Appendix A

TO:	Finance Council
FROM:	Director of Finance
DATE:	28th February 2022

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Statement on the Robustness of the Council's Budget Calculations for 2022/23 and the Adequacy of Financial Reserves

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1. PURPOSE

1.1 The purpose of this report is to report on the robustness of the Council's budget estimates for 2022/23 and the adequacy of financial reserves in accordance with Section 25 of the Local Government Act 2003. Section 25(2) of the Act states that:-

"an Authority to which a report under this section is made shall have regard to the report when making decisions about the calculations in connection with which it is made"

1.2 **Councillors should, therefore, have regard to this report when making decisions on the 2022/23 Budget (Revenue Budget and Capital Programme) and the associated level of Council Tax.**

2. RECOMMENDATIONS

2.1 Finance Council is recommended to consider and have regard to the statements from the Director of Finance (as the Council's statutory finance officer) as provided at ***Appendix A*** when determine the budget (Revenue Budget and Capital Programme) and the level of Council Tax for 2022/23.

3. BACKGROUND

3.1 In accordance with Section 25 of the Local Government Act 2003, the Director of Finance as the Council's statutory finance officer is required to make a report to the Council on the robustness of the budget estimates and the adequacy of reserves allowed for in the budget proposal.

4. RATIONALE

4.1 To inform Finance Council of the Director of Finance's assessment of the robustness of estimates for 2022/23 and to ensure that Councillor's fully appreciate the implications of the proposed budget on the Council's overall financial position for the year and over the medium term.

5. KEY ISSUES

5.1 Under Section 25 of the Local Government Act 2003, the Director of Finance as the Council's officer designated under s151 of the Local Government Act 1972 has a duty to report to Council, when it considers the budget for the forthcoming financial year, on the following matters:-

a) The robustness of estimates made for the purposes of the calculations; and

b) The adequacy of the proposed financial reserves.

5.2 In deciding on the Budget Requirement (and Council Tax Requirement) for 2022/23, the Council is required to take into consideration this report. The purpose of this is to acknowledge the risks and uncertainties faced by the Council and that adequate provision has been made for these both as part of the budget estimates and also in determining the adequacy of reserves.

5.3 The statements from the Director of Finance are provided at **Appendix A**.

5.4 Councillors should note that these statements are predicated on the budget as presented elsewhere on the Agenda for this meeting. Should there be material changes to the proposed budget that impact on the robustness of estimates or the adequacy of reserves, it may be necessary for the Director of Finance to amend the statements provided at Appendix A as is considered necessary.

6. POLICY IMPLICATIONS

6.1 There are no policy implications arising directly from this report.

7. FINANCIAL IMPLICATIONS

7.1 There are no financial implications arising directly from this report.

8. LEGAL IMPLICATIONS

8.1 There are no legal implications arising directly from the contents of this report.

9. RESOURCE IMPLICATIONS

9.1 There are no other resources implications arising from the contents of this report.

10. EQUALITY AND HEALTH IMPLICATIONS

10.1 There are no equality and health implications arising from the contents of this report.

11. CONSULTATIONS

11.1 None arising from the contents of this report.

12. STATEMENT OF COMPLIANCE

12.1 None arising from the contents of this report.

Appendices

Appendix A – Statement on the Robustness of Estimates and Adequacy of the Council's Reserves

Appendix B – General Fund Working Balance

VERSION:	1

CONTACT OFFICER:	Dean Langton – Director of Finance
DATE:	February 2022
BACKGROUND PAPERS:	None

Appendix A

Draft Statement on the Robustness of Estimates and Adequacy of the Council's Reserves and Balances

1. In accordance with Section 25 of the Local Government Act 2003, the Director of Finance (as the officer designated under Section 151 of the Local Government Act 1972) has produced the following statements in respect of the proposed budget for 2022/23.

2. Finance Council is asked to consider these statements when considering the budget for 2022/23.

<u>Statement on the Robustness of the Council's Budget Calculations</u>

3. In respect of the proposed General Fund Revenue Budget and Capital Programme for 2022/23, Finance Council is asked to consider the following statement from the Director of Finance acting in his capacity as the Council's Statutory Financial Officer when considering the budgets for 2022/23:-

    "This statement is given <u>only</u> in respect of the 2022/23 budget setting process for Blackburn with Darwen Council. I acknowledge my responsibility for ensuring the robustness of the budget calculations and the adequacy of reserves as part of this process.

    As in previous years, a range of factors has been considered in this assessment of the robustness of the budget calculations for both the General Fund Revenue Budget and the Capital Programme for 2022/23. Whilst the narrative below explains some of these in more detail, ***Annex A*** *summarises other factors that have been considered.*

    <u>Covid-19</u>

    The Covid-19 Pandemic continues to have a profound impact on the Country. It also continues to impact directly on the activities of the Council and its financial position. Whilst the Government has made significant funding available for both business support and general support for the Council during 2020/21 and 2021/22, there is currently no such funding provision for 2022/23.

    For example, there is currently no specific provision for business support at this stage other than additional reliefs for retail, hospitality and the accommodation sector. Whilst this may reflect the Government's view that the impact of the Pandemic will, with the roll-out of the vaccination programme (including the Booster Programme), have subsided by the start of the new financial year, the nature of the virus, the uncertainty about take up of the vaccine and the booster along with the extent to which it is effective against new variants means that there remains a great deal of uncertainty about its continuing impact.

