APPENDIX B

CHIEF FINANCE OFFICER STATEMENT

Under the Local Government Act 2003 (Section 25) the Chief Finance Officer of a local authority must report to the Full Council when it agrees its annual budget and precept, setting out his or her views as to the robustness of the estimates used in the calculations and the adequacy of the proposed financial reserves.

The Council must have due regard to the report when making decisions on the budget and precept.

I am the Chief Finance Officer for the Council and my report is attached in annex 8 of the papers that you are considering today. It was also part of the budget papers considered by the Cabinet last week. I know you will have taken the time to read it in full before this meeting.

In forming a view, I have considered the financial management arrangements that are in place, the level of reserves, the budget assumptions, the overall financial and economic environment, the financial risks facing the Council and its financial standing.

Preserving the Council's financial resilience is a key long-term driver in the Council's financial strategy that has been reflected in the current MTFP (2011-15) and which continues as a core principle as the Council moves forward to the next - 5 year MTFP.

Although, I am pleased to report that the Council has successfully delivered significant savings in 2010/11 (£68m) and is forecast to deliver the further savings target for 2011/12 of £61m, the budget assumptions for the next 5 years includes significant further savings of £206m, making a total of £335m over the seven year period. However, there is a significant level of risk in agreeing a MTFP with continuing high level of further savings required year on year and it may become harder for services to deliver each year's savings.

Further significant risk exists due to the level of economic uncertainty and the proposals to fundamentally review the basis of local government funding from 201 3/14.

Taken together, these risks will require a higher level of general cash balances to be maintained and the continued inclusion of a contingency sum, £8m, in the budget.

The above risks apply where the Council continues with its MTFP 2011-15 strategy of annual council tax increases of 2.5% annually. However, accepting the Government's offer, made in Oct 11, of a one-off grant to compensate Council's for not increasing council tax by 2.5%, equal to £14m for this Council, would mean the Council would be unable to sustain its MTFP without either:

- imposing significant Council Tax increases in 2013/14 and subsequent years; and/or
- making additional reductions to front line services or the capital programme (since the one off grant should only be spent on one-off items).

There is a risk that these actions would not be sustainable and may lead to the erosion of the Council's financial resilience.

I am pleased to say that the Council's external auditor gave an unqualified opinion on the 2010/11 financial statements and an unqualified conclusion on the Council's arrangements for securing value for money. This follows a similar opinion in 2009/10, despite that the Council had to implement the accounting changes required under the International Financial Reporting Standards (IFRS) changes for the first time.

A robust system for monitoring the progress on the implementation of efficiency savings, linked with other elements of the change programme was established in 2010/11 and has been maintained during 2011/12. The Corporate Board review progress in detail on a monthly basis before a budget monitoring report is presented to the Cabinet within a month of the end of the monitoring period, about 2 weeks earlier than in previous years. The timeliness of this reporting means variations from the budget are considered early & management action can be put in place promptly.

In addition the PVR programme, continues to identify the actions necessary to deliver many of the proposed MTFP savings and monthly monitoring at the PVR Steering Board ensures regular comparison of targeted savings to actual savings.

This approach will be extended to 2012/13 and progress on the actions needed to achieve the required savings will be tracked. In view of this continued close monitoring, I consider that the financial control arrangements remain sufficiently robust to maintain adequate and effective control of the budget in 2012/13.

The main budget assumptions used in setting the 2012/13 budget tare shown in paragraph 18 of my report (annex 8). The assumptions for pay and price inflation are challenging but the services have proven to contain these pressures in the past. Allowance has been made for forecast increases in demand for adult social care services as well as services to support vulnerable children, but there are risks regarding the extent of demographic pressures and the complexity of individual cases.

It is my opinion that the general assumptions are realistic, but that the proposed efficiency and other service savings are ambitious and there is substantial risk that they will not all be achieved within the required timescale. However, the contingency sum built into the budget together with the availability of general cash balances at the higher recommended level of £30m allows sufficient headroom provided robust monitoring processes are kept in place.

In recognition of the need to invest to deliver some of the efficiencies and service reductions required, an invest to save fund has been created from 2012/13, against which services will be required to produce full business cases before any resources are actually released. This reserve will require services to 'repay' the investment released to them over an agreed period – thereby ensuring that this fund is replenished over time and available for future investment initiatives.

The Council has complied fully with the requirements of the Prudential Code for Capital Finance in Local Authorities. The formal recommendation to the Council sets out the prudential indicators, which the Council must adhere to. I am satisfied that the level of borrowing assumed in the indicators is affordable and sustainable. The MTFP makes provision for the financing of all proposed borrowing and assumes a continuation of the strategy to borrow internally unless external factors (i.e. interest rates and or capping limits) alter and make early borrowing appropriate.

The Council has £18.6m placed on deposit with two Icelandic banks, which has been at risk following the administration of these banks in Oct 2008. Based on the information currently available I advise that there is a reasonable expectation of recovery of some or all of the deposits, but that until the level of settlement is known, it would be prudent to maintain the Financial Investments reserve of £9.5m against possible losses. This will be kept under review, in year, as the legal cases proceed.

My report details a number of specific risks that the Council faces and that could have a financial impact – I draw your attention in particular to paragraph 25-27, which sets out these risks. Although the level of reserves and balances is sufficient to meet the impact of these in the short term, if the risks materialise adjustments would be needed to sustain the budget in future years.

In conclusion, I consider that the budget proposals recommended by the Cabinet are robust and sustainable. The proposed budget addresses the estimated reduction in funding over the next five years and sets out a plan to ensure that the Council can deliver budgets within estimated available resources. However, there are risks associated with the achievement of efficiencies and service reductions and clear planning, management and monitoring arrangements are needed to ensure savings are delivered within the required timescale. Additionally, there is added risk due to the economic situation and the Government’s policy of tackling the national deficit and implications on the level of local government funding. The level of reserves together with the contingency sum is sufficient to meet the known risks within the budget, taking account of the Councils robust financial management framework.

Sheila Little
Chief Finance Officer
7 February 2012