

## Statement on Robustness of Estimates and Adequacy of Reserves

1. In accordance with Section 25 of the Local Government Act 2003, the Financial Services Manager (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 2016/17.
2. Council is asked to consider these statements when considering the budget for 2016/17.

## Statement on the Robustness of the Council's Budget Calculations

3. In respect of the proposed General Fund Revenue Budget and Capital Programme for 2016/17, Council is asked to consider the following statement from the Financial Services Manager) when considering the budgets for 2016/17:-

*"This statement is given only in respect of the 2016/17 budget setting process for Pendle Borough 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 2016/17. Whilst the narrative below explains some of these in more detail, [Appendix A](#) summarises other factors that have been considered.*

### Business Rates Retention & Pooling

*Since its reform in 2013/14, funding through the Business Rate Retention System is not wholly guaranteed; **it is dependent on the Council's ability to retain and grow its business rates base.***

*To inform the estimate of funding available to support Council spending in 2016/17, estimates have had to be made about the amount of Business Rates that will be collected in 2015/16 and 2016/17. These estimates are based on a range of assumptions around changes in business rates - new business properties being built, existing properties being demolished, appeals against ratable values etc – and also levels of collection. Having reviewed these estimates, whilst I am satisfied that they are reasonable, based on the information available at the time, I must advise Council that there continues to be significant volatility in business rates, notably due to appeals and applications for mandatory reliefs.*

*Because of this volatility, the estimate of Business Rates for 2016/17 has been based on a range of prudent assumptions to the extent that, to mitigate the risk of underfunding, the Council's budgeted income from the Business Rate Retention Scheme is set between the Government's baseline and safety net.*

*However, actual income from business rates will not be known until the end of the financial year. In between time, however, arrangements are in place to monitor business rates income more closely during the year so that the Council can take action as necessary to deal with any potential variation against the estimates used in setting the budget for 2016/17.*

*Next year is also the first year of the Lancashire Business Rates pool which the Council has agreed to participate in. In doing so the Council retains the benefit of any levy payment which would otherwise go to the Government; however, as a member of a pool the Council also forfeits any entitlement of safety net payments from the Government in the event that the Council's share of business rates income falls below 92.5% of its business rates baseline in 2016/17. Thus the decision to participate in the pool is not without risks.*

*In recognition of this the review of the Council's Working Balance for 2016/17 includes an allowance of £250k to provide cover should the position on business rates deteriorate during the year.*

### *New Homes Bonus*

*The budget estimates include £1.09m from New Homes Bonus for 2016/17. This is based on provisional estimates provided by the Government will be confirmed in the final Local Government Funding Settlement. **All of the New Homes Bonus received in 2016/17 is being used to support Council spending on services.***

*The extent to which New Homes Bonus is being used to support service-related expenditure does present a risk around the sustainability of this funding stream. Any changes to the way in which New Homes Bonus is distributed may impact on this. Council should be aware that the DCLG are currently consulting on changes to the New Homes Bonus regime with a preferred option of diverting £800m from New Homes Bonus to fund the costs of Adult Social Care. Whilst this will not impact on 2016/17 it will affect allocations in later years and account will have to taken of this in subsequent revisions of the Medium-Term Financial Plan once the Government's response to the consultation has been confirmed.*

### *Development of Budgets*

*The estimates of income and expenditure forming the Council's General Fund Revenue Budget and Capital Programme for 2016/17 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 Directors, Service Managers and Budget Holders. The Base Budget for 2016/17 is consistent with the delivery of current and expected levels of service required to achieve the Council's strategic objectives (bar those areas where savings are proposed as set in the budget report).*

*Where it has been necessary, in the case of certain budgets (e.g. pay, 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. The use of capital receipts requires further consideration in response to the Government's guidance issued following the 2015 Spending Review on the flexible use of capital receipts. This flexibility enables local authorities to fund, from new capital receipts generated in the period 2016-2019, qualifying expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years.*