    Specifically in relation to the Council's own activities, the impact of Covid-19 has been wide-ranging. Income from both Council Tax and Business has been significantly affected and whilst the Government has made funding available in the current year to meet some of the irrecoverable losses, no such provision has been made in 2022/23. Similarly, income from Car Parking, Court Costs, Trade Waste and Commercial Rents has also reduced during 2021/22. Given the expectation that the Pandemic will continue to impact on the Council's activities in 2022/23, contingent sums have been earmarked in the Council's reserves should there be continuing shortfalls in income. However, this is not a sustainable solution if Covid-19 continues to impact.

In the current financial year, the Government has provided funding for the estimated additional cost of Council Tax Support acknowledging the anticipated increase in the number of claimants. It should be viewed, though, in the knowledge that Blackburn has had amongst the highest number of furloughed staff in Lancashire. Similarly, a grant of £5.1m has been provided by the Government for general expenditure pressures and the Council has been able to claim for c70% of any shortfall in budgeted income for the first quarter of 2021/22 financial year. This funding will not be repeated in 2022/23 but the impact of Covid-19 may well continue.

Whether the adjustment to budgets and the Government's funding provision is sufficient will depend on the extent to which the Pandemic continues, the costs pressures that arise and the income shortfalls that materialise. All of these are uncertain and the Council will have to continue lobbying to ensure that the Government provides full reimbursement of the costs of the Pandemic as it has indicated it would.

Business Rates Retention

Since the inception of the business rates retention scheme in 2013/14, the Council's annual share of income from the business rate retention system is not guaranteed; it is dependent on the Council's ability to retain and grow its business rates base and other factors outside of our control (e.g. appeals, collection etc.). This is within an environment where economic growth in the Blackburn with Darwen area has proven difficult given a range of structural issues, e.g. connectivity, adequacy of land supply for economic development and lack of available funding for business support.

Estimating the Council's share of income from business rates for 2022/23 remains a challenge for a number of reasons. As ever, the ongoing uncertainty on the timing and level of appeals since the system for making appeals was revised in 2017 continues to pose problems with estimating the overall level of business rates incomes. There remain a number of appeals outstanding against the 2010 rating list for which we can make an assessment but there continues to be limited detail at the time of budget setting regarding appeals against the 2017 rating list.

The position is also exacerbated by both the impact of the Covid-19 Pandemic and the general changes in the economy, particularly in the retail sector, which are seeing many retail outlets move their activities away from traditional 'bricks and mortar' trading to online trading. Whilst the latter is a one of the more fundamental matters for the sustainability of business rates as a method of financing local government, the Pandemic has the more immediate potential to depress the rental value of properties – particularly offices as businesses exploit the opportunities for staff to work from home – which in turn will lead to downward pressure on business rates. The extent to which this will happen and its impact on the Council's estimate of business rates is difficult to predict but a matter that will, nevertheless, need to be monitored closely.

At the same time, the level and extent of reliefs being made available by the Government to cushion the impact of business rates may have a bearing the amount of business rate to collect. In current year, substantial reliefs were given to retail properties and, to reduce the burden of business rates in 2022/23, the Government will freeze the business rates multiplier, provide temporary business rates relief to retail businesses and give 100% to any new property improvements to support investment by businesses. The sustainability of these measures relies on continuing Government support.

To inform the estimate of funding available to support Council spending in 2022/23, estimates have been made regarding the value of business rates that will be collected in both 2021/22 (for the estimate of the estimated Collection Fund Deficit of c£14.0m) and 2022/23 (for the estimated amount of retained Business Rates). These estimates are based on a range of assumptions around changes in business rates - new property assessments, changes to existing properties, appeals against rateable values, applications for Retail Relief etc. – and also levels of collection.

Having reviewed these estimates, including the amounts held in the relevant provisions, whilst I am content that they are reasonable and prudent based on information available at the time, ***I must advise Council that there continues to be volatility in business rates, particularly due to the impact of Covid-19, outstanding appeals, applications for rate reliefs and collection.*** *For this reason, I have included in the budget for 2022/23 a contribution of £5.5m from the Business Rates s31 Grant Reserves to offset the impact of the Collection Fund Deficit in 2021/22. And in the determination of the Business Rates to be collected in 2022/23, I have made a provision for a reduction in the Business Rates Taxbase, additional loss of business rates due to successful appeals and doubtful debts. I have also earmarked an element of the minimum working balance for this purpose.*

For the current year, actual income from business rates will not be finalised until after the end of the financial year. We have established arrangements to monitor business rates income closely during the year so that action can be taken as necessary to deal with any potential variation against the estimates used in setting the budget and these will continue to operate in 2022/23.

Council Tax

The estimates for Council Tax receipts included in the budget for 2022/23 are based on increasing the Council Tax by the maximum allowable within the Government's Referendum Principles for the 2022/23 financial year.

As with Business Rates, the actual amount of income received by the Council will be dependent on a range of factors including, for example, the award of reliefs/exemptions, take-up of the Local Council Tax Support Scheme and the rate of collection. Paying Council Tax is largely dependent on the affordability of Council Tax for residents; in recent years, the Council has had a reasonably good track record of collecting Council Tax but the impact of Covid-19 along with inflationary pressures from price rises on utilities, food and other household goods are likely to have a more significant bearing on collection than in previous years.

Again, the Council has in place good arrangements to monitor income from Council Tax and these will be used by Management to consider taking action on recovery of Council Tax debts (in accordance with the Council's relevant Collection Policies) where it is necessary to do so.

