

αβχδεφγητ

SUBJECT: The Robustness of the 2013/14 Budget and the Recommended Level of Reserves

1. PURPOSE OF THE REPORT

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

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 Director of Finance which provides advice on:

- The robustness of the Revenue Budget and Capital Programme for 2013/14 outlined in the report of the Executive Member, Resources
- The recommended level of proposed financial reserves.

3. BACKGROUND

The Local Government Act 2003 places a statutory requirement on the Chief Financial 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

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 strategic

objectives and corporate priorities agreed at Policy Council on 30th August 2012.

6. FINANCIAL IMPLICATIONS

Robustness of the 2013/14 Budget

In considering the robustness of the estimates within the 2013/14 budget, it must first be noted that in preparing these estimates and also in achieving the financial targets within them, the Council continues to face difficult and challenging financial constraints on its ability to meet the needs, expectations and aspirations of its residents. When approving its Medium Term Financial Strategy in March 2012, this Council acknowledged that future financial settlements would be less generous than in previous years and that reductions in public sector expenditure would occur. A number of scenarios were modelled, but the financial settlement for local government confirmed the Council's worst fears with further substantial reductions in central government funding for local authorities for the next two years at least.

Blackburn with Darwen Council faces a reduction in government funding in 2013/14 and a further reduction in 2014/15. The Council has significantly restructured its activities, whether provided in-house or commissioned from external bodies, to ensure that they are both acceptable to its residents and affordable within the financial constraints now imposed. The 2013/14 budget and the 2013/16 Medium Term Financial Strategy sets out in financial terms the Council's plans to continue this transformation and downsizing.

It is my considered opinion, as the Council's Chief Financial Advisor, that a critical element in delivering a robust budget strategy is the formulation, consideration, evaluation and finalisation of the overall revenue budget and capital programme which is now encapsulated in the report of the Executive Member (Resources). Throughout the formulation of this budget strategy, Portfolio Executive Members have been advised by the Chief Executive, Executive Directors and Directors in relation to the operational requirements around policy and legislative initiatives. Likewise, the Executive Director Resources and Transformation, Director of Finance and senior finance representatives have advised on the financial ramifications and provided comprehensive input to demonstrate financial viability throughout the budget process.

It is, however, equally important that robust arrangements are put in place to ensure that the targets set within the budget are delivered. As acknowledged by the Audit Commission in the Annual Audit Letter (issued October 2012), this Council prioritises its resources within tighter budgets achieving cost reductions.

Moreover, this Council continues to strengthen its financial processes and controls. It has improved the quality of its financial reporting and audit activities, and established stronger controls over its human resources. It has implemented new computerised procurement and commitment accounting systems and new income collection and human resources systems are being implemented. Revised risk management and business continuity strategies and systems have been established.

Crucially to ensure that the 2011/12 and 2012/13 budgets were delivered, given the exceptionally large budget reductions to be achieved, a Transformation Board supported by a small “transformation and downsizing team” had been established. This team worked with Directors to ensure that savings were achieved as soon as possible (recognising that some savings will take longer to come to fruition than others), and that they continue to be delivered during the subsequent months and years. This work will continue during 2013/14 to action the necessary savings in future years that have been identified.

The Council’s existing effective arrangements combined with these improvements provide a strong foundation enabling members and officers to continue delivering the demanding targets and plans set in this budget strategy, and the challenges they will face in future years.

In any budget there are likely to be risks and these have in the past been and will continue to be mitigated by the following:

- The fact that the Council’s Financial Procedure Rules 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 fact that the Council has produced an indicative budget for 2014/15, and at a corporate level for the following year 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 place to ensure early reporting of the financial position through portfolio policy teams. Progress against efficiency targets and transformation programmes is also monitored and reported to Executive Board and Scrutiny Committees.
- Having sufficient levels of unallocated reserves (balances) and contingencies 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.

It cannot be denied however that given the significant reduction in resources and the corresponding necessary reconfiguration of the Council and its services, the risks the Council now faces are greater than in previous years. Among the most significant risks are:

- Increasing demand for services by residents, which may be exacerbated by reductions in public sector expenditure
- the acceptance by residents of the proposed changes to services they value
- a limited ability to raise revenue from taxes, fees and charges or the sale of assets due to the current economic climate
- statutory requirements including employment law
- existing contractual obligations
- the challenging timescales in which to deliver further reductions
- external global economic trends such as rising commodity prices and volatile interest rates
- potential loss of skilled and experienced staff
- the programme of Welfare Reform initiated by central government
- the changes in the NHS
- the impact of the Local Government Resource Review
- the development of free schools and academies and further education reforms.

Thus the risks inherent within this budget strategy will require careful monitoring and management. However the Council has already taken steps to mitigate these risks as it has :

- undertaken widespread consultation with its residents and targeted engagement with service users
- taken early steps to implement a programme of budget savings approved in January 2013
- established arrangements to monitor and manage a transformation and downsizing programme
- set aside balances of £8.6M in 2013/14 to manage and mitigate the risks and fund remodelling, redundancy and pension costs in 2013/14, 2014/15 and future years.

