Appendix A

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 2017/18.

2. Council is asked to consider these statements when considering the budget for 2017/18.

Statement on the Robustness of the Council's Budget Calculations

3. In respect of the proposed General Fund Revenue Budget and Capital Programme for 2017/18, Council is asked to consider the following statement from the Financial Services Manager) when considering the budgets for 2017/18:-

   "This statement is given only in respect of the 2017/18 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 2017/18. 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 the inception of the new 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).***

   Estimating the Council's share of income from business rates for 2017/18 has been more challenging than any year since the current rates retention scheme was introduced in April 2013. This stems from a combination of factors including the national revaluation of business rates with a new rating list coming in to force from April 2017, the extension of small business rate relief, changes to other reliefs and reforms of the system for appeals against rateable values.

   To inform the estimate of funding available to support council spending in 2017/18, estimates have had to be made about the amount of business rates that will be collected in both 2016/17 and 2017/18. 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 rateable values etc – and also levels of collection. Having reviewed these estimates, whilst I am satisfied that they are reasonable and prudent, 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 rate reliefs.

   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 the Council can take action as necessary to deal with any potential variation against the estimates used in setting the budget and these will continue to operate in 2017/18.

   Next year represents the second year of the Lancashire Business Rates Pool which the Council has once again 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 to 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 2017/18. 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 2017/18 includes an allowance of £100k to provide cover should the position on business rates deteriorate during the year. This is in addition to the residual balance on the business rates volatility reserve which is estimated to stand at c£200k by 31st March 2017.

New Homes Bonus

The budget estimates include £995k from New Homes Bonus for 2017/18. This is based on provisional estimates provided by the Government and will be confirmed in the final Local Government Finance Settlement. ***All of the New Homes Bonus received in 2017/18 is being used to support Council spending on services as has been the established practice in recent years.***

However, 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. From 2017/18, changes have been made nationally to the amount and distribution of New Homes Bonus and these have adversely impacted on the council's medium-term financial plan and increased the level of savings required over the next three years.

Given the introduction of a new baseline % below which no New Homes Bonus is paid, the value of the bonus to the Council in the years ahead is expected to decline from £1.1m in the current year to £0.3m by 2019/20. On-going reductions thereafter are likely unless significant and sustained growth in housing can be delivered in the borough. This adds to the funding pressures facing the council over the medium term.

Development of Budgets

The estimates of income and expenditure forming the council's general fund revenue budget and capital programme for 2017/18 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 2017/18 is consistent with the delivery of current and expected levels of service required to achieve the council's strategic objectives (save for 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 in 2016 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. I report on this flexibility elsewhere on the agenda for this meeting of Council.

The scale of the council's operations continues to be impacted by ongoing resource constraints in the public sector. In October 2016 the Council opted to accept the Government's offer of a 4-year funding settlement and published its Efficiency Plan in response. Whilst the 4-year offer provides greater certainty in respect of the council's share of revenue support grant only, the changes made to New Homes Bonus illustrates the difficulties of planning over the medium term when national policy changes can still result in unexpected and adverse changes in funding.

The Government's future operating model for local government is one in which councils are funded from 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 within Pendle will also hinge on local market conditions and wider 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 changes to the local scheme of council tax support, 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 also yet to be quantified with defined timescales;*

- *the impact of changes in funding regimes, such as changes in public health; the uncertainty relating to the maintenance of Supporting People and other funding streams from Lancashire County Council (LCC) as it seeks to find significant budget savings; an example of the latter is the current cost sharing agreement with the County Council on waste collection under which Pendle currently receives £0.76m per annum; this income from LCC will cease entirely from 31st March 2018 and in addition there remains ongoing uncertainty as to the future shape of the waste collection service which could further impact on our net operating costs;*

- *the effect of changes to legislation that may create additional cost burdens. For example, changes in the way in which land charges are administered and charged for together with constraints on the extent to which councils can charge for various services;*

- *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;*

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 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.

