



**REPORT OF: DIRECTOR OF FINANCE AND  
CUSTOMER SERVICES**

**TO: FINANCE COUNCIL**

**DATE: 25<sup>th</sup> FEBRUARY 2019**

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**SUBJECT: The Robustness of the 2019/20 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 2019/20, Council is required to have regard to this report when making its budget decisions.

## **2. RECOMMENDATIONS**

An overall assessment of the current budget and the assumptions on which this is based, as well as future budget proposals, savings plans and activity forecasts, 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 the review of reserves and provisions.

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

- the robustness of the Revenue Budget and Capital Programme for 2019/20 (as outlined in the report of the Executive Member for Resources) and
- the adequacy and recommended level of proposed financial reserves (detailed in **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 departmental level.

## 5. FINANCIAL IMPLICATIONS

### 5.1 Robustness of the 2019/20 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).

Development of the strategy has been somewhat frustrated as little movement has been made by the Government over the course of the current financial year to progress their stated intention to significantly change the way Councils are funded from 2020 onwards. They had announced in 2017/18 that consultations would be undertaken to progress the changes, however given the pressures they have faced in the Brexit negotiations, these have been slow to advance and indeed the consultations on the Fair Funding Review and on a future Business Rates Retention mechanism were only issued in mid-December 2018, with the Green Paper and consultation on Adult Social Care yet to be issued.

As such, whilst the MTFS would normally extend to cover the 3 year period beyond the end of the budget year, i.e. to 2022/23, as for the strategies presented in both 2017 and 2018, this MTFS has been limited to 2 rather than 3 additional years, i.e. to 2021/22, until more clarity is provided on the changes to the funding framework and mechanisms to be introduced by central Government.

Given the uncertainty and the number of factors in play, in developing the MTFS for these additional years we have therefore modelled various scenarios based on various assumptions of projected income and expenditure streams and these are detailed in the ***Revenue Budget 2019/20, Medium Term Financial Strategy and Capital Programme for 2019-22 report*** at **Appendix D**.

However the strategy presented does reflect Council-wide involvement, as it is based on an integrated approach to the preparation of capital and revenue plans and the associated strategies managing of 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 an 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, the Deputy Chief Executive and Directors in

relation to the operational requirements around policy and legislative initiatives. Likewise, the Director of Finance and Customer Services and senior finance representatives 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)
  - we have incorporated information provided by Government on funding, as detailed within the recent Local Government Finance Settlement, which reflects the last year of the 4 year settlement, which has covered the period 2016/17 to 2019/20 and which the Council accepted back in October 2016
  - working with colleagues across Lancashire, we have reviewed both the current and projected levels of income associated with Business Rates to determine the estimated financial impact of the new Lancashire 75% Business Rates Retention Pool pilot on the authority for the year
  - we have utilised demographic and trend data to project future levels of demand, given that demand in respect of adult social care and children's services are the biggest cost pressures and present the greatest financial risk to the Council at present
  - we have realigned waste budgets to reflect estimated tonnages and known price increases in 2019/20. The kerbside recycling contract is due for renewal in 2019/20 which now carries additional risk as the sell on price of recycling has fallen dramatically in recent years. Contractors are therefore seeking to pass on a proportion of this cost to councils.
- 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 such as the;
    - Residents Survey – November 2018
    - Council Tax Support Scheme Consultation – September 2018
    - Budget Setting 2019/20 – invitation to comment – February 2019
    - Residential Disabled Parking Bay consultation – January 2019
    - National Highways and Transport survey – June 2018
    - Disabled Now Card changes consultation – July 2018
- 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. These have been developed throughout the course of 2018/19 with regular monitoring and progress reporting by Officers at Executive Team and Management Board, and at Policy Development Sessions (PDS) with Portfolio Executive Members
  - the system of controllable budgets for each Portfolio provides a transparent and accountable arrangement to budget setting; consideration is given to both service specific and corporate cost pressures when determining the allocated

cash limit and each Portfolio is required to formulate a strategy to deliver savings and ensure a balanced budget

- the Council continues to closely monitor and instigate early action to meet both its immediate and medium term financial challenges. This approach has been effective in providing a level of resilience to address the Government's funding reductions over the period to 2019/20 and has encompassed savings relating to;
  - the 3 year savings programme of £26.0m approved by Council Forum in September 2014,
  - the £3.6m in-year budget savings programme of 2016/17,
  - the £15.0m savings programme developed during 2016/17 for implementation by the end of 2017/18
  - a savings programme of £8.0m developed during 2018/19 to close the budget gap of £4.9m for 2019/20 as identified at the Finance Council in 2018, and to address both the cost pressures and further reductions in income that have emerged over the course of the year
  
