



TO: COUNCIL
FROM: STRATEGIC DIRECTOR RESOURCES
DATE: 3RD MARCH 2008

PORTFOLIOS AFFECTED: ALL

WARDS AFFECTED: ALL

**TITLE OF BRIEFING PAPER THE ROBUSTNESS OF THE 2008/09 BUDGET AND
THE RECOMMENDED LEVEL OF RESERVES**

1. PURPOSE

The Local Government Act 2003 places a statutory requirement on the Chief Finance Officer of the Council to report on:

- a) the robustness of the estimates within the overall budget and
- b) the adequacy of the proposed level of financial reserves

This report needs to be received by Members prior to the Council formalising the budget process and setting the Council Tax.

2. RECOMMENDATIONS

That the Council resolves to take note of the report of the Strategic Director Resources which provides advice on:

- The robustness of the Revenue Budget and Capital Programme for 2008/09 outlined in the report of the Executive Member for Resources
- The recommended level of proposed financial reserves.

3. KEY ISSUES

To provide statutory advice to Members when setting the budget in accordance with the Local Government Act 2003.

4. RATIONALE

This information is provided to assist Members in formulating the overall Revenue Budget and Capital Programme so that Members receive confirmation that financial advice has been provided throughout the formulation of the budget process.

5. POLICY IMPLICATIONS

Of necessity, the budget strategy will reflect the policy requirements at both a corporate level and a departmental level and in particular will reflect the corporate priorities contained in the Performance Agreement.

6. FINANCIAL IMPLICATIONS

Robustness of the 2008/09 Budget

Throughout the formulation of the budget strategy, Portfolio Executive Members have been advised by the appropriate Deputy Chief Executives and Directors in relation to the operational requirements around policy and legislative initiatives. Likewise, the Strategic Director Resources, the Director of Financial Services and senior finance representatives have advised on the financial ramifications and provided comprehensive input to demonstrate financial viability throughout the budget process.

It is my considered opinion, as the Council's Chief Finance Officer, that the most important element in delivering a robust budget strategy is during the formulation, consideration, evaluation and finalisation of the overall revenue and capital programme which is now encapsulated in the report by the Executive Member for Resources. The budget strategy is affordable, meaningful, meets the policy objectives of the Council, including its Performance Agreement and is deliverable.

The robustness is demonstrated by those charged with governance in terms of the advice and guidance requested and those charged with providing the operational aspects of the policy framework together with the appropriate statutory and financial advice.

In any budget there are likely to be risks but these are mitigated by the following:

- The fact that the Council's Financial Regulations provide that each Portfolio must contain expenditure within its prescribed cash limit. The fact that there is provision for overspends, underspends and the ability to manage these between different financial years.
- The 3 year financial settlement means that this year, for the first time, we will be issuing indicative budgets for the following 2 years to enhance forward planning, policy prioritisation, resource allocation and the opportunity to invest in achieving future efficiency savings.
- That overall budget monitoring takes place during the year at both Portfolio and Executive Board level to identify potential problem areas and specify corrective action. This in itself provides a strong control environment and is commensurate with sound corporate governance. Arrangements are in hand to ensure earlier reporting of the financial position through portfolio policy teams.
- Having sufficient levels of unallocated reserves (balances) to ensure that any unforeseen and uncontrollable financial issues can be addressed in a meaningful and controllable manner.
- The system of cash limited budgets provides a more transparent and accountable arrangement. Cost pressures such as pay and price inflation, grant fallout and any other specific requirements have been identified from the outset. Each Portfolio has, however, been allocated a cash limit which takes account of general inflation and which apportions a share of corporate pressures and has had to formulate a strategy to ensure a balanced budget within the allocated cash limit.

- The Council adopts a risk management philosophy which provides added value to the governance process and identifies risks associated with both the revenue and capital programme.

In any financial year, the level of Government funding, the additional cost pressures, including inflation, and areas of investment in new and revised services, together with increasing demand of services, necessitates a re-appraisal of service delivery, including how efficiency gains may help ameliorate the process and thus ensure a balanced budget. The budget strategy and proposals being submitted have been formulated to reflect these issues.