Development of Budgets

The estimates of income and expenditure forming the council's general fund revenue budget and capital programme for 2022/23 have been prepared on the basis of existing plans, known current and future commitments and the financial implications of the proposals for service efficiencies/reductions. They have been prepared in conjunction with the Strategic Directors, Heads of Service and Budget Holders. The base budget for 2022/23 is consistent with the delivery of current and expected levels of service required to achieve the council's corporate objectives.

Where it has been necessary, in the case of certain budgets (e.g. pay, utility costs, investment income and income from fees and charges), assumptions have been used for inflation, interest rates and service take-up that, on the basis of current and predicted levels of activity, are considered to be reasonable and prudent. Likewise, in relation to capital receipts and grant funding which are expected to be received by the Council, assumptions have been made about the timing and amount of those receipts which I consider to be reasonable.

Locally, some budgets are more sensitive and responsive to changes in demand for services. This includes, for example:-

- *staffing budgets which are dependent on various factors including agreement on pay awards, turnover and, more recently, difficulties in recruitment of staff requiring the use of temporary cover from Employment Agencies to maintain service provision. Equally, given the ongoing Senior Management Restructuring and the potential for further service restructuring, there will be a need to monitor staffing expenditure closely during the year;*

- *continuing upward pressure with demand for Adult Social Care Services. As well as the impact of Covid-19, the underlying pressures of an ageing population and increasing complexity of health needs remains a constant issue. Combined with pressure on costs due to, for example, increases in the National Living Wage, the difficulty in recruitment and the general fragility of the care market, the budget for Adult Social Care will need to remain under review. And whilst the impact of social care reforms as set out in the Adult Social Care White Paper are expected to impact from 2023/24 onwards, work will need to be undertaken in 2022/23 to prepare for the changes necessary to deliver these reforms;*

- *similarly, demand for Children's Services continues to be an issue, again due to the complexity of needs. Whilst the number of Children in our Care remains relatively stable, there is a view that there is pent-up demand in the system that, once the impact of Covid-19 starts to subside, will impact on the Council. That, combined with volatility in the the costs of providing that care mean there is a significant degree of uncertainty with these budgets. The outcome of both the MacAlister Review into the Children's Social Care system and the Competition and Markets Authority Children's Social Care Market Study is due in March 2022 and whilst it is not expected they will impact in 2022/23, it will be necessary to keep a watching brief on prospective changes arising from these reviews;*

- *the vitality of the local housing market which impacts on services such as Housing, Planning, Building Control and Local Land Charges. In particular, income budgets for these areas have been set with regard to known and predicted market conditions including, as indicated above, the impact of Covid-19 but the nature of these service activities means that it is difficult to be precise about service levels and therefore the income that will be generated as a result.*

- *Income budgets such as for car parking, markets, leisure services and commercial rents have all been significantly affected by Covid-19. The extent to which these budgets recover back to pre-pandemic levels will depend largely on the confidence of service users returning to use the services; this is difficult to predict in the current economic climate and will, therefore, need to be monitored carefully;*

- *Housing Benefits where, in recent years, the growth of supported (or exempt) accommodation where Housing Benefit subsidy is paid at 60% has led to increasing costs for the Council;*

These examples illustrate the potential volatility in budgets, made even more volatile because of the uncertainty with Covid-19, hence it may be necessary to take corrective action during the year to ensure that the Council's budget and capital programme remain in balance. The effectiveness of this action relies on good systems of budgetary control, monitoring and risk management. These systems are well established.

Equally, there are certain areas of expenditure/income where limited information is available on which to base budget estimates. These include, for example:-

- *the extent to which the Council will need to incur expenditure during 2022/23 in the response to Covid-19 is largely uncertain. Funding remains in the Council's reserves to meet costs should it be necessary but whether this is sufficient depends on how long the Pandemic continues and the extent of expenditure incurred by the Council.*

- *at the same time, the Council will turn its attention to recovery from the Pandemic, both in terms of the well-being of residents and the health of the local economy. No specific funding is included in the budget for these matters but the Council may consider making provision available to stimulate the local economy as necessary;*

- *the effect of changes to legislation and government policy which may create additional cost burdens. Examples include the impact of the recently enacted Environment Act 2021 and the Elections Bill which is currently making its way through the parliamentary process. More recently, the Adult Social Care and Levelling Up White Papers have been released, both of which may have a bearing on the Council's financial position;*

- *the impact of cost shunting from other government departments as they, too, seek to reduce their costs, i.e. business rate reductions as schools convert to Academies or applications for rating reliefs from parts of the NHS;*

- *more specifically, the Council has embarked on the delivery of the Darwen Town Investment Plan (TIP) as part of the Town Deal arrangements supported by Government. This will require match funding support from the Council for which there is provision in the Council's Capital Programme. The Council is also expected to bid in the next round of the Levelling Up Fund which will is also likely to require a match funding commitment. The affordability of this in the context of the Council's Medium Term Financial Plan will need to be assessed as and when the bid is developed.*

Alongside these issues will be the success, or otherwise, of implementing savings proposals which Councillors agree to accept as part of the current budget process. It is important that the necessary measures to achieve these savings are implemented sufficiently early in the financial year to ensure that the full amount of savings is realised. Where savings are not implemented in full or at all, this could increase the requirement to draw from the Council's reserves in the year as well as creating unaffordable cost burdens in subsequent years.