*The scale of the Council's operations continues to be impacted by ongoing resource constraints in the public sector linked to the Government's priority of tacking the national deficit. The Government announced in December, the 'offer' of a 4 year settlement to those Councils who choose to take it up. Details are awaited on the requirements for an Efficiency Plan which is a condition of the offer and likewise the consequences of not taking up the offer are unclear at this time. However, it is evident from the settlement data that over the next 4 years ongoing reductions in core government funding will continue leading to a substantial reduction in Revenue Support Grant of c£3m (70%) forecast from 2015/16 to 2019/20.*

*The Government expects Council's to generate more from their local resources, namely Council Tax, Business Rates and to a lesser extent New Homes Bonus. Whilst these are elements over which the Council has some control the extent of growth will hinge on local market conditions and economic factors.*

*Locally, some budgets are more sensitive and responsive to changes in demand for services. For example, the vitality of the local housing market impacts on services such as Housing, Planning, Building Control and Local Land Charges. The budgets relating to these areas of income have been set with regard to this 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.*

*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 ongoing implementation of welfare reforms on service users. These combined with the impact of the Council Tax Support Scheme, may impact on the income of residents in the Borough; the migration to the Universal Credit and the implications of this for the Council's contract with Liberata has yet to be quantified with timescales*
- the impact of changes in funding regimes, for example, the Better Care Fund which will fund changes in public health; the uncertainty relating to the maintenance of Supporting People Grant and other funding streams from Lancashire County Council as it looks to make significant budget savings;*
- the affect of changing legislation that may create additional cost burdens. For example, changes in the way in which Land Charges are administered and charged for together with emerging changes on the extent to which Councils can charge for various licensing activities.*
- 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,*

*Alongside these issues will be the success, or otherwise, of implementing those 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 future 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.*

***Finally, given the continuing year on year reduction in funding for the Council, I should stress that the extent to which Councillors do not implement the savings proposed in 2016/17 will both:-***

- increase the amount required to be drawn from reserves to achieve a balanced budget; and***
- increase the requirement for savings in 2017/18 and future years against a backdrop of further funding reductions, lower levels of reserves leading to the requirement for significant budget reductions such that key frontline services will be affected.***

***Acknowledging that, set within this wider control framework and the adequacy of the Authority's financial arrangements generally, I consider the Council's budget estimates for 2016/17 in isolation to be robust.***

*Although I am not required at this stage to comment on the robustness of estimates for future years' budgets, as in previous years, it is my view that when considering the budget calculations for 2016/17, Councillors must consider the medium term financial position of the Council so that they can take this into account when deciding the budget and Council Tax for next year.*

*The outlook for the Government's finances remains challenging. It is clear from the 4 year data issued as part of the Local Government Finance Settlement that core government funding will reduce substantially from now through to 2019/20.*

*Assuming a balanced budget is agreed for 2016/17, as set out in the report, there is a need to achieve savings of at least £3.1m over the period to 2018/19. This assumes an annual increase in Council Tax of 1.99% and using reserves in a controlled manner so as not to make the situation worse.*

*The extent of savings required is such that it is no longer considered feasible to generate these simply from incremental reductions in services or wholly from back-office functions. Savings of the scale required will need to be considered strategically and set in the context of the main areas of service spending by the Council. It will take to identify and implement the savings required and Councillors are urged to commence this work early in 2016/17 to help transition the Council effectively to a lower cost base in subsequent years.*

*The extent to which savings are not agreed for 2016/17 simply increases the requirement for savings in later years albeit with less time to plan effectively as the cushion of reserves is used at a faster rate than planned.*

***Therefore, despite their being a clear and robust Financial Strategy, the continuing reductions in core funding combined with the projected scale of the savings required by the Council to achieve a balanced budget means that I cannot, at this stage comment on the robustness of budget estimates with effect from 2017/18.***

## **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 2016/17 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.*
- Capital programme variations.*

*I can confirm that an amount of £1.250m 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.*

***However, the rate at which reserves are being used to support the General Fund Revenue Budget is not sustainable over the medium term without a need to align expenditure more closely with ongoing resources.***

*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 following the closure of the Council’s accounts in July 2016”*