- 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 2019 to 2022 of £47.1m is included within the report from the Executive Member for Resources. This predominantly comprises of existing commitments including investment in:

- our local transport plan, including both our successful Growth Deal 3 bid to open up the Pennine gateways around the borough and our Fabric Borders scheme, all of which will facilitate housing and business growth
- aids and adaptations through provision of disabled facilities grants
- regeneration of the borough, including our scheme at Blakey Moor to enhance the town centre in Blackburn and support the improvement of leisure facilities and a night time economy, incorporating a cinema complex development
- facilitating housing and business growth
- support of income generation and commercialisation opportunities
- support of continued investment in IT services to underpin our 'digital first' approach to delivering efficiencies and in turn, cash savings
- support of our accommodation review which again will drive efficiencies and savings through rationalisation and a more cost effective use of space

Before projects are allocated funding however, they are subjected to a rigorous business case approval process and detailed Member reports are produced in line with financial procedures as required.

These schemes will require strong 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 future capital programme, as additional costs could put pressure on the funding available for delivery of other schemes within the programme. To mitigate this risk, sound systems of internal control are in place with project boards established to provide the necessary governance structure, ensuring appropriate and timely reporting mechanisms.

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

The 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 to deliver 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 these;

- overall budget monitoring takes place throughout the year at both Portfolio and Executive Board level to identify potential areas of pressure and to develop and implement corrective action. This in itself provides a strong control environment and is commensurate with sound corporate governance. Progress against efficiency targets is also monitored and reported to Executive Members.
- the Chief Executive and Deputy Chief Executive meet at least once a month with the Director of Finance and Customer Services and senior finance staff, to review both the Councils' overall financial position and the progress made in delivering the savings programme, as well as considering 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 with the Director of Finance and Customer Services, the Director of HR, Legal and Governance and the Director of Digital and Business Change, to review the Council's budget position and progress made against the agreed savings programme.
- other specific Boards and Groups such as the Growth Board, the Digital Board, the Workforce Review Board, the Strategic Commissioning Board and the Accommodation Board, who each meet regularly to oversee the sphere of activities within their specific remit.
- 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), potential changes (such as adjustments to government funding and precept levels), and also for the refinement of variables (such as inflation, interest rates and employers pension rates) in light of emerging information.
- the Council adopts a risk based 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 for specific contingencies within the budget, mitigates against the financial risks from unforeseen financial issues so that these 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 needs.

### **5.1.5 Risk**

Ultimately the robustness of the budget is dependent on the strength of the arrangements in place to deliver the component parts and to manage the associated risks of these.

It must be recognised that given the significant reduction in resources over the past 9 years of austerity, and the resulting reconfiguration of the organisation and its services, the Council faces significant risks which impact upon 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 have been exacerbated by reductions in public sector expenditure in other areas such as the NHS and as a result of Welfare Reform, particularly the rollout of Universal Credit which commenced in the borough in February 2018
- the reaction by residents to changes to services
- the ability to raise and collect revenue from taxes, fees and charges
- changes in statutory and legislative requirements, including employment law
- changes by government in funding
- contractual obligations
- the challenging timescales in which to deliver the reductions required
- potential loss of skilled and experienced staff
- the development of free schools and academies and further education reforms

Whilst the 4 year settlement, effective from 2016/17, has provided some stability to assist in financial planning through to 2019/20, for 2020/21 and beyond, the uncertainty persists with regards to Government's plans for;

- the development and implementation of a Business Rates Retention Scheme,
- the development and implementation of a new Fair Funding formula,
- the future of Government grant funding including Public Health Grant and Improved Better Care Fund,
- plans for integration of the NHS and adult social care and
- the impact of Brexit,

All of the above present significant risk upon which it is impossible to model a longer term strategy without any degree of confidence in the underlying assumptions.

However, 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 with effective financial control.

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

Reserves are an essential part of good financial management; they help the Council to cope with unpredictable financial pressures, help to smooth the impact of known spending requirements over time and help to fund any in-year overspends. As funding levels have continued to reduce, the Council has had to utilise reserves to cover any shortfalls in year to bridge the gap whilst cost and service reductions are fully implemented to address the imbalance.

There is no set formula for deciding an appropriate, or required, level of reserves and every Council is free to determine the level they hold; holding a low level of reserves offers little resilience to financial shocks and sustained financial challenges, however if reserves are too high, there may be opportunity costs of holding these resulting in a lack of investment in services that could provide better outcomes for residents, and/or increased savings, and/or revenue generation.