It is important, therefore, to review actual performance against budget on a regular basis in order to ensure budgets remain on track, including the implementation of savings/efficiency proposals as well as being proactive in identifying emerging risks and responding accordingly, taking remedial action where this is appropriate.

Acknowledging the above and setting this within the wider control framework and financial management arrangements applied within the council I consider the Council's budget for 2022/23 in isolation to be robust.

Although I am not required at this stage to comment on the robustness of estimates for future years' budgets, it is my view that when considering the budget calculations for 2022/23, ***Councillors must have regard to the medium term financial position of the Council when deciding the budget and council tax for next year.***

The Council's Medium Term Financial Plan to 2024/25 shows a deficit of c£6.0m. This is based on assumptions of Government funding which cannot be confirmed with any certainty at this stage. As Councillors will be aware, the Settlement for 2022/23 is for one-year only, despite the Department of Levelling Up, Housing and Communities being given a 3-year Settlement as part of the recent Comprehensive Spending Review.

The amount and how any future funding will be distributed to individual local authorities is not known but it is likely to be influenced by many factors including, for example, the outcome of the Fair Funding Review (when and if it takes place), the review of the Business Rates Retention Scheme and changes to the News Homes Bonus Scheme. Taken together, these have the potential to significantly change the Council's future funding.

The Council's Financial Strategy is based around four key strands – Grow, Charge, Save and Stop. Progress is being made on the implementation of measures in most of these strands. That said, the budget reductions necessary to achieve a balanced budget are of a magnitude that it is not feasible to make incremental reductions in services or wholly from back–office functions, particularly given the amount of savings made since 2010. Budget reductions on the scale need to be from transforming Council Services, should be considered strategically and, whilst acknowledging the Council's corporate objectives, set in the context of the main areas of service spending. The financial challenge facing the Council is such that more work is needed and it will take time to identify and implement the required changes to the budget to make it sustainable.

At the same time, the Council needs to manage the use of balances and reserves as part of the strategy to achieve the necessary change in the budget. As balances and reserves have reduced, this will become more difficult and so decisions on budget reductions will become unavoidable.

Therefore, subject to agreement to the draft Financial Strategy, the degree of uncertainty with future funding allocations combined with the projected scale of the savings required by the Council to ensure a balanced budget each year means that I cannot, at this stage, comment on the robustness of budget estimates with effect from 2023/24. Suffice to say, the financial challenge facing the Council remains substantial and there are undoubtedly difficult decisions ahead as the Council seeks to align service spending within projected available resources.

Statement on the Adequacy of Financial Reserves

"Having conducted a review of the Council's requirement for the minimum working balance, taking into consideration various matters including:-

- *the Council's spending plans for 2022/23 and the medium term financial position;*
- *adequacy of estimates of inflation, interest rates;*
- *treatment of demand led pressures;*
- *impact of external partnerships;*
- *the need to respond to emergencies.*
- *Performance of business rates (and the position on the Collection Fund for business rates);*
- *Capital programme variations.*

I can confirm that an amount of £6.0m is considered adequate for this purpose.

In relation to other financial reserves, a review has also been conducted to determine their adequacy. In addition to the matters referred to above, and taking into account the Medium Term Financial Plan, the review concluded that the level of such reserves is adequate based on current information in relation to anticipated risk, existing commitments and known future plans. That said, should there be a significant call on those reserves another review will need to be carried out.

This statement is made on the understanding that any use of reserves and balances is undertaken in accordance with the Council's existing Financial Procedure Rules and that a further review of reserves and balances will be undertaken in the Summer of 2022 following the preparation of the Council's accounts for 2021/22."

Annex A

Factors Considered in the Determining the Robustness of Estimates and Adequacy of Reserves

Factors	Commentary
The Council's Aims and Priorities	Where it is considered affordable to do so, the budget estimates reflect the amounts required to achieve service objectives agreed by Council as part of our current Corporate Plan. The Council's Corporate Plan for the period to 2023 was approved by Council in 2019 and therefore the budget estimates and key budget assumptions have been aligned to the Council's corporate objectives. As reported to the last Policy Council, work is now underway to refresh the Council's Corporate Plan. As a consequence, there will be a need to review the Council's strategic objectives and to ensure that the actions to achieve these objectives reflect those required to deliver the vision for the Borough. This work will be undertaken during 2022.
Financial Strategy (and Medium Term Financial Planning)	In preparing the Council's budget estimate for 2022/23, due regard has been given to the impact of decisions made by the Council on matters which might impact on the Medium Term Financial Plan (MTFP). Details of the updated Medium Term Financial Plan are reported to Finance Council elsewhere on the Agenda for this meeting so that decisions on the budget for 2022/23 can be taken in the context of the longer term impact for the Council. Equally, this is reflected in the development of a Financial Strategy which, amongst other matters, seeks to combine prudent use of reserves with efforts to align the Council's ongoing expenditure with ongoing resource levels. Whilst acknowledging that the Financial Strategy is predicated on a range of assumptions which have contributed to the development of the Medium Term Financial Plan (MTFP), the extent to which the Council takes decisions that impacts those assumptions, will result in changes to the MTFP. Whilst the budget estimates shown in the Medium Term Financial Plan for 2022/23 to 2024/25 are, on the basis of current information, considered robust, they are unaffordable given the projected levels of income. The Financial Strategy proposed for future years include the following key themes of:-

