



<b>REPORT OF:</b>	<b>DIRECTOR OF FINANCE AND IT</b>
<b>TO:</b>	<b>FINANCE COUNCIL</b>
<b>DATE:</b>	<b>29<sup>th</sup> FEBRUARY 2016</b>

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**SUBJECT: The Robustness of the 2016/17 Budget and the Recommended Level of Reserves**

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## **1. PURPOSE OF THE REPORT**

Section 25 of the Local Government Act 2003 places a statutory requirement on the Council's Chief Financial Officer to report on:

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

In setting the Budget for 2016/17, Council is required to have regard to this report when making its budget decisions.

## **2. RECOMMENDATIONS**

An overall assessment of the current budget, of future budget proposals, activity forecasts, savings plans and base budget assumptions has identified that whilst there are risks, the overall budget provisions are considered sufficient to meet the Council's legal responsibilities and obligations.

A review of risks, mitigations and contingencies has also been undertaken alongside a review of reserves and provisions.

Council is recommended to consider the assessment by the Director of Finance and IT of;

- the robustness of the Revenue Budget and Capital Programme for 2016/17 (as outlined in the report of the Executive Member for Resources report) and
- the adequacy and recommended level of proposed financial reserves (Section 5.2 below).

## **3. RATIONALE**

The information provided below is to assist Members in their review of the overall Revenue Budget and Capital Programme and to provide assurance to them that financial advice has been provided throughout the budget setting process.

## **4. POLICY IMPLICATIONS**

The Budget Strategy reflects the corporate priorities of the Council and policy requirements at both a corporate and a departmental level.

## **5. FINANCIAL IMPLICATIONS**

### **5.1 Robustness of the 2016/17 Budget**

#### **5.1.1. Budget Strategy**

The Council's overall framework for its medium term budget is contained within the Medium Term Financial Strategy (MTFS).

The strategy provides for Council-wide involvement in an integrated approach to the preparation of soundly based capital and revenue plans and the associated strategies of managing risk and internal control. Together this ensures effective financial management and governance.

#### **5.1.2 Budget and Tax Setting Process**

The annual budget preparation and tax setting process involves the development of robust medium term revenue forecasts and capital plans. In any financial year, the level of Government funding, additional cost pressures (including inflation, service specific pressures and areas of investment and growth) together with increasing demand for services, necessitates a re-appraisal of service delivery and identification of efficiency savings to address any funding shortfall in order to deliver a balanced budget. The Budget Strategy and proposals submitted have been formulated to reflect these issues.

Throughout the formulation of the 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 of Resources, senior finance representatives including the Director of Finance and IT, have advised on financial impact and provided comprehensive input to demonstrate financial viability throughout the process. In doing so, and to ensure the robustness of the budget and the budget setting process, we have been mindful of;

- Availability of reliable information
  - we have sought to ensure that the budget is based on the most up-to-date and realistic assumptions (for example government and Bank of England forecasts for pay and price increases and interest rate movements)
  - assumptions relating to future levels of government funding are based on the Local Government Finance Settlement and predicated on the most recent government announcements.
- Council's guidance and strategy
  - the Council's Constitution which contains a clear Budget and Policy framework
  - the Council's Budget Strategy and approach to budget setting which is clearly defined and communicated
  - consultation with residents, partners and businesses within the Borough and targeted engagement with service users
- Corporate approach and integration
  - service departments have identified budget pressures and risks at an early stage in the process and have clearly demonstrated realistic service plans linked to the budget resource available

- the system of cash limited budgets for each Portfolio provides a transparent and accountable arrangement to budget setting; the allocated cash limit takes account of service specific cost pressures and inflation and also includes an apportionment of corporate cost pressures from which each Portfolio has had to formulate a strategy to deliver savings and ensure a balanced budget.
  - The Council's 'early action' approach to meeting both the immediate and forecast financial challenges has been effective in providing a level of resilience for the funding reductions announced in the Local Government Financial Settlement. The savings relating to the second and third years of the 3 Year Financial Savings Programme approved by Council Forum in September 2014 have been built into the budget and, further to the update on the forecast MTFs provided to Policy Council on 3<sup>rd</sup> December 2015, proposals have been developed across all Portfolios to address the projected deficit across the Council as a whole over the next 4 years.
- Flexibility
    - mechanisms to review options for service delivery are linked into the budget process
    - flexibility to free up resources to deliver service improvement and to deliver the Council's priorities
    - flexibility in budget management as included within the Council's Constitution

### **5.1.3 Capital Programme**

Affordability of capital expenditure plans is important in determining the overall robustness of the budget and adequacy of reserves to deal with potential variations.