Therefore the Council has put in place arrangements to manage the continuing risks it

faces during the next financial year.

Based on the budget strategy proposed by this Administration a number of key budget issues have been proposed and some could be regarded as more high risk than others but nevertheless are achievable over the next two financial years. For instance:

Capital Programme

In 2013/14 the capital programme predominantly comprises existing major commitments, the largest of which is the Building Schools for the Future programme. In addition, a number of significant projects have been approved, such as the Cathedral Quarter and 10 Duke Street. Several schemes are currently in the later stages of preparation, including new leisure facilities and Pennine Reach. Invest to Save Initiatives are being proposed in respect of street lighting and highways. These schemes will necessitate strong financial appraisals, good 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, and project boards have been established to provide the necessary governance and structured approach with the appropriate reporting mechanisms.

Revenue Budget

Adults' social care continues to be a high risk area with high and increasing demand for services for some of our most vulnerable citizens even though both past and current strategies over recent years have mitigated this risk by targeting additional 'core' funding, and by greater use of modern technologies, such as Telehealth and Telecare and establishing new ways of working such as Reablement. The establishment of Clinical Commissioning Groups, the transfer of public health and the NHS reforms will lead to changes in 2013/14 and 2014/15.

Children's services continue to present significant concern, particularly in safeguarding, in the light of high profile national developments. During 2010/11, 2011/12 and 2012/13 this was successfully managed within the portfolio by a substantial review leading to the reprioritisation of social care and early years' services, with additional corporate funding for safeguarding provided to support the pressures. However this remains a high risk and will require continued careful monitoring.

It is anticipated that there will be a deficit in respect of the Collection Fund as at 31 March 2013. This is due to a continuing number of backdated revaluations being issued by the Valuation Office, which are outside the Council's control. The Council's share of the Collection Fund deficit will be the "first call" on the income generated from Council Tax in 2013/14. The deficit in 2012/13 will be less than in 2011/12.

The Council also continues to face significant reductions in the revenues it raises from fees and charges due to the current economic climate with significant shortfalls

occurring in Regeneration and Resources. Even though income targets have been reduced this remains a risk.

In conclusion the robustness of any budget strategy 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. However ultimately this robustness is dependent on the strength of the arrangements to deliver the plans within it and to manage the risks it carries. Therefore this budget strategy whilst undoubtedly challenging is achievable with strong project and risk management and effective financial control.

Adequacy of Proposed Financial Reserves

The budget strategy has recognised and taken into account the budget pressures which have arisen during the 2012/13 financial year, arising primarily from changing demands for services. The Council has been able to manage these pressures by reduced pay and price inflation, and by reduced borrowing as a consequence of proactive treasury management, ensuring that balances have been maintained well above the minimum recommended at last year's budget.

However, the local government finance settlement for the next two years requires the Council to implement further significant budget reductions. There are also significant budget risks that the Government has passed to local authorities, in particular financial support for council tax payers and local business rates, and to a lesser extent, social fund liabilities. These increasing risks mean that the Council needs to increase the amount of balances it holds in order to provide further cushioning against reducing income or increasing costs.

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 £5.5M, an increase to that recommended in previous years. Previous guidance has also suggested that reserves should be 5% of the Council's budget (excluding schools). With the Council's budget excluding schools being around £143M, this would suggest reserves should be around £7M. However, as a well managed authority, with a prudent approach to budgeting, it is considered that the risks are significantly reduced.

It should be noted that the estimated level of reserves at 31st March 2013 reported to the Executive Board in January was £8.835M. This has been increased to £9.209M as a consequence of the closure of the asylum seekers reserve following the end of the contract, and reduced by the transfer of £1M to the earmarked redundancy costs reserve and a further £1M to the reserve set aside in the event of savings not being

achieved in full in the first year. The latest estimated balance is therefore £7.209M. This makes provision for some financial risks the Council will face in 2013/14 and reduces the need to further increase the general fund unallocated reserves.

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. EQUALITY IMPLICATIONS

None required as a direct consequence of this report.

10. CONSULTATIONS

None applicable to this report.