Factors	Commentary
	• ***Growing*** the Council's taxbases, both for business rates and for Council Tax along with any schemes, if any, the Government uses to incentivise the supply of housing (like the New Homes Bonus Scheme although it is acknowledged this is subject to reform); • ***Charging*** for services where is it considered appropriate to do so on a cost recovery basis and to use spare capacity. It will also involve the introduction of new charges where this is considered feasible; • ***Saving*** costs by being more efficient, transforming how the Council provides services, working in partnership with others or by prioritising some services over others when allocating resources; • ***Stop*** **–** determining what are not priorities, seek other organisations who could provide them or stop them given the financial challenge faced by the Council. Underpinning the current strategy are the following strands:- • pursuing an Economic Development Strategy aimed at increasing, amongst other matters, the number of business rateable properties in Blackburn with Darwen thereby increasing the Council's share of retained business rates; • encouraging housing development within the Borough thereby boosting our access to additional funding which the Government may distribute to reward the supply of housing growth; • making savings over the medium term based on the MTFP savings requirement rather than relying solely on reserves to balance the Council's budget; a strategy that relies heavily on finite reserves will simply defer, not reduce, the need to make savings and the longer savings are put off the greater the amount required. • increasing the Council Tax in 2022/23 and subsequent years, to the extent this is possible without triggering a referendum. The proposal for 2022/23 is that Council Tax charge be increased by 1.99% and the Adult Social Care Precept by 2.0%. In future years, the assumption is that Council Tax will increase by the maximum amount within any revised thresholds set by Government. No consideration has been given to exceeding the referendum threshold although this policy remains open to consideration in future years; • no avoidable budget growth without compensating savings; • the planned use of the Budget Support Reserve in the period 2022/23 to 2024/25 to 'smooth' the amount of savings required accepting that even then, the magnitude of savings will present some extremely difficult decisions for the Council and impact on frontline service provision.

Factors	Commentary
	Acknowledging the significant deficit on the Medium Term Financial Plan, it is important that work begins early in the new financial year to start developing options for the delivery of future savings.
The level of funding likely from Central Government towards the cost of local services	From 2022/23, the Government has again provided Local Government with a 1-year funding settlement year (despite there being a 3-year Settlement with the announcement made as part of the Comprehensive Spending Review in Autumn 2021). For 2022/23, given there have been no substantive changes, the Business Rates Retention Scheme will operate as in the current year with the Council retaining 49% of any business rates payable Estimates of Business Rates to be retained have been produced and feature in the Council's budget for 2022/23. For 2022/23, the Council's core Revenue Support Grant will be £14.015m which is a marginal increase when compared to the current financial year. At this stage, despite the 3-year Settlement for the Department of Levelling Up, Housing and Communities in the Comprehensive Spending Review in Autumn 2021, a 1-year Settlement for 2022/23 provides no certainty for the Council's future funding. Equally, the Fair Funding Review and the review of the Business Rate Retention Scheme, all of which could have impacted on funding allocations from April 2022, have still not been completed. As a consequence, it is not possible to say with any certainty what Government funding the Council will receive after 2022/23. Forecasts of funding included in the Medium Term Financial Plan are based on estimates for 2022/23 and information provided to the Council by LG Futures who the Council retains as support on these matters.
Council Tax Base	The Council Tax Base for 2022/23 is 35,439.30 (34,938.16 in 2021/22), an increase of 1.43% when compared to the previous year. The Tax Base reflects a rate of collection of Council Tax for 2022/23 of 96.50%, no change when compared to the current financial year to reflect the continuing impact on collection of the Covid-19 Pandemic. The Council has robust procedures to monitor the rate of Council Tax collection during the financial year.
Referendum Threshold set by the Secretary of State in respect of Council Tax Increases	For 2022/23, the Government has indicated that for Councils like Blackburn with Darwen, the maximum allowable increase in Council Tax is 1.99% for the general Council Tax and 1% for the Social Care Care Precept (plus 1% held over from 2021/22). Anything above these limits will trigger a referendum of local taxpayers. The recommendation to the Finance Council is within these limits and should not, therefore, trigger a Referendum.

Factors	Commentary
The Prudential Code and its impact on capital planning (including the Corporate Capital Strategy)	The Council has a Capital Strategy which informs future projected capital expenditure and income. Arising out of consideration of the Capital Strategy, there is recommended to Council a Capital Programme for 2022/23 which is considered to be affordable, prudent and sustainable. Subject to Council's decision on the overall Capital Programme and how it will be financed, it may be necessary to revisit the prudential indicators to ensure that the proposed Capital Programme remains affordable, prudent and sustainable.
Financial Standing (including adequacy of reserves)	On the basis of the third quarter budget monitoring exercise, the General Fund Revenue Budget for 2021/22 is estimated to be overspent by £3.9m. Any variations that have an ongoing impact on the Council's budget in the current year have been factored into the budget for 2022/23 where it is applicable to do so. The Medium Term Financial Plan for the period 2022/23 to 2024/25 shows a shortfall in projected resources giving rise to a significant savings requirement. The Council has in place a strategy which combines the planned use of reserves to smooth the level of savings required in each year but nevertheless this still requires Councillors to agree the necessary reductions in expenditure to balance spending within available resources. A review of the Council's Minimum Working Balance justifies retaining a balance of £6m. The adequacy of this will remain subject to review on at least an annual basis. Equally, a review of specific reserves has been undertaken and these are assessed as being adequate for the purpose for which they were created. As required by Statute, these too will be subject to at least an annual review. The Council's External Auditors are likely to give an unqualified opinion on the Statement of Accounts for 2020/21. In the context of our Financial Standing, our arrangements for ensuring value for money will be the subject of a separate report by the External Auditors using new guidance issued by the National Audit Office. This is not expected to identify any issues with the Council's arrangements.
Financial Management	The Council's financial information and reporting arrangements are considered to be sound and the end of year procedures in relation to budget management and the closure of accounts are currently considered fit for purpose. As indicated above, the Council's External Auditors are likely to give an unqualified opinion on the Statement of Accounts for 2020/21. Work is still underway on the Council's arrangements for ensuring value for money in the year and this will be the subject of a further report to the Audit and Governance Committee. No issues are expected to be raised.