Based on the budget strategy proposed by the Majority Group a number of key budget issues have been proposed and some could be regarded as more high risk than others but nevertheless are achievable during the 2008/09 financial year. For instance:

Capital Programme

This year the capital programme predominantly comprises major commitments, from 2007/08, including the Darwen Leisure Centre, the Freckleton Street Bridge renewal, Feilden Street Multi-storey Car Park, and looking to the future with regard to town centre development including the market. These schemes necessitate strong financial appraisals, sound project management and effective monitoring to ensure they are achieved, on time and within budget. Failure to achieve a budgeted target on such large schemes could lead to potential overspends which could impact on the overall and future capital programme as there are no available resources to allow for any large potential overspends. Nevertheless, this can be mitigated as outlined above providing sound governance from the outset. To exemplify, with regard to major town centre initiatives, a programme board has been established to provide the necessary governance and structured approach with the appropriate reporting mechanisms.

For all future capital schemes, a "gateway framework" has been formulated to ensure resources other than technical are being included to ensure a total corporate approach including strong project management.

Revenue Budget

Examples of high risk areas include:

Pay and Reward – This Council, in line with other Councils in the North West, has faced substantial pressures in respect of previous pay arrangements and the Executive Board has now agreed revised Pay and Reward arrangements for the future, completing the final stages of harmonisation of pay and conditions outstanding from 1997. Whilst the envisaged cost of the new arrangements has been factored into budgets going forward, work is required in respect of the practical arrangements, and the costs of the new pay base will be monitored going forward.

Adult Services - Over the last decade or more the social care business has seen unprecedented year on year demand for service from a growing number of vulnerable people in our community with increasing expectations regarding service design and quality. Blackburn with Darwen has had, until recent years, an outstanding track record in managing its Social Care pressures. Service change and modernisation has been introduced to maximise the use of resources. However Blackburn with Darwen is now in a position where increasing demand

and more intensive needs have resulted in the local experience being a mirror of the national one. Like other Social Services Authorities, Blackburn with Darwen is in a position of significant financial pressure which is likely to continue and potentially grow. The service response to this growth in demand has been the consideration of more radical and innovative solutions that will deliver both short and long term impact and sustainability. Such a transformational change agenda inevitably has a significant lead in time and risk. The successful delivery of this change agenda and the uncertainties of future demand are potentially the biggest risk to the Council's budget viability. In recognition of these issues the budget strategy is to direct additional resources into the Adult Social Care portfolio.

Efficiency Gains – The budget strategy includes a package of revenue efficiencies and service reductions, supporting the council's requirement to drive out efficiency savings with a focus on prioritising service areas which can be delivered at reduced cost but without any impact on quality. Notably in 2008/09 the council is expecting to realise, and in fact increase, the level of efficiencies within Adult Social Care, the size and complexity of which have and continue to require dedicated resource to deliver and close monitoring of impact. Monitoring of the delivery of our efficiency programmes has been embedded within monthly monitoring processes during 2007/08 which must be continued into the future.

There are a number of efficiencies which should be readily achievable within the early part of the financial year. Others that require joint delivery through partnership working will require more detailed planning and early consultation and negotiation to ensure their achievement.

Adequacy of Proposed Financial Reserves

This year's budget strategy has recognised and taken into account the budget pressures which have arisen during the 2007/08 financial year, arising primarily from increased demand for services and reflecting the national picture. At the same time, some savings have been achieved, mainly arising from the ability to capitalise most of the equal pay compensation costs and from additional grant availability by way of the freedoms and flexibilities earned as a four star council. As a result, balances are now expected to be substantially greater at the end of 2007/08 than the minimum recommended at last year's budget.

The issue of provisional financial settlement figures for 2009/10 and 2010/11 now also means that the council is able to consider indicative budgets for the following two financial years as well as setting a budget for 2008/09. The three year budget requires a contribution from reserves to support the budget in 2008/09, with a smaller contribution the following year, and by 2010/11 the budget position is expected to allow reserves to be replenished. Nevertheless, the budget proposals are designed to ensure reserves will not fall below the minimum level at any point.

Details of the risk factors which are taken into account in advising on the minimum level of balances are outlined at Appendix A. Balances of necessity are there to assist;

- working balances to help cushion the impact of uneven cash flows
- as a contingency to cushion the impact of unexpected events or emergencies, or
- to meet known or predicted liabilities such as contingent liability claims

The sensitivity and risk analysis identifies a requirement of £4.0M, as recommended in previous years. As a guide, one of the Comprehensive Performance Assessment criteria suggests that reserves should be 5% of the Council's budget (excluding schools). As the Council's budget excluding schools is around £120 million, this would suggest reserves should be around £6 million. However, as a well managed authority, with a prudent approach to budgeting, it is considered that the risks are significantly reduced.