Finally, given the continuing year on year reduction in funding for the Council, I should stress that the extent to which Councillors do <u>not</u> implement the savings proposed in 2017/18 will both:-

- ***increase the amount required to be drawn from reserves to achieve a balanced budget for that year; and***

- ***increase the requirement for savings in 2018/19 and later years at a time of further funding reductions combined with lower levels of reserves. This will require additional budget reductions to be identified over and above the significant savings already identified in the medium-term financial plan (i.e. currently £1.4m in 2018/19 and £1.46m in 2019/20).***

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 2017/18 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 2017/18, 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.

It is clear from the 4 year funding settlement that core government funding will continue to reduce substantially through to 2019/20. Other local factors such as the loss of cost sharing income from the County Council from 2018/19 will only compound this.

Assuming a balanced budget is agreed for 2017/18, in line with that set out in the budget report, there is a need to achieve further savings of £2.9m over the period to 2019/20. This is after an assumed increase in Council Tax of £5 each year and the phased use of reserves so as not to make the situation worse.

The extent of savings required is such that it is no longer feasible to generate these simply from incremental reductions in services or wholly from back–office functions. Savings on the scale required need to be considered strategically and set in the context of the main areas of service spending by the Council. Whilst progress has been made on these areas in the current year more work is needed and it will take time to identify and implement the scale of savings required. As a result Councillors are urged to commence this work early in 2017/18 to help transition the Council effectively to a lower cost base in subsequent years.

The extent to which savings are not agreed for 2017/18 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 Financial Strategy, the continuing reductions in core funding 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 2018/19. Suffice to say, the financial challenge facing the Council remains substantial and there will undoubtedly be difficult decisions ahead as we seek to align our services within the projected level of funding available.

<u>Statement on the Adequacy of Financial Reserves</u>

"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 2017/18 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 £1.0m 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.

***However, the rate at which reserves are being used to support the General Fund Revenue Budget is <u>not</u> 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 2017."

Appendix 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 related to the key priorities for 2017/18 agreed by the Council as part of the current Strategic Plan. Work to review the Council's Strategic Plan is planned in 2017 and should be concluded early in the new financial year. **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**. 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.
Financial Strategy (and Medium Term Financial Planning)	In preparing the Council's budget estimate for 2017/18, 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 revised MTFP were reported to the Executive on 8th February 2017 so that decisions on the budget for 2017/18 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. 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. With this in mind, the budget estimates shown in the Medium Term Financial Plan for 2017/20 are, on the basis of known information, reasonably robust **but are <u>not</u> affordable given the forecast levels of income.** The Financial Strategy proposed for future years retains the three key themes of:-

Factors	Commentary
	• ***Growing*** the Council's taxbases, both for business rates and for Council Tax/New Homes Bonus; • ***Charging*** for services where is it considered appropriate 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, working in partnership with others or by prioritising some services over others when allocating resources. • ***Stop? –*** this is a new theme suggested by the LGA Peer Review Team recently after their follow up visit to the Council in November 2016 – they recommend that Council should determine what are not priorities and stop them given the financial challenge we face. Underpinning the current strategy are the following strands:- • 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; • 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; • making savings of £3.4m 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 £3.75m from the Budget Support Reserve between 2017/18 and to 2019/20. • increasing the Council Tax in 2017/18 and subsequent years, to the extent this is possible without triggering a referendum. The Management Team proposal for 2017/18 is that Council Tax be increased by £5 and thereafter also by £5 each year to 2019/20 (or the maximum amount within any revised threshold 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;

Factors	Commentary
	• the planned use of the Budget Support Reserve in the period 2017/20 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. It is important that work begins early in the new financial year to both implement savings identified for 2017/18 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.
The level of funding likely from Central Government towards the cost of local services	For 2017/18, the Council's core revenue support grant will reduce by 27%; the cumulative reduction since 2010/11 is 70%. The council accepted the Government's 4-year funding offer under which allocations of revenue support grant have been set through to 2019/20 It is evident from this that our core government funding will continue to decline over this period. The Government has also outlined its intention to move to the position of 100% of business rates being retained 'locally' – currently (50%) – there is still much detail to resolve in connection with this including the scheme design and what responsibilities/functions will also transfer to authorities. No account has been taken of this in the current medium-term financial plan.
Council Tax Base	The Executive agreed a Council Tax Base of 23,348.3 Band D Council Tax properties for 2017/18 in December 2016, an increase of 0.76% when compared to the previous year. The Tax Base reflects a rate of collection of Council Tax for 2017/18 of 96% unchanged from that adopted for the current financial year. The Council has in place 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 2017/18, the Government has indicated that for district councils maximum increases are limited to either £5 or less than 2%. Increases above these limits will trigger a referendum of local taxpayers. There is no Council Tax Freeze Grant for 2017/18. The recommendation to the Executive and Council from Management Team is that the Council increase Council Tax by £5 (2.04%) for 2017/18.