As such the level, purpose and planned use of reserves are important factors to consider in developing the MTFS and the annual budget.

### **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, future liabilities.

The calculation to support the 2019/20 budget is detailed at **Appendix A**. This is based on a framework that has been developed to identify areas of risk, an estimate of their financial value and an assessed level of that risk coming to fruition. This process produces a value from which a risk assessed, minimum level of Unallocated Reserves can be determined. The calculation also allows for a further escalation of the current pressures on the Council's finances e.g. pressures in demand for social care, above and beyond those included within the portfolio cash limited budgets, and those included within Earmarked Reserves as detailed below, e.g. the Earmarked Demand Reserve.

The sensitivity and risk analysis undertaken has identified that the minimum level of General Reserves required can remain at the current level of £4.0m as this is considered sufficient, to provide financial resilience in the event of unexpected spending pressures.

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

Earmarked Reserves are established to meet known or expected future liabilities where it is difficult to be specific about the exact financial amount of liability.

There are several categories of Earmarked reserves that the Council holds;

- sums set aside for specific significant schemes or projects such as the revenue costs of implementation of the digital programme, those associated with the accommodation review and those to support business growth
- reserves to fund the cost of workforce reviews, reorganisation and the part year effect of delivering savings

- reserves specifically retained for service departments for example the Future Demand Reserve in respect of adult social care and children's services
- School balances

The current forecast for Earmarked reserves at 31<sup>st</sup> March 2019 comprises;

£11.602m - total reserves of Council Use

£12.593m – Other reserves (including Schools)

A full breakdown of the Earmarked Reserves is attached at **Appendix B**

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.

## **6. LEGAL IMPLICATIONS**

This report is a requirement under Section 25 of the Local Government Act 2003.

## **7. RESOURCE IMPLICATIONS**

There are no resource implications as a direct consequence of this report

## **8. EQUALITY IMPLICATIONS**

There are no equality implications as a direct consequence of this report

## **9. CONSULTATIONS**

None applicable to this report

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Date: 25<sup>th</sup> February 2019  
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>
<p><b>General budget risks</b></p> <ul style="list-style-type: none"> <li>• Demand pressures – significant parts of the Council's budget, particularly in Adults and Children's Social Care, are 'demand led' and can create significant demands for increased expenditure during the year</li> <li>• Overspend of budgets within service areas</li> <li>• Service specific cost increases e.g. large scale increases in gas and electricity and in waste disposal</li> <li>• Inflationary increases above those forecast which may arise due to the uncertainty of Brexit</li> <li>• Inflation cannot be contained within existing budgets</li> </ul>	3,000
<p><b>Savings</b></p> <p>In order to contain cost pressures, portfolios are still in the process of delivering a number of saving proposals where implementation may be delayed or may not be achieved. Whilst the Council holds a Part Year Effect of Savings Reserve to mitigate the financial impact of such occurrence, and monitors and manages achievement of the these through budget management at Director, Executive Member and Executive Board level, non-delivery presents a risk</p>	1,250
<p><b>Risk of reduced revenues from rents, fees and charges</b></p> <p>In addressing the reductions in funding, the Council has sought to maximise all available income streams to reduce the budget gap. Given the economic climate and residents and/or businesses may choose not to use council income generating services, along with the risk that as schools convert to Academies they will not require support from the Council, income streams could be at risk.</p>	500
<p><b>Interest rates</b></p> <p>Although interest rates have been historically low for several years, the difficulties in the global economy expose the UK to potential, but unexpected, interest rate changes. As such there is a risk that in relation to borrowing, rates are understated and interest receivable estimates are overstated. The council has taken action during 2018/19 to convert £35.0million of short term variable borrowing into longer term borrowing at fixed rates.</p>	100
<p><b>Emergencies</b></p> <p>The Council is required to maintain provision to meet the cost of emergencies that cannot be met from budgets or by insurance cover. Significant costs on emergencies are met by Central Government under the "Bellwin" scheme but these are only triggered once the Council's expenditure has exceeded a pre-determined limit (0.1% of the revenue budget). Only 85% of the costs above this limit are then covered.</p>	250