Contact Officer:	Elizabeth Hall, Director of Finance
Date:	14 th February 2013
Background Papers:	Budget Papers elsewhere on this agenda

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>
General budget risks due to continuing unavoidable demand pressures	1,500
Pay awards greater than allowed in budget	400
Risk of reduced revenues from rents, fees and charges as recession continues	500
Large scale increases in gas and electricity – international volatility	250
Variation in interest rates on borrowing and investments	150
Impact of shortfall in capital receipts to support capital programme	100
Risk of investment loss	1,000
Impact of all portfolios utilising the cash limit flexibilities between financial years	1,250
Emergencies – risk of additional costs that are not covered by grant under the “Bellwin” scheme	800
Contingent liabilities	1,000
Risk of Highways public liability claims increasing	350
Risk of exceeding 5% VAT exemption limit	650
Risk of increased net cost of housing benefits, and increasing council tax support, due to current economic climate	750
Risk of ongoing collection fund deficit due to downward revaluations	600
Risk business rates shortfall due to current economic climate	1,450
Pressures on Council services as a consequence of welfare and NHS reforms	250
	11,000
Adjustment to reflect the unlikely probability of all these events taking place simultaneously	- 5,500
Recommended minimum level of Balances	5,500

	2013/14	2014/15	2015/16
Projected level of balances at start of each year	7,209*	7,209	7,209
Budget proposals – contributions from (-) or to (+) balances	0	0	0
Balances estimated at end of each year	7,209	7,209	7,209

*The estimated level of balances will reduce from £9.2M to £7.2M in 2012/13 to provide for an increase in the earmarked redundancy and part year savings reserves to meet non-recurring costs of budget reductions in 2013/14 and 2014/15.

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 2013 £ 000's	Planned movements 2013/14 £ 000's	Balances estimated at 31 March 2014 £ 000's
Reserves held for discretionary use by the Council				
Revenue Slippage Reserve	Resources carried forward from 2012/13 for the re-profiling of revenue expenditure (including unspent grants and contributions received in 2012/13 but not fully utilised)	4,751	-119	4,632
Specific project reserves	Revenue savings that have been earmarked for specific projects or purposes in future years	3,566	-787	2,779
Disabled Facility Grants	To meet increased demand for DFGs	500	0	500
Infrastructure Support	An amount of £1M was established during 2012/13 to fund infrastructure improvements following the July 2013 floods	412	0	412
Highways Winter Maintenance	This reserve has been built up from budget underspends on winter maintenance and supplementary allocations to provide additional maintenance requirements in the event of severe winter weather conditions	368	0	368
Support for Future Redundancy Costs	This reserve is to support future remodelling of services	3,785	+1,988	5,773
Part Year Effect of Future Savings Plans	This reserve is to support the delivery of future budget reductions	2,830	0	2,830
Review of Services Provided Through the Strategic Partnership	This reserve is to support the review of services as the end of the 15 year partnership term approaches	410	0	410
Amounts committed in future year budgets / MTFS				
Building Schools for the Future	Reserves established to support the review of ICT managed service for BSF schools and to contribute towards the cost of PFI contracts for BSF schools	554	0	554
Asylum Seekers' reserve	Built up from accumulated surpluses during the period of the asylum seeker contracts, the residual amount will fund residual liabilities over the next 2 years	122	-61	61
Corporate Improvement and Transformation	This reserve was set aside to provide corporate support for planned changes in service delivery	218	-132	86
Reserves held for specified (non-discretionary) purposes				
Maintenance of Wainwright Bridge	This reserve is the result of a contribution from Network Rail as maintenance of the new Wainwright Bridge becomes the responsibility of the Council – the reserve will support the portfolio once ongoing maintenance liabilities start to arise	506	0	506

Name	Purpose	Balances estimated at 1 April 2013 £ 000's	Planned movements 2013/14 £ 000's	Balances estimated at 31 March 2014 £ 000's
Section 106 income (under the 1990 Town and Country Planning Act)	Developers' contributions to be applied to enhance or maintain infrastructure and facilities	813	-1	812
Highways Claims	This reserve is required to support anticipated future highway claims in respect of 2012/13 and earlier years	252	0	252
Contingent liabilities – MMI scheme of arrangement	Following the liquidation of Municipal Mutual Insurance (MMI) in 1992, the Council will be liable for a share of claim liabilities in the event of an insolvent run-off, which is increasingly more likely	1,000	0	1,000
Arts Acquisition Fund	This fund was established so that new pieces of art can be purchased as and when they become available	10	0	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	29	0	29
TOTAL RESERVES FOR COUNCIL USE		20,126	+888	21,014
Reserves held in respect of joint arrangements and charitable bodies				
Darwen Market Traders	Funds held by the Council on behalf of Darwen Market Traders' Association	2	0	2
Joint Building Control Account	Accumulated surpluses in relation to the Joint Building Control agreement	33	0	33
Turton Tower Charity	Funds held by the Council in its role as trustee for the charity	12	0	12
Local Safeguarding Children's Board Fund	This fund was established from specific contributions to be used to support the LSCB	281	0	281
Youth Bursary Fund		46	0	46
Reserves held in relation to schools				
Dedicated Schools Grant - surplus	DSG received but not yet deployed to meet expenditure properly included in the Schools Budget	1,360	0	1,360
LMS Schools balances	Funds held by schools under a scheme of delegation	10,704	0	10,704
TOTAL OTHER RESERVES		12,438	0	12,438