## Appendix A

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

| Factors   | Commentary  |
|---|---|
| The Council's Aims and Priorities                       | <p>Where it is considered affordable to do so, the budget estimates reflect the amounts required to achieve service objectives related to the key priorities for 2016/17 agreed by the Council as part of the current Strategic Plan.</p> <p>Work to review the Council's Strategic Plan is planned in 2016 and should be concluded early in the new financial year. <b>This <u>may</u> necessitate a change in the Council's corporate objectives as the Council may no longer be able to afford to meet all of its present plans.</b></p> <p>Even if there is no change in the corporate objectives, there will be a need to review the headline actions to ensure that the Council is able to manage expectations on service delivery within the resources it has available.</p>   |
| Financial Strategy (and Medium Term Financial Planning) | <p>In preparing the Council's budget estimate for 2016/17, 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).</p> <p>Details of the revised MTFP were reported to the Executive on 9<sup>th</sup> February 2016 so that decisions on the budget for 2016/17 could 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.</p> <p>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), to the extent that the Council takes decisions that changes those assumptions, it should be acknowledged that the position on the MTFP will change.</p> <p>With this in mind, the budget estimates shown in the Medium Term Financial Plan for 2016/19 are, on the basis of known information, reasonably robust <b>but are <u>not</u> affordable given the forecast of income.</b></p> <p>The Financial Strategy proposed for future years retains the three key themes of:-</p> |

| Factors | Commentary  |
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|         | <ul style="list-style-type: none"> <li>• <b>Growing</b> the Council's taxbases, both for business rates and for Council Tax/New Homes Bonus;</li> <li>• <b>Charging</b> for services where it is 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;</li> <li>• <b>Saving</b> costs by being more efficient, working in partnership with others or by prioritising some services over others when allocating resources.</li> </ul> <p>Underpinning this strategy are the following strands:-</p> <ul style="list-style-type: none"> <li>• Pursuing a Jobs and Growth Strategy aimed at increasing the number of business rateable properties in Pendle thereby increasing the Council's share of retained business rates;</li> <li>• Encouraging the development of new housing in the Pendle areas, again with a view to increasing the Council's share of the New Homes Bonus;</li> <li>• making savings of £4.5m over the next three years 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 savings required; the medium-term plan assumes the use of £3.65m from the Budget Support Reserve to 2018/19.</li> <li>• increasing the Council Tax in 2016/17 and subsequent years, to the extent this is possible without triggering a referendum. The Management Team proposal for 2016/17 is that Council Tax be increased by 1.99% and thereafter also by 1.99% each year to 2018/19 (or the maximum amount within the threshold set by Government). No consideration has been given to exceeding the referendum threshold although this policy remains open to consideration in future years;</li> <li>• no avoidable budget growth without compensating savings;</li> <li>• the planned use of the Budget Support Reserves in the period 2016/17 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 may impact on frontline service provision.</li> </ul> |



| Factors   | Commentary   |
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|   | <p>It is important that work begins early in the new financial year to both implement savings identified for 2016/17 and to start developing options for the delivery of the savings. As indicated above, whilst every effort will be made to identify efficiency savings, the magnitude of savings required will necessitate some difficult decisions from Councillors in relation to future service provision.</p>   |
| <p><b>The level of funding likely from Central Government towards the cost of local services</b></p>            | <p>For 2016/17, the Council's core grant is expected to reduce by 23%; the cumulative reduction since 2010/11 is 52%.</p> <p>The Government has provided an 'indication' of funding for local government beyond 2016/17 and outlined the 'offer' of a 4 year settlement to Councils who choose to take this up. It is evident from this that core Government funding for local government will continue to decline through to 2019/20.</p> <p>The Government has also outlined its intention to move to the position of 100% of business rates being retained 'locally' – currently (50%) – there is no detail at present on this nor the additional functions / responsibilities that may accompany this.</p> |
| <p><b>Council Tax Base</b></p>  | <p>The Executive agreed a Council Tax Base of 23,171.3 Band D Council Tax properties for 2016/17 in December 2015, an increase of 2.45% when compared to the previous year.</p> <p>The Tax Base reflects a rate of collection of Council Tax for 2016/17 of 96% a marginal increase of 0.2% on that adopted for the current financial year.</p> <p>The Council has in place robust procedures to monitor the rate of Council Tax collection during the financial year.</p>   |
| <p><b>Referendum Threshold set by the Secretary of State in respect of Council Tax Increases</b></p>            | <p>For 2016/17, the Government has indicated that any increase in Council Tax of 2% or more will trigger a referendum of local taxpayers. There is no offer of a Council Tax Freeze Grant for 2016/17.</p> <p>The recommendation to the Executive and Council from Management Team is that the Council increase Council Tax by 1.99% for 2016/17.</p>  |
| <p><b>The Prudential Code and its impact on capital planning (including the Corporate Capital Strategy)</b></p> | <p>The Council has a Corporate Capital Strategy which informs future projected capital expenditure and income. Arising out of consideration of the Corporate Capital Strategy, the Management Team has recommended to Council a Capital Programme for 2016/17 which is considered by the Financial Services Manager to be affordable, prudent and sustainable.</p>   |