<u>Risk Event</u>	<u>£ 000's</u>
<p><b>Contingent liabilities</b></p> <p>The Council does not maintain a 'general' contingency within its revenue budget but relies on in-year savings and balances to meet any unexpected demands. Unexpected demands, particularly those that result from a legal decision, a change in government legislation or a determination in government legislation, could present a risk to the Council's finances.</p>	1,500
<p><b>Welfare Reform and Universal Credit</b></p> <p>The impact of the changes on the Council's financial position are difficult to predict and therefore as the reforms and changes are rolled out, there is a risk of increase in demand for services from those hardest hit financially. The Council is feeling the financial impact of the Universal Credit reforms, for example through increased demands on services, and this is expected to increase over time in line with the flow of residents moving to UC.</p>	500
<p><b>Litigation Claims</b></p> <p>As the Council faces reductions in resources for future provision of services there is an increased risk of litigation, albeit that robust risk assessment procedures and sufficient insurance policies are in place.</p>	400
<p><b>Risk of Business Rates and Council Tax collection shortfalls</b></p> <p>The risk of a reduction in collection rates;</p> <ul style="list-style-type: none"> <li>• in Business Rates - due to outstanding and potential future rating appeals and due to the economic climate</li> <li>• in Council Tax – due to the economic climate and the impact of Universal Credit on claimants who may not as readily claim Council Tax Support, as the usual referral route to this, i.e. through Housing Benefit claims, is no longer applicable to this group of individuals</li> </ul>	500
<b>SUBTOTAL</b>	<b>8,000</b>
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>

	2019/20 £'000	2020/21 £'000	2021/22 £'000
<b>Projected level of balances at start of each year</b>	6,038	*6,791	* 6,791
Budget proposals – contributions from (-) or to (+) balances	753	*0	*0
<b>Balances estimated at end of each year</b>	6,791	* 6,791	* 6,791

\* as noted in Appendix D of the Revenue Budget 2019/20, Medium Term Financial Strategy and Capital Programme 2019-2022 Report, the budget gap of £5.719m in 2020/21 and £6.591m in 2021/22 do not reflect the impact the Government's intention to change how local government is funded, and the distribution of this funding, specifically;

- Business Rates Retention and the future tariff and top-up system,
- the implementation of the Fair Funding Review,
- the future funding of adult social care and the potential integration of social care with health
- the future changes in the schools funding formula

- *the uncertainty around the impact of Brexit*

*Nor do they include any resultant savings required to ensure expenditure is commensurate with the funding available to the Council.*

*Until more detail is available on these proposals, and until this can be modelled to ascertain the impact on Blackburn with Darwen Borough Council, income and expenditure streams included in the MTFS are based on the best information available, and on a suite of conservative assumptions; it is assumed that any short term shortfalls will be addressed through the application of both ear-marked reserves and through the unallocated, general reserve, the allocation of which will be determined over the course of 2019/20 and will be reported to Council, although it is recognised that the Council has a low level of reserves upon which to call.*

## 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 2019 £ 000's	Planned movements 2019/20 £ 000's	Balances estimated at 31 Mar 2020 £ 000's
<b>Reserves held for discretionary use by the Council</b>				
Specific project/ expenditure reserves	Revenue savings that have been earmarked for specific projects or purposes in future years	6,769	(2,113)	4,656
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	24	0	24
Support for Future Redundancy Costs	This reserve is to support future remodelling of services	1,090	0	1,090
Part Year Effect of Future Savings Plans	This reserve is to support the delivery of future budget reductions	1,242	0	1,242
Digital Programme	This reserve is to meet the costs and requirements of the Digital Programme	964	0	964
<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
S106 income (under the 1990 Town and Country Planning Act)	Developers' contributions to be applied to enhance or maintain infrastructure and facilities	111	0	111
Highways Claims	This reserve is required to support anticipated future highway claims in respect of current and previous years	611	0	611
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	250	0	250
Arts Acquisition Fund	This fund was established so that new pieces of art can be purchased as and when they become available	15	0	15
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>11,602</b>	<b>(2,113)</b>	<b>9,489</b>
<b>Reserves held in respect of joint arrangements and</b>				

<b>Name</b>	<b>Purpose</b>	<b>Balances estimated at 1 April 2019</b>	<b>Planned movements 2019/20</b>	<b>Balances estimated at 31 Mar 2020</b>
		<b>£ 000's</b>	<b>£ 000's</b>	<b>£ 000's</b>
<b>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	209	0	209
Turton Tower Charity	Funds held by the Council in its role as trustee for the charity	52	0	52
Local Safeguarding Children's Board Fund	This fund was established from specific contributions to be used to support the LSCB	148	0	148
<b>Reserves held in relation to schools</b>				
Dedicated Schools Grant - surplus	DSG received but not yet deployed to meet eligible expenditure	6,530	0	6,530
LMS Schools balances	Funds held by schools under a scheme of delegation	*5,652	0	*5,652
<b>TOTAL OTHER RESERVES</b>		<b>12,593</b>	<b>0</b>	<b>12,593</b>

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