



REPORT OF:	EXECUTIVE DIRECTOR, RESOURCES & TRANSFORMATION
TO:	COUNCIL
DATE:	2ND MARCH 2015

SUBJECT: The Robustness of the 2015/16 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 Executive Director, Resources & Transformation which provides advice on:

- The robustness of the Revenue Budget and Capital Programme for 2015/16 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

Council should note that the Executive Director, Resources & Transformation has been acting chief financial officer whilst the Director of Finance post remained vacant and that the Executive Director has been the principal financial advisor to Members on the preparation of the 2015/16 budget and therefore has prepared this robustness report for Members' consideration in advance of setting the budget and Council Tax for 2015/16.

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 agreed at Policy Council on 4th December 2014.

6. FINANCIAL IMPLICATIONS

Robustness of the 2015/16 Budget

In considering the robustness of the estimates within the 2015/16 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 (MTFS) in March 2014, this Council acknowledged that future financial settlements would continue to reflect reductions in public sector expenditure. The 2015/16 financial settlement for local government confirmed the estimated reductions included in the MTFS and provided no further indication of future year funding on which to base the Council's forecasts. This makes medium term financial planning more difficult, however all national political parties have indicated that they would continue with overall public sector spending reductions beyond the general election.

Blackburn with Darwen Council faces a reduction in government funding in 2015/16 and further reductions in 2016/17 and beyond. Since 2010, the Council has significantly restructured its activities, whether provided in-house or commissioned from external bodies, to ensure that they are both affordable within the financial constraints now imposed and as acceptable to residents as they can be. The 2015/16 budget and the 2015-18 MTFS 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 & Transformation 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 Grant Thornton in the Annual Audit Letter, 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 phased in across the Council. Revised risk management and business continuity strategies and systems have been established.

The Executive Director, Resources & Transformation chairs a strategic workforce management group supported by the Director of HR, Legal & Corporate Services to oversee all workforce related restructuring and downsizing activity. The Chief Executive and Executive Team also meet, as a minimum on a monthly basis, as the Executive Finance Steering Group, supported by senior finance staff, to review the Councils' overall financial position and progress with reviews and delivery of financial savings.

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 produces an MTFs with forecasts for 2016/17 and 2017/18 at a corporate level to enhance forward planning, policy prioritisation, resource allocation and the opportunity to invest in achieving future efficiency savings and has already identified some future savings at Council in September 2014.
- 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 Members and the Policy & Corporate Resources Overview & Scrutiny Committee regularly meets with the Executive Member, Resources and Executive Director, Resources & Transformation to review the Council's budget position..
- 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 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 deliver savings and 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.
- The Council has engaged with an experienced efficiency partner to undertake, with senior officers, a thorough review of Adult Social Care services as the biggest service and a high risk part of the overall budget.

The Council has consistently taken an early action approach to meeting the financial challenges of recent years and Council Forum met in September 2014 to consider and approve a range of advance savings proposals for 2015/16 and beyond.

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 for 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, particularly social care services for the most vulnerable, often with complex needs, which may be exacerbated by reductions in public sector expenditure
- the acceptance by residents of the proposed changes to services they value
- the ability to raise revenue from taxes, fees and charges or the sale of assets due to the continuing economic climate
- statutory requirements including employment law
- existing contractual obligations
- the challenging timescales in which to deliver further reductions
- potential loss of skilled and experienced staff
- the impact of the Welfare Reform programme 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 :

- taken early steps to implement a programme of budget savings approved at Council Forum in September 2014
- undertaken consultation with its residents, partners and targeted engagement

- with service users
- established arrangements to monitor and manage a transformation and downsizing programme
- set aside balances of £9.5M in 2015/16 to manage and mitigate the risks and fund remodelling, redundancy and pension costs in 2015/16 and future years
- earmarked reserves for specific future use.

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 2015/16 the capital programme proposed predominantly comprises existing major commitments. These include the Cathedral Quarter and Pennine Reach. Invest to Save Initiatives are also included and are currently being implemented in respect of street lighting and highways and continued investment in IT services to support a digital first approach and deliver efficiencies. These schemes will necessitate 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 by 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

Adult Social Care continues to be a high risk area. During the course of the current year each monitoring report to Executive Board has provided a further update as the upward trend in demand pressures and increasing complexity of individual service needs have not been abating. Pressures on the national health service, including the local hospital, have been making national headlines and show little sign of easing which has a consequential impact on our Adult Social Care services with increased referrals from hospital into social care services. This is not just a local issue, it is a national pressure which is being raised as perhaps the most significant issue for Local Government by the LGA.