Factors	Commentary
	The management of the Council's asset base continues to be reasonably good with resources linked to capital planning in both the annual budget and the Medium Term Financial Plan. Collection performance of both NNDR and Council Tax are broadly as expected in 2021/22 acknowledging that Covid-19 continues to have an adverse impact on collection. Collection performance continues to be managed closely by the Head of Revenues and Benefits in conjunction with the Director of Finance and the Executive Member for Finance and Governance. The Council will also undertake a review of its Financial Management Arrangements against CIPFA's Financial Management Code at the end of the current (2021/22) financial year.
Corporate Governance and Risk Management	The Council has adopted a Local Code of Corporate Governance based upon the most recent requirements of the CIPFA/SOLACE Corporate Governance Framework. The Local Code was assessed against the revised 2016 CIPFA/SOLACE framework and overall, our arrangements were found to be robust with only a small number of areas requiring further work or improvement. These arrangements are subject to regular self-assessment by a the Council's Statutory Officers Group including Chief Executive, Strategic Director of Resources, Director of Finance and Strategic Head of Legal Services. The Group meets periodically to consider matters including corporate governance and risk management issues. The Council also has a risk management policy and framework which underpins the Strategic Risk Register and various Departmental Risk Registers. A refresh of these arrangements is currently underway. There are regular reports on risk management to the Audit and Governance Committee.
The adequacy of the Council's Insurance Arrangements	The Council's insurance arrangements are reviewed annually as part of the review of premiums paid and levels of cover obtained. The Council implemented a contract of insurance with Zurich Municipal from April 2017 following the completion of an OJEU compliant procurement exercise. A re-procurement of the contract is due in 2022. There continue to be close links between the work to ensure adequate insurance arrangements, risk management and business continuity. This work is overseen by the Head of Audit and Assurance and the Audit and Governance Committee.
Business Continuity Arrangements	The Council has a Resilience and Emergency Planning Team responsible for responding to emergencies and business continuity situations.

Factors	Commentary
	The Council has a Corporate Business Continuity Plan (BCP) which is supported by a suite of Service-specific Business Continuity Plans. These are review and updated regularly, not least because of the ongoing impact of the Covid-19 Pandemic. Likewise the Council's Emergency Plan is regularly reviewed and updated. In both cases, regular training and updates are provided for Officers on both business continuity and emergency planning to ensure Officers are clear about their roles and responsibilities in the event of emergency situations.
Arrangements to secure Value for Money	The Council's arrangements in relation to value for money have been assessed and the External Auditor who issued an unqualified opinion on the Council's arrangements for securing value for money for 2019/20. New arrangements for assessing Value for Money are in place for the 2020/21 financial year onwards. The External Auditor is undertaking their work on this assessment and will report in the first quarter of 2022. It is not expected there will be any issues arising.
Interest Rates	At the time of writing, the bank base rate is currently 0.50% following a decision by the Bank of England to increase the rate in February 2022. With inflation increasing and expected to peak around 7% during 2022, the expectation is for further increases in interest rates. This is likely to have direct impact on the levels of investment returns the Council expects to receive. Looking ahead, interest returns have been set at 0.1% for 2022/23, 0.15% for 2023/24 and 0.20% for 2024/25 although these will be reviewed as part of the on-going development of the Medium Term Financial Plan. This reflects the expectation that interest rates will remain relatively low over the medium term. Interest rates on long term debt are fixed at the rate at which the debt was taken. The Council's present debt which consists wholly of loans from the Public Works Loan Board has a consolidated rate of interest of 3.52%. Annually, the Council agrees a Treasury Management Strategy which sets out how both borrowing and investments will be managed throughout the year. For 2022/23, this will be reported to the Executive Board in March 2022. To mitigate against fluctuations in interest rates, and therefore changes in investment returns, the General Fund Minimum Working Balance includes provision for loss of income in the short term.
Pay and Price Inflation	An allowance of 2% has been factored in to the budget for the Local Government pay award in 2022/23.