For information details of earmarked balances are outlined at Appendix B.

7. LEGAL IMPLICATIONS

This report is a requirement under Section 25 of the Local Government Act 2003.

8. RESOURCE IMPLICATIONS

None as a direct consequence of this report.

9. CONSULTATIONS

None applicable to this report

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DATE:	22 nd February 2008
BACKGROUND PAPER:	Budget working papers held by Director of Financial Services

GENERAL FUND UNALLOCATED RESERVES

General reserves are available to assist as working balances to help cushion the impact of uneven cash flows, and as a contingency against unexpected events or emergencies. They can also serve to provide short term funding in advance of funding allocations, such as design submissions in respect of capital projects. The table below identifies a number of issues that pose risks against the budget. The figures so calculated have then been scaled back by a factor of 50% as it is unlikely that all these events would happen at the same time.

<u>Risk Event</u>	<u>£ 000's</u>
Pay award greater than amount to be managed within cash limits	200
Variation in interest rates on borrowing and investments	100
Risk of capital receipts falling short of capital programme commitments	500
Impact of all portfolios utilising the cash limit flexibilities between financial years	1,100
Emergencies – risk of additional costs that are not covered by grant under the "Bellwin" scheme	750
Contingent liabilities	2,850
Risk of Highways public liability claims increasing	350
Risk of exceeding 5% VAT exemption limit	800
Further impact of Pay and Reward	500
Risk of grant shortfalls	600
Concessionary travel scheme	<u>300</u>
	8,050
Adjustment to reflect the unlikely probability of all these events taking place simultaneously	<u>- 4,050</u>
Recommended minimum level of Balances	4,000

	2008/09	2009/10	2010/11
Projected level of balances at start of each year	7,605	4,430	4,027
Budget proposals – contributions from (-) or to (+) balances	<u>-3,175</u>	<u>-403</u>	<u>+949</u>
Balances estimated at end of each year	4,430	4,027	4,976

APPENDIX B

EARMARKED RESERVES

The Council has a number of reserves which have been earmarked for specific purposes. These reserves are listed below, together with the purpose of the reserve and the amounts.

Name	Purpose	Balances estimated at 1 April 2008 £ 000's	Planned movements 2008/09 £ 000's	Balances estimated at 31 March 2009 £ 000's
Revenue Slippage Reserve	Resources carried forward from 2007/08 for the re-profiling of revenue expenditure	299	-299	0
Performance Reward Grant	Grant received in 2007/08 for use in 2008/09	1,269	-1,269	0
Major Projects Reserve	Budget proposal for a fund to allow for preliminary investigations into new projects		+200	200
Pay and Reward	Resources retained to allow for unexpected short term costs	500		500
Asylum Seekers' reserve	Surplus from ringfenced account to be used for Asylum Seeker support over the period 2007/08 to 2011/12	554	-55	499
Section 106 income (under the 1990 Town and Country Planning Act)	Developers' contributions to be applied to enhance or maintain infrastructure and facilities	681	-52	629
Leisure Review Development Fund	To provide investment funds for Leisure projects which are repaid from additional income generation	38	+32	70
Housing Market Renewal	This is required as fee income may reduce in the future as the Housing Market Renewal programme comes to an end	182		182
Highways Claims	This reserve is required to support anticipated future highway claims in respect of 2007/08 and earlier years	397		397
Landfill Allowance Trading Scheme (LATS)	Surplus arising from unused allowances which may be required in future years as allowances are reduced	90		90
Highways Winter Maintenance	Built up from budget underspends on winter maintenance in order to provide funding for more severe winters	6		6
Blackburn Technology Management Centre	Balance of BTMC monies for the purpose of purchasing equipment for the benefit of businesses within BTMC	29		29
Arts Acquisition Fund	This fund was established so that new pieces of Art can be purchased as and when they become available	10		10
Winifred Ferrier Bequest	The money was bequeathed to the Council to enable the purchase and exhibiting of items associated with the life of Kathleen Ferrier	32		32
TOTAL		4,087	-1,443	2,644

In addition, schools are holding balances of £8.6 million in total. These are not available for use by the Council