Our strategies over recent years have mitigated the risk in Adult Social Care by greater use of modern technologies, such as Telehealth and Telecare and establishing new ways of working such as Reablement to continue to support some of our most vulnerable citizens. Work is well underway with our efficiency partner and is continuing with our partners across the health sector to manage the 2015/16 position reported within the overall budget at Finance Council, however this is unlikely to be the case in the longer term and further work and options for 2016/17 are likely to be

reported in the autumn.

Children's Services continues to present significant concern and remains a high risk area which requires continued careful monitoring. Whilst overall open cases and numbers of looked after children have been reducing and numbers may now have stabilised, the requirements of these children are complex and substantial and more costly. However, these are the most vulnerable young people in our borough that we have a duty to and are committed to protecting and looking after to ensure the best possible outcomes.

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 2014/15 financial year, arising primarily from changing demands for services, most particularly in Adult Social Care. The Council has been able to manage these pressures by reduced pay and price inflation, and by reduced borrowing as a consequence of pro-active treasury management, ensuring that balances have been maintained above the minimum recommended at last year's budget.

However, the local government finance settlement and uncertainty of funding levels in future years requires the Council to implement further significant budget reductions.

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 £5.9M, as in the current year. 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 £138M, this would suggest reserves should be around £6.9M. 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 2015 reported to the Executive Board in December 2014 was £7.491M. This makes provision for some

financial risks the Council will face in 2015/16 and reduces the need to further increase the minimum recommended level of 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:	Denise Park, Executive Director, Resources & Transformation
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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	3,000
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	120
Impact of shortfall in capital receipts to support capital programme	50
Risk of investment loss	1,000
Impact of all portfolios utilising the cash limit flexibilities between financial years	1,200
Emergencies – risk of additional costs that are not covered by grant under the “Bellwin” scheme	820
Contingent liabilities	1,820
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	700
Risk of ongoing collection fund deficit due to downward revaluations	600
Risk of business rates shortfall due to current economic climate and outstanding rating appeals	750
	11,810
Adjustment to reflect the unlikely probability of all these events taking place simultaneously	- 5,905
Recommended minimum level of Balances	5,905

	2015/16	2016/17	2017/18
Projected level of balances at start of each year	7,645	7,645	7,645
Budget proposals – contributions from (-) or to (+) balances	0	0	0
Balances estimated at end of each year	7,645	7,645	7,645

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 2015 £ 000's	Planned movements 2015/16 £ 000's	Balances estimated at 31 March 2016 £ 000's
Reserves held for discretionary use by the Council				
Specific project reserves	Revenue savings that have been earmarked for specific projects or purposes in future years	8,024	-1,762	6,262
Disabled Facility Grants	To meet increased demand for DFGs	500	0	500
Collection Fund Deficit	To meet any future Collection Fund Deficit whether Council Tax or Business Rates	1,500	-1,000	500
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	163	0	163
Support for Future Redundancy Costs	This reserve is to support future remodelling of services	5,106	0	5,106
Part Year Effect of Future Savings Plans	This reserve is to support the delivery of future budget reductions	4,422	-667	3,755
Complex Needs and Transition	To support the commissioning of services and placements for those with complex needs during the transition from Childrens to Adult Services	1,000	0	1,000
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	1,025	-53	972
Amounts committed in future year budgets / MTFS				
Corporate Improvement and Transformation	This reserve was set aside to provide corporate support for planned changes in service delivery	27	0	27
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
Section 106 income (under the 1990 Town and Country Planning Act)	Developers' contributions to be applied to enhance or maintain infrastructure and facilities	309	-1	308
Highways Claims	This reserve is required to support anticipated future highway claims in respect of 2013/14 and earlier years	239	0	239
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	430	0	430

Name	Purpose	Balances estimated at 1 April 2015 £ 000's	Planned movements 2015/16 £ 000's	Balances estimated at 31 March 2016 £ 000's
Arts Acquisition Fund	This fund was established so that new pieces of art can be purchased as and when they become available	11	0	11
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	23	0	23
TOTAL RESERVES FOR COUNCIL USE		23,285	-2,983	20,302
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	3	0	3
Joint Building Control Account	Accumulated surpluses in relation to the Joint Building Control agreement	93	0	93
Turton Tower Charity	Funds held by the Council in its role as trustee for the charity	25	0	25
Local Safeguarding Children's Board Fund	This fund was established from specific contributions to be used to support the LSCB	177	0	177
Youth Bursary Fund		14	0	14
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	4,000	0	4,000
LMS Schools balances	Funds held by schools under a scheme of delegation	15,006	0	15,006
TOTAL OTHER RESERVES		19,318	0	19,318