Factors	Commentary
	Generally, other budgets are cash limited (i.e. not increased by general inflation) with the exception of certain costs, e.g. utilities, , where budgets have been increased to reflect anticipated inflationary increases. Consumer Price Index at December 2021 was 4.8% (0.8% for December 2020) and the Retail Price Index was 7.5% (1.2% for December 2020).
Fees and Charges	Annually, the Council reviews its fees and charges. As explained above, where it has been considered necessary, budgets have been adjusted to reflect the impact of the Covid-19 Pandemic. As in the current financial year, the Council needs to closely monitor budgets for fees and charges to ensure they remain in line with expectations and, where necessary, be in a position to respond if budgets are not being achieved.
Demand Led Pressures	Where possible, the forecasts of income and expenditure forming the Council's budget estimates for 2022/23 take into account anticipated changes in demand led pressures to the extent that they can be predicted. However, by the very nature, these can vary from year to year as service take-up in these areas is difficult to forecast. The Covid-19 Pandemic continues to impact on the Council's budget and is expected to continue doing so in the 2022/23 financial year. The success of the NHS Vaccination Programme and how quickly it is rolled out across the Country will be a key determinant in this matter. There remains the potential for demand increases in the number of service users in areas such as Adult Social Care, Children's Services, Benefits and Homelessness and the extent to which the Council maintains service provision will need to be monitored carefully. In considering the budget for 2022/23 to Council, it should be noted that budgets will be cash limited and as a consequence Budget Holders will be required to manage demand led pressures within their existing budget allocations. Notwithstanding this, the Council's General Fund Minimum Working Balance includes provision to deal with some level of unexpected and unforeseen costs arising from increases in demand for services.
Emerging Pressures	The projections within the budget and the Medium Term Financial Plan include all known and quantified priorities and growth pressures that Managers are aware of at the time the budget is proposed. Some matters, particularly the financial impact of the Covid-19 Pandemic and the time it will take the local economy to recover from its impact, are difficult to assess in budgetary terms and will, therefore, require closely monitoring. The arrangements are in place for that to happen.

Factors	Commentary
	Looking ahead, as well as the continued reduction in our core funding generally, there are a range of other issues which may require investment:- • a focus on economic growth and job creation to support business and increase employment which should yield additional business rates income; • the impact of the White Paper on the reform of Adult Social Care may require additional investment from the Council; • Likewise, the outcome of the MacAlister Review of Children's Services may increase the pressure on Children's Services provision; • The devolution agenda including any requirements of the Levelling Up White Paper and/or matters such as County Deals where, at this stage, it is uncertain exactly what they will mean for the Council; • Now that the Environment Act is law, changes to the arrangement for waste collection and disposal arising out of the Act may have significant financial implications for the Council; • The Council has declared a Climate Emergency and so the need to take action to deal with this will, inevitably, create funding pressures if there is no funding made available by the Government; • The Darwen Town Deal, a Levelling Up Fund Bid for Blackburn and bids to the Shared Prosperity fund may require match funding from the Council and other local organisations; • the ongoing changes to the Benefits regime including the impact of Full Service Universal Credit and ongoing welfare reforms. This is difficult to predict especially as changes to the programme of claimants transferring to UC recently being announced by government; • as partners and other local organisations experience reductions in their funding this may affect access to services they provide within Blackburn and Darwen and in some cases lead to pressure for the Borough Council to help address the position or to help other groups to take on the responsibility (e.g. services provided by the County Council and the role of the Voluntary and Community Sector in Blackburn/Darwen). • as the Council reduces in size, funding may be required to help meet the 'costs of change'; • legislative changes leading to potential increased costs for the Council. This above is not an exhaustive list and there will be other issues that arise either due to local priorities or statutory obligations.

Appendix B

Assessment of the level of the Council's General Fund Working Balance

1. Reserves are sums set aside to meet possible future costs where there is no certainty about whether or not the costs will actually be incurred. The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

2. When reviewing their medium term financial plans and preparing their annual budgets local authorities should consider the establishment and maintenance of reserves. These can be held for three main purposes:

   - a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;

   - a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;

   - a means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but legally remain part of the General Fund.

3. Local authorities also hold other reserves that arise out of the interaction of legislation and proper accounting practice. These are reserves, which are not resource-backed and cannot be used for any other purpose. An example is the Revaluation Reserve which is a reserve that records unrealised gains in the value of fixed assets. The reserve increases when assets are revalued upwards, and decreases as assets are depreciated or when assets are revalued downwards or disposed of. Reserves of this type do not form part of the annual review of the adequacy of reserves.

4. Section 25(1)(b) of the Local Government Act 2003 requires the Director of Finance to report to the Council on the adequacy of the proposed financial reserves. Guidance is published by the Chartered Institute of Public Finance and Accountancy (CIPFA) on the establishment and maintenance of local authority reserves and balances. The level and utilisation of reserves will be determined formally by the Council, informed by the advice and judgement of the Director of Finance.

5. In support of this requirement, and as part of the development of the budget for 2022/23, a risk assessment has been carried out to establish the minimum level of the General Fund Working Balance for Blackburn with Darwen. Details of this assessment are provided below in **Table 1** which indicates that the minimum working balance should be **c£6.0m**. At this level it represents c2% of the Council's gross revenue expenditure.

