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PORTFOLIOS AFFECTED: ALL

WARDS AFFECTED: ALL

TITLE OF BRIEFING PAPER **THE ROBUSTNESS OF THE 2012/13 BUDGET AND THE RECOMMENDED LEVEL OF RESERVES**

1. PURPOSE

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 2012/13 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 1st December 2011.

6. FINANCIAL IMPLICATIONS

Robustness of the 2012/13 Budget

In considering the robustness of the estimates within the 2012/13 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 2011, this Council acknowledged that future financial settlements would be less generous than in previous years and that reductions in public sector expenditure would occur. It began to plan to address this situation. The Government's 2010 Comprehensive Spending Review, and the subsequent financial settlement for local government confirmed unprecedented reductions in central government funding for local authorities for the following two years (provisional figures for the subsequent two years are still awaited).

Blackburn with Darwen Council in particular faced a reduction in government funding of £33m or 24.9% in 2011/12 and a further reduction of £6m in 2012/13. 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 2012/13 budget and the 2012/15 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 Deputy Chief Executive, Managing Director (Local Government Services) Strategic Directors and Directors in relation to the operational requirements around policy and legislative initiatives. Likewise, the Strategic Director Resources, 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 November 2011), this Council continues to perform well and has a robust financial planning process in place for budget setting and maintaining a longer term financial plan.

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 is already implementing new computerised procurement, commitment accounting, income collection and human resources systems. Revised risk management and business continuity strategies and systems are currently being developed.

Crucially to ensure that the budget was delivered, given the exceptionally large budget reductions to be achieved, a Transformation Board supported by a small "transformation and downsizing team" has 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. The work of this team will continue during 2012/13, when plans to action the

necessary savings in future years will be 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 will be producing indicative budgets at a corporate level 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 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 programme of NHS Reform
- the impact of the Local Government Resource Review.

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
- implemented a programme of budget reductions and service reviews approved in January 2011 and confirmed in March 2011
- established arrangements to monitor and manage a transformation and downsizing programme
- created contingencies of over £12M in 2011/12 to manage and mitigate the risks and fund remodelling, redundancy and pension costs in 2011/12, 2012/13 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 during the 2012/13 financial year. For instance:

Capital Programme

In 2012/13 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 new projects have been approved, such as the Cathedral Quarter and Telephone House. Several schemes are currently in the later stages of preparation, including options for waste disposal facilities. 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 the budget strategies over the last 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 Government gave approval for the establishment of a Care Trust Plus in April 2010 and this has formalised the partnership between the Council and NHBwD to deliver joint strategic commissioning. The introduction of Clinical Commissioning Groups and the NHS reforms will lead to changes in this arrangement during 2012/13 and 2013/14.

Children's services continue to present significant concern, particularly in safeguarding, in the light of high profile national developments. During 2010/11 and 2011/12 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 significant deficit in respect of the Collection Fund as at 31 March 2012. This is due to two main factors:

- a number of backdated revaluations, which are outside the Council's control, and
- an increase in single person discounts.

The Council's share of the Collection Fund deficit will be the "first call" on the income generated from Council Tax in 2012/13. Close monitoring will be necessary during 2012/13 to identify promptly any further backdated revaluations or increasing numbers of single person discounts.

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 Environmental Services and Cultural and Leisure Services. 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

This year's budget strategy has recognised and taken into account the budget pressures which have arisen during the 2011/12 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 slippage in the 2010/11 and 2011/12 capital programmes, ensuring that balances have been maintained well above the minimum recommended at last year's budget.

However, we have to make some assumptions around the level of settlement that may be expected for 2013/14 and 2014/15. Whilst the 2011/12 and 2012/13 budgets are balanced, further work will be required to ensure that the future years budgets are also in a balanced position, with reserves not falling below the minimum level at any point. In order to achieve this, the Council has instigated a number of detailed service reviews to take place over the coming months in order

to inform the strategy for subsequent budgets.