The proposed capital programme for 2016 to 2020 of £53.3 mill is included within the report from the Executive Member for Resources. This predominantly comprises of existing major commitments including Pennine Reach and the Highways Network Recovery scheme. Allocations are also included to support continued investment in IT services to underpin our 'digital first' approach to delivering efficiencies and in turn, cash savings.

These schemes will necessitate good project management and effective monitoring to ensure they are achieved on time and within budget. Failure to deliver against budget 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 appropriate reporting mechanisms.

### **5.1.4 In year financial Monitoring Process**

This Council continuously seeks to strengthen its financial processes and controls. This approach, combined with existing effective arrangements, will provide a strong foundation enabling Members and Officers to continue delivering the demanding targets and plans set within the Budget Strategy and the challenges identified for future years. In any budget however there are likely to be risks. In year financial monitoring processes are in place to mitigate this and include;

- Overall budget monitoring takes place throughout 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 is also monitored and reported to Executive Members.

- The Chief Executive and Executive Team meet at least once a month as the Executive Finance Steering Group, supported by senior finance staff, to review the Councils' overall financial position and to review progress in delivery of financial savings and to consider the impact of emerging changes in the local government financial landscape
- The Policy & Corporate Resources Overview & Scrutiny Committee meets regularly with the Executive Member for Resources and the Executive Director of Resources to review the Council's budget position.
- The Workforce Management Group, chaired by the Director of HR, Legal and Corporate Services, with senior finance and Trades Union representation, meets fortnightly and reports to the Executive Director of Resources. The group oversees all workforce related restructuring and downsizing activity.
- The financial model that underpins the MTFS is subject to continuous review throughout the year to enhance forward planning, policy prioritisation, resource allocation and assess opportunities to invest in achieving future efficiency savings. The assumptions, variables and information within the model are regularly updated to ascertain the impact of known changes (e.g. legislative changes such as the National Living Wage upon the Council's salary bill), potential changes (such as decreases in government funding levels), and also for the refinement of variables (such as inflation and interest rates) in light of emerging information.
- The Council adopts a risk management approach to financial management which provides added value to the governance process and identifies risks associated with both the revenue and capital programme. The provision of sufficient levels of Unallocated Reserves and contingencies mitigates against the financial risks from unforeseen financial issues so that they can be addressed in a responsive and controlled manner. As part of its approach to risk management the Council also makes provision for Earmarked Reserves, i.e. funding reserved to address specific future need.

### **5.1.5 Risk**

Ultimately the robustness of the budget is dependent on the strength of the arrangements to deliver the plans within it and to manage the risks it carries.

It must be recognised that given the significant reduction in resources, and the resulting reconfiguration of the organisation and its services, the Council faces significant risks which will impact on the financial estimates included in this budget.

These risks include:

- potential increase in demand for services from residents, particularly social care services for the most vulnerable, which may be exacerbated by reductions in public sector expenditure in other areas such as the NHS and as a result of Welfare Reform

- the reaction by residents to changes to services
- the ability to raise revenue from taxes, fees and charges or the sale of assets due to the continuing economic climate
- changes in statutory and legislative requirements, including employment law
- contractual obligations
- the challenging timescales in which to deliver further reductions
- potential loss of skilled and experienced staff
- the development of free schools and academies and further education reforms.

The approaches outlined in this paper in relation to risk management, scrutiny, continuous monitoring of both the current and forecast financial position, as well as regular modelling through the MTFs of the financial impact of changes in the external environment, should mitigate these risks; by identifying the risks and providing an assessment of exposure, magnitude and potential financial impact, plans can be developed and implemented to address them. Therefore this Budget Strategy, whilst undoubtedly challenging, is achievable with strong project and risk management and effective financial control.

## **5.2 Adequacy of Proposed Financial Reserves**

In announcing the provisional Local Government Financial Settlement on 17<sup>th</sup> December 2015, the Chancellor was highly critical of local authorities for the level of reserves they held. Although the Council has a risk based approach to setting Reserve levels, we have been mindful of Mr Osbourne's comments, particularly in quantifying the value or level of financial risk.

### **5.2.1 Unallocated Reserve**

A General or Unallocated Reserve has been established within the budget to provide a contingency to cushion the impact of unexpected events or emergencies and to meet potential liabilities such as contingent liability claims.

A framework has been developed to identify areas of risk with an appropriate budget amount and an assessed level of risk. This process produces a value from which a risk assessed, minimum level of Unallocated Reserves can be determined.

Areas of risk have been considered and these, together with an explanatory text, are set out in Appendix A. The sensitivity and risk analysis identifies a requirement of £4.0 million for an Unallocated Reserve to provide financial resilience in the event of unexpected spending pressures as outlined above and in Appendix A.

