scheme. Additionally the Government funding changes give the Council a financial incentive / pressure in relation to Business Rates. These places additional risks upon the Council which has been assessed in the level of General Fund balances.
7. The availability of other funds to deal with major contingencies	The minimum level of reserves assumes that management and policy actions will be taken to address major contingencies. Should these be insufficient, the minimum level of reserves may have to be used temporarily but restored to at least their minimum prudent level or the optimal level through future budgets. This risk based approach is set out in a separate report on General Fund balances.
8. The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates etc)	The Council acts to manage its borrowing prudently and in accordance with statutory guidance regarding affordability and sustainability with regard to debt expenses incurred in its revenue account. This is achieved through the Treasury Management Strategy and Investment Policy approved by Council each year. The level of borrowing is restrained through reducing the need for unsupported borrowing so the Capital Programme contains plans to minimise new borrowing. The additional costs of financing this debt are built into the 2013/14 budget and future MTFP assumptions and are contained within the overall parameters set by the Council for prudential borrowing, The assumed Council Tax collection rate for 2013/14 onwards is 96.75% and judged to be achievable. This has been reduced from 98.5% because of the expected reduction in collection resulting from the Local Council Tax Support scheme and changes to the Council tax Discounts and exemptions effective from April 2013. Legislation requires that any Collection Fund deficit be corrected through the Council Tax in the next year. There is no surplus to be distributed in 2013/14.
9. The authority's track record in budget and financial management.	As projected at Month 9 the 2012/13 revenue monitoring report is forecasting an overall overspend on the General Fund of £7.9 million. This has reduced from the £17 million that was reported at the end of Month 3 as a result of a number of actions including a spending freeze and the release of 'one-off' sums from reserves and provisions. In previous years the Council has managed its budget despite significant budget pressures. However this had been achieved through a number of savings of a 'one-off' nature such that recurring overspends had not been addressed and undermined the financial position of the Council. These have been identified through Budget Reviews in 2012 although funding from balances is required in 2013/14 order to address the shortfalls in Adults and Children's Services.

Budget Assumption	Financial Standing and Management
	Ultimately, financial performance relies on all budget managers actively managing their budgets and complying with financial regulations, including not committing expenditure if there is no budget provision available.
10. The authority's capacity to manage in-year budget pressures	In order to improve the ability to manage in-year budget pressures a number of actions have been put in place. Improvements have been made to the financial monitoring system in terms of accuracy, the frequency of reporting and the challenge process. The budget preparation for 2013/14 has involved greater rigour and challenge as well as involvement from those delivering the services and the savings. This has enabled action earlier in the year to correct any over / underspendings and the ability to deliver what was planned. Equally, the ability to manage in-year pressures has been recognised in the local approach in reflecting risk in determining the appropriate level of General Fund balances and Reserves.
11. The strength of the financial information and reporting arrangements.	The in-year financial monitoring arrangements have been improved through the introduction of a more comprehensive monthly report as per 9 The draft Medium Term Financial Strategy has been improved and will further strengthen the basis of reporting. Appendices to the Budget report will show the budget over the three years 2013/16 and a budget book will be published in March.
12. The authority's virement and end of year procedures in relation to budget under / overspends at authority and directorate level.	There will be a review of the Budget virement policy to incorporate management disciplines to ensure management and policy actions are considered in relation to overspending budgets. Generally virement is considered at a corporate level against corporate priorities, including the contribution towards the optimal level of General Fund reserves.
13. The adequacy of the authority's insurance arrangements to cover major unforeseen risks.	The Council's insurance arrangements are a balance between external insurance premiums and internal funds to "self-insure" some areas. Premiums and self-funds are reactive to external perceptions of the risks faced by the Council which includes both risks that are generic to all organisations and those specific to the authority. The level of the Insurance Reserve in regularly reviewed and is judged to be adequate in that estimated outstanding liabilities are covered by the balance on the Reserve.

APPENDIX 2

ANALYSIS OF ROBUSTNESS OF CAPITAL ESTIMATES

Budget Assumption	Financial Standing and Management
1. Estimates of the level and timing of capital receipts.	The Council's policy is to fund its Capital Programme over the three year MTFS cycle, from three sources: • Borrowing (with provision made in the Revenue Estimates), • Grants, Government and Other; • Capital Receipts. In respect of borrowing the objective is to minimise/eliminate: ▪ Prudential Borrowing, and ▪ Revenue contributions, unless the proposed spending can generate its own funding. Capital Receipts are managed through an officer group working to income generation targets as part of delivering the 2013/16 Capital Programme. Capital Receipts are invested as part of the Council's normal treasury management activity. The income continues to be used to help to support the Council's revenue expenditure.