Table 1: Risk Assessment for General Fund Working Balance – 2022/23

Minimum £000	Desirable £000	Area of expenditure / Explanation of risk / Justification for Reserves
350	500	**Pay** – the MTFP includes annual provision for a 2% pay award. However, as future pay awards within the MTFP period are not yet agreed, there is a risk of the current assumptions on pay being at variance to the budget as the pay claim received by the employees' side is often in excess of the budgeted provision.. **Assessment: Degree of risk / reserve needed:** **Low £0-350k Medium £350-700k High £700-£1.1m** **Likelihood of risk occurring : Low** **Minimum reserve needed : £350k**
1,000	2,000	**Prices** – the budget assumes that, in the main, price inflation can be managed by Departments within a zero cash-limited increase or specific inflation allowances for designated expenditure (e.g. National Living Wage, Fuel, Utilities). The indications are pointing to growing inflationary pressures over the medium-term driven by supply-constraints as the global economy emerges from the Covid-19 Pandemic. This is impacting on the both labour, utilities, services and materials. **Assessment: Degree of risk / reserve needed:** **Low £750m Medium £1.0m High £2.0m** **Likelihood of risk occurring : Medium** **Minimum reserve needed : £1.0m**
1,000	2,000	**Litigation Claims** – as the Council faces reductions in resources for future provision of services, there is an increased risk of litigation beyond that which would otherwise be covered by insurance arrangements. **Assessment: Degree of risk / reserve needed:** **Low £1.0m Medium £2.0m High £3.0m** **Likelihood of risk occurring : Low** **Minimum reserve needed : £1.0m**
1,000	1,500	**Income from Fees and Charges** – With continuing impact of the Covid-19 Pandemic plus the on the commercial/retail sector, the current economic climate may continue to impact on a range of income streams from activities such as land charges, markets, planning fees and industrial estates. A number of services are also price sensitive and delivered in competition with other providers (e.g. trade waste / building control). **Assessment: Degree of risk / reserve needed:** **Low £1.0m Medium £1.5m High £2.0m** **Likelihood of risk occurring : Low (given Covid Contingency)** **Minimum reserve needed : £1.0m**

Minimum £000	Desirable £000	Area of expenditure / Explanation of risk / Justification for Reserves
2,000	**2,000**	**Demand Led Pressures on Services** – the most significant is likely to be the ongoing impact of the Covid-19 Pandemic. The Government has made no funding provision for 2022/23 despite there being no certainty about the impact of the Pandemic and how it will continue to impact on the Council's activities, both in terms of costs pressures and loss of income. Both Adult and Children's Social Care can be subject to significant demand-led pressures. This can vary from one year to the next and both have been significantly impacted by Covid-19. Both Housing and Council Tax Support may also come under pressure given the prevailing economy and associated risk of increasing unemployment due to the impact of Covid-19. The Council spends c£34m on Housing Benefits whereas the cost of Council Tax Support (applied as a discount on council tax bills) is estimated at c£14m. Qualifying expenditure on Housing Benefit is *generally* matched by Government subsidy in full, however, an increase in, say, supported services (referred to below) at a lower rate of recovery, can increase the overall net cost to the Council. In recent years, the Council has experienced an increase in Supported Accommodation enquiries and applications. The rate of subsidy for this category of accommodation is 60% and not 100% if the landlord is not a Registered Social Provider. Notwithstanding, an estimate is provided in the budget , if this trend continues this additional provision will not be sufficient to cover the Council's financial risk exposure. **Assessment: Degree of risk / reserve needed:** **Low £1.0m Medium £2.0m High £3.0m** **Likelihood of risk occurring : Medium** **Minimum reserve needed : £2.0m**
600	**1,000**	**Non-achievement of Savings** – the level of savings required for over the medium term is c£6m according to the most recent Medium Term Financial Plan (MTFP). Whilst arrangements are in place to manage the implementation of the savings it is recommended that additional cover be provided to mitigate the risk of some not being realised or implementation lead in times being longer. The risk assessment is based on c10% cover (low), 15% (medium) and 25% (high). This recognises the amount of savings achieved since 2010 and the fact that decisions on budget savings may become increasingly difficult. It should be noted that this MTFP does not contain any future years where the core funding level of the Council is known, so increasing the degree of uncertainty within the budget assumptions made on high value budgets. **Assessment: Degree of risk / reserve needed:** **Low £600k Medium £900k High £1.5m** **Likelihood of risk occurring : Low** **Minimum reserve needed : £600k**

Minimum £000	Desirable £000	Area of expenditure / Explanation of risk / Justification for Reserves
250	**500**	**Unforeseen / emergency expenditure** – there is a risk that unexpected events may occur which require expenditure to be incurred or income to be foregone that has not been budgeted. Examples might include, adverse weather, flooding, business continuity linked to loss of key service/building (to the extent not covered by insurance) **Assessment: Degree of risk / reserve needed:** **Low £250k Medium £500k High £700k** **Likelihood of risk occurring : Low (assuming Bellwin scheme would apply in certain cases)** **Minimum reserve needed : £250k**
250	**500**	**Receipt of capital resources –** the overall capital programme assumes a level of income from asset disposals / grants – as the timing of these can sometimes be uncertain it is considered prudent to set provision aside for additional revenue to help offset any shortfall if expenditure cannot be delayed. The current Capital Strategy is that only new borrowing equivalent to the previous year's Minimum Revenue Provision should be incurred to fund the Capital Programme and therefore revenue contributions is the only viable option in lieu of capital receipts being realised. **Assessment: Degree of risk / reserve needed:** **Low £250k Medium £500k High £1.0m** **Likelihood of risk occurring : Low** **Minimum reserve needed : £250k**
`500	**1,000**	**Business Rates -** Given the volatility inherent in the current rates retention system and the regime's imminent overhaul, it is considered prudent to set aside a level of funding within the working balance to help manage the associated risks. Covid-19 has had a significant impact on the collection of Business Rates, both in terms of the amount of funding support available to businesses but equally the impact on the rate of collection. Taking into account Collection Fund monitoring to date, the provisions made to cover the risk of appeals and bad debts and an amount held for the volatility in Business Rates, it is proposed to set aside a minimum amount for 2022/23. **Assessment: Degree of risk / reserve needed:** **Low £500k Medium £1.0m High £2.0m** **Likelihood of risk occurring : Low** **Minimum reserve needed : £500k**
6,450	**11,000**	**Total**