### **5.2.2 Earmarked Reserves and Provisions**

A review of the Earmarked Reserves held by the Council has also been undertaken to establish the purpose of the reserves and the likely timescale for their use.

Earmarked Reserves are created to meet known or predicted requirements in the future. There are several categories of Earmarked reserves that the Council holds;

- Sums set aside for major schemes such as capital developments or to fund major reorganisations
- Insurance reserves
- Reserves retained for service department use
- School balances

The current forecast for Earmarked reserves at 31<sup>st</sup> March 2016 comprises;  
£16.4 mill - total reserves of Council Use  
£19.4 mill – Other reserves (including Schools)

During the course of 2016/17 it is anticipated that a net £2.646 million will be released from these reserves to fund known commitments. A full breakdown of the Earmarked Reserves is attached 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.

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Date:	19 <sup>th</sup> February 2016
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. The table below identifies a number of issues that pose risks against the budget. These figures have then been scaled back by a factor of 50% as it is unlikely that all these events would occur or indeed happen at the same time.

<u>Risk Event</u>	<u>£ 000's</u>
General budget risks due to continuing unavoidable demand pressures and National Minimum Wage	2,500
Risk of reduced revenues from rents, fees and charges as recession continues	500
Large scale increases in gas and electricity – international volatility	100
Variation in interest rates on borrowing and investments	100
Risk of investment loss	500
Impact of all portfolios utilising the cash limit flexibilities between financial years	1,000
Emergencies – risk of additional costs that are not covered by grant under the “Bellwin” scheme	250
Contingent liabilities	1,250
Risk of Highways public liability claims increasing	200
Risk of exceeding 5% VAT exemption limit	300
Risk of increased net cost of housing benefits, and increasing council tax support, due to current economic climate	500
Risk of ongoing collection fund deficit due to downward revaluations	300
Risk of business rates shortfall due to current economic climate and outstanding rating appeals	500
	8,000
Adjustment to reflect the unlikely probability that all of these events take place simultaneously (50% likelihood)	- 4,000
<b>Recommended minimum level of Balances</b>	<b>4,000</b>

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Projected level of balances at start of each year	5,163	4,592	4,592	4,592
Budget proposals – contributions from (-) or to (+) balances	-571	0	0	0
<b>Balances estimated at end of each year</b>	<b>4,592</b>	<b>4,592</b>	<b>4,592</b>	<b>4,592</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 2016 £ 000's	Planned movements 2016/17 £ 000's	Balances estimated at 31 Mar 2017 £ 000's
<b>Reserves held for discretionary use by the Council</b>				
Specific project reserves	Revenue savings that have been earmarked for specific projects or purposes in future years	6,108	-1,855	4,253
Disabled Facility Grants	To meet increased demand for DFGs	289	0	289
Collection Fund Deficit	To meet any future Collection Fund Deficit whether Council Tax or Business Rates	1,000	- 500	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	4,581	-250	4,331
Part Year Effect of Future Savings Plans	This reserve is to support the delivery of future budget reductions	2,393	- 115	2,278
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	143	75	218
<b>Reserves held for specified (non-discretionary) purposes</b>				
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
Sc 106 income (under the 1990 Town and Country Planning Act)	Developers' contributions to be applied to enhance or maintain infrastructure and facilities	448	- 1	447
Highways Claims	This reserve is required to support anticipated future highway claims in respect of 2013/14 and earlier years	338	0	338
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
Arts Acquisition Fund	This fund was established so that new pieces of art can be purchased as and when they become available	12	0	12
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	20	0	20
<b>TOTAL RESERVES FOR COUNCIL USE</b>		<b>16,431</b>	<b>- 2,646</b>	<b>13,785</b>



Name	Purpose	Balances estimated at 1 April 2016 £ 000's	Planned movements 2016/17 £ 000's	Balances estimated at 31 Mar 2017 £ 000's
<b>Reserves held in respect of joint arrangements and charitable bodies</b>				
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	116	0	116
Turton Tower Charity	Funds held by the Council in its role as trustee for the charity	30	0	30
Local Safeguarding Children's Board Fund	This fund was established from specific contributions to be used to support the LSCB	205	0	205
<b>Reserves held in relation to schools</b>				
Dedicated Schools Grant - surplus	DSG received but not yet deployed to meet expenditure properly included in the Schools Budget	7,665	0*	7,665
LMS Schools balances	Funds held by schools under a scheme of delegation	11,383	0*	11,383
<b>TOTAL OTHER RESERVES</b>		<b>19,401</b>	<b>0</b>	<b>19,401</b>

\* use of reserves to be determined through the Schools' Forum