| Factors  | Commentary   |
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|  | <p>Subject to Council's decision on the overall Capital Programme and how it will be financed, it will be necessary to revisit the prudential indicators to ensure that the proposed Capital Programme remains affordable, prudent and sustainable.</p>  |
| <b>Financial Standing (including adequacy of reserves)</b> | <p>On the basis of the most recent budget monitoring statement to the end of December 2015 the General Fund Revenue Budget for 2015/16 is likely to be underspent by £139k.</p> <p>The Medium Term Financial Plan for the period 2016/19 shows a substantial forecast shortfall in resources. This assumes a continuing reduction in Government Grant based on the latest information available from DCLG. Given the substantial deficit on the Medium Term Financial Plan, there is a requirement for significant savings to be achieved.</p> <p>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 still requires Councillors to agree the necessary reductions in expenditure to the level of ongoing resources.</p> <p>A review of the Council's Minimum Working Balance indicates that it should be retained at £1.250m for the foreseeable future and should, as is presently the case, be the subject of at least an annual review. Equally, a review of specific reserves has been undertaken and these are considered to be adequate for the purpose for which they were created. Again, an annual review will be undertaken to ensure the reserves are adequate.</p> |
| <b>Financial Management</b>                                | <p>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 fit for purpose.</p> <p>The Council's External Auditors gave an unqualified opinion on the Statement of Accounts for 2014/15 and the Annual Governance Statement was also considered to be sound. The Council also received an unqualified Value for Money opinion for 2014/15.</p> <p>The management of the Council's asset base continues to be good with resources linked to capital planning in both the annual budget and the Medium Term Financial Plan.</p> <p>Collection performance of both NNDR and Council Tax remains broadly as per targets for 2015/16. Collection performance continues to be managed effectively through the</p>  |

| Factors   | Commentary   |
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|   | Partnership Steering Group operated by the Council in partnership with Liberata.   |
| <b>Corporate Governance and Risk Management</b>             | <p>The Council has adopted a Local Code of Corporate Governance based upon the most recent requirements of the CIPFA/SOLACE Corporate Governance Framework.</p> <p>The Council also has an up to date Risk Management Policy and Framework. These underpin the Strategic Risk Register.</p> <p>The Corporate Governance Working Group meets periodically to consider both corporate governance and risk management issues with regular reports to the Council's Executive. A Risk Management Working Group also meets on a regular basis to review the Council's operational risks.</p> <p>Also, the detailed Corporate Governance Action Plan and Strategic Risk Registers are reported to the Accounts and Audit Committee as the Committee responsible for the Council's governance arrangements.</p> |
| <b>The adequacy of the Council's Insurance Arrangements</b> | <p>The Council's insurance arrangements are reviewed annually as part of the review of premiums paid. The Council implemented a new contract of insurance with Zurich Municipal from 1/4/13 for a 5 year term.</p> <p>The arrangements are subject to annual review to ensure that adequate insurance cover is in place.</p> <p>There continue to be close links between the work to ensure adequate insurance arrangements, risk management and business continuity. This work is overseen by Financial Services Manager via the Risk Management Working Group. The minutes of the Risk Management Working are reported to Management Team.</p>   |
| <b>Business Continuity Arrangements</b>                     | <p>The Corporate Business Continuity Plan (BCP) is being updated. This includes an Impact Analysis for specific services and arrangements will be made to test the Plan during 2016/17.</p> <p>Likewise the Council's Emergency Plan has been updated and will be subject to further review following the significant flooding in parts of the Borough during December 2015.</p>   |
| <b>Arrangements to secure Value for Money</b>               | 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 2014/15 (as reported to Accounts and Audit Committee in September 2015).  |