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 £5.0M, a small increase to that recommended in previous years. Previous guidance has also suggested that reserves should be 5% of the Council's budget (excluding schools). As the Council's budget excluding schools is around £153M, this would suggest reserves should be around £7.75M. 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: 15th February 2012

BACKGROUND PAPER: Budget working papers held by Head 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>
General budget risks due to continuing unavoidable demand pressures	1,500
Risk of reduced revenues from rents, fees and charges as recession continues	500
Large scale increases in gas and electricity – international volatility	350
Variation in interest rates on borrowing and investments	150
Risk of investment loss	700
Impact of all portfolios utilising the cash limit flexibilities between financial years	1,350
Emergencies – risk of additional costs that are not covered by grant under the “Bellwin” scheme	750
Contingent liabilities	2,500
Risk of Highways public liability claims increasing	350
Risk of exceeding 5% VAT exemption limit	1,100
Risk of increased net cost of housing benefits due to current economic climate	100
Risk of ongoing collection fund deficit due to downward revaluations	500
Pressures on Council services as a consequence of welfare and NHS reforms	150
	10,000
Adjustment to reflect the unlikely probability of all these events taking place simultaneously	-5,000
	5,000

	2012/13	2013/14	2014/15
Projected level of balances at start of each year	6,930*	6,930	6,930
Budget proposals – contributions from (-) or to (+) balances	0	0	0
Balances estimated at end of each year	6,930	6,930	6,930

* If portfolios are unable to contain their costs within cash limits in 2011/12, this figure could reduce to £6.396M (as reported to Executive Board in February 2012).

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 2012 £ 000's	Planned movements 2012/13 £ 000's	Balances estimated at 31 March 2013 £ 000's
Reserves held for discretionary use by the Council				
Revenue Slippage Reserve	Resources carried forward from 2011/12 for the re-profiling of revenue expenditure (including unspent grants and contributions received in 2011/12 but not fully utilised)	5,838	- 2,931	2,907
Corporate Improvement and Transformation	This reserve was set aside to provide corporate support for planned changes in service delivery	523	- 505	18
Employment Agency	This reserve was created in order to provide the funding required to relocate the Employment Agency offices	86	0	86
Asylum Seekers' reserve – ringfenced account (uncommitted element)	Surplus from ringfenced account for Asylum Seeker support, not yet committed pending renewal of contract	384	+ 28	412
Highways Winter Maintenance	This reserve has been built up from budget underspends on winter maintenance and supplemented at the end of 2011/12 to provide additional maintenance requirements in the event of severe winter weather conditions	300	0	300
Support for Future Redundancy Costs	This reserve was created at the end of 2011/12 to support future remodelling of services	2,800	0	2,800
Part Year Effect of Future Savings Plans	This reserve was created at the end of 2011/12 to support the delivery of future budget reductions	4,639	- 2,809	1,830
Review of Services Provided Through the Strategic Partnership	This reserve was created at the end of 2011/12 to support the review of services as the end of the 15 year partnership term approaches	300	0	300
Amounts committed in future year budgets / MTFS				
Building Schools for the Future	A reserve that was established in order to contribute towards the early costs of the BSF project.	781	- 781	0
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	679	-1	678
Highways Claims	This reserve is required to support anticipated future highway claims in respect of 2011/12 and earlier years	133	0	133

Name	Purpose	Balances estimated at 1 April 2012 £ 000's	Planned movements 2012/13 £ 000's	Balances estimated at 31 March 2013 £ 000's
Capital Receipts Reserve	A reserve created from savings arising on the realisation of capital receipts budget as a consequence of a proportion of capital receipts that can be utilised towards the costs of asset disposal	64	+ 315	379
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		17,072	-6,684	10,388
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	79	0	79
Turton Tower Charity	Funds held by the Council in its role as trustee for the charity	5	0	5
Local Safeguarding Children's Board Fund	This fund was established from specific grant funding carried forward from 2010/11	226	0	226
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	16	0	16
LMS Schools balances	Funds held by schools under a scheme of delegation	10,408	0	10,408
TOTAL OTHER RESERVES		10,736	0	10,736