| Factors                        | Commentary  |
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| <b>Interest Rates</b>          | <p>The Bank Rate is currently 0.5% and is expected to remain unchanged in the medium term. This has a direct impact on the levels of investment returns the Council expects to receive.</p> <p>Looking ahead, Interest returns have been set at 0.75% for 2016/17, 0.85% for 2017/18 and 1% for 2018/19 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 fairly benign over the medium term.</p> <p>Interest rates on long term debt are fixed at the rate at which the debt was taken. The Council's present debt has a consolidated rate of interest of 3.4%. Interest rates on short term debt are assumed to be on average between 0.5% and 1% depending on the duration of that debt.</p> <p>Annually, the Council agrees a Treasury Management Strategy which sets out how both borrowing and investments will be managed throughout the year. For 2016/17, this will be reported to Council in March 2016.</p> <p>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.</p> |
| <b>Pay and Price Inflation</b> | <p>An allowance of 1% has been factored in to the budget for the Local Government pay award reflecting the ongoing constraints applied to public sector remuneration.</p> <p>Generally, other budgets are cash limited (i.e. not increased by general inflation) with the exception of certain costs, e.g. utilities, telephones, car allowances, where budgets have been increased to reflect anticipated inflationary increases. The unitary charge payment to Liberata has been inflated in line with the agreed indexation methodology.</p> <p>At the time of writing this report, Consumer Price Inflation was 0.2% (0.5% this time last year) and the Retail Price Index was 1.2% (1.6% for December 2014). CPI remains below the target set by the Government for the Monetary Policy Committee. The expectation is that the rate of inflation will remain modest and below the target of 2% during next year so that price inflation should not present a significant financial risk for the Council in 2016/17</p> <p>.</p>  |

| Factors                     | Commentary  |
|-----------------------------|---|
| <b>Fees and Charges</b>     | <p>Annually, the Council reviews its fees and charges. The outcome of the most recent review was reported to the Executive in September 2015.</p> <p>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.</p>   |
| <b>Demand Led Pressures</b> | <p>Where possible, the forecasts of income and expenditure forming the Council's budget estimates for 2016/17 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.</p> <p>As ever, there is the potential for a continued increase in the number of service users in areas such as Benefits and Homelessness and the extent to which the Council maintains service provision will need to be monitored carefully.</p> <p>In recommending the budget for 2016/17 to Council, the Executive also resolved that budgets should be cash limited and as a consequence Service Managers are generally required to manage demand led pressures within their existing budget allocations.</p> <p>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.</p> |
| <b>Emerging Pressures</b>   | <p>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.</p> <p>Looking ahead, as well as the continued reduction in funding for Local Government, there are a range of issues which may require investment:-</p> <ul style="list-style-type: none"> <li>• a focus on economic growth and job creation which should result in additional business rates income;</li> <li>• the potential for significant reforms to the New Homes Bonus Scheme regime and the extent to which the Council can influence the distribution of funding;</li> <li>• the ongoing changes to the Benefits regime with the migration to Universal Credit and wider welfare reforms;</li> </ul>  |

| Factors | Commentary  |
|---------|---|
|         | <ul style="list-style-type: none"> <li>• as partners and other local organisations experience reductions in their funding this may affect access to services they provide within Pendle 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 Pendle).</li> <li>• as the Council reduces in size, funding will be required to help meet the 'cost of change';</li> <li>• legislative changes leading to increased costs for the Council. A recent example has been requirements of the Anti-Social Behaviour, Crime and Policing Act.</li> </ul> <p>This above is not an exhaustive list and there will be other issues that arise either due to local priorities or statutory obligations.</p> |