Factors	Commentary
The Prudential Code and its impact on capital planning (including the Corporate Capital Strategy)	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 2017/18 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 most recent budget monitoring statement to the end of December 2016 the General Fund Revenue Budget for 2016/17 is likely to be underspent by £50k. This is measured against the revised budget approved in December which reflected an underspend of £102k on the original budget set at the start of the year. The Medium Term Financial Plan for the period 2017/20 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. 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. A review of the Council's Minimum Working Balance indicates the retention of £1.0m. The adequacy of this will remain subject to annual review. Equally, a review of specific reserves has been undertaken and these are assessed as being adequate for the purpose for which they were created. Again, an annual review will be undertaken to ensure they remain adequate.
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 fit for purpose. The Council's External Auditors gave an unqualified opinion on the Statement of Accounts for 2015/16 and the Annual Governance Statement was also considered to be sound. The Council also received an unqualified Value for Money opinion for 2015/16.

Factors	Commentary
	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. Collection performance of both NNDR and Council Tax remains broadly as per targets for 2016/17. Collection performance continues to be managed effectively through the Partnership Steering Group operated by the Council in partnership with Liberata.
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 has recently been assessed against the revised 2016 CIPFA/SOLACE framework. Overall, our arrangements are considered to be robust with only a small number of areas felt to require further work or improvement. The Council also has a risk management policy and framework which underpins the Strategic Risk Register. The Corporate Governance Working Group meets periodically to consider both corporate governance and risk management issues with regular reports to the Council's Executive and the Accounts and Audit Committee. A Risk Management Working Group also meets on a quarterly basis to review the Council's operational risks.
The adequacy of the Council's Insurance Arrangements	The Council's insurance arrangements are reviewed annually as part of the review of premiums paid. The Council implemented a contract of insurance with Zurich Municipal from 1/4/13 for an initial 5 year term with scope to extend for a further 2 years. The arrangements are subject to annual review to ensure that adequate insurance cover is in place. 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.
Business Continuity Arrangements	The Corporate Business Continuity Plan (BCP) is being updated. This will include an updated impact analysis for specific services and arrangements will be made to test the plans during 2017/18. Likewise the Council's Emergency Plan has been updated and has been subject to further review and testing in 2016 following the significant flooding in parts of the Borough during December 2015.

Factors	Commentary
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 2015/16 (as reported to Accounts and Audit Committee in July 2016).
Interest Rates	The bank base rate is currently 0.25% and is expected to remain unchanged in the near term. This has a direct impact on the levels of investment returns the Council expects to receive. Looking ahead, interest returns have been set at 0.5% for 2017/18, 0.75% for 2018/19 and 1% for 2019/20 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 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 3.34%. Annually, the Council agrees a Treasury Management Strategy which sets out how both borrowing and investments will be managed throughout the year. For 2017/18, this will be reported to Council in March 2017. 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 1% has been factored in to the budget for the Local Government pay award reflecting the ongoing constraints applied to public sector remuneration. 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. Consumer Price Inflation at December 2016 was 1.6% (0.2% for December 2015) and the Retail Price Index was 2.5% (1.2% for December 2015). Whilst CPI remains below the target set by the Government for the Monetary Policy Committee there are signs of upward pressures emerging so that price inflation will start to present an increased risk for the Council from 2017/18 on unlike recent years.

Factors	Commentary
Fees and Charges	Annually, the Council reviews its fees and charges. The outcome of the most recent review was reported to the Executive in September 2016. 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 2017/18 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. There remains the potential for increases 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. In recommending the budget for 2017/18 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. 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. Looking ahead, as well as the continued reduction in our core funding generally, there are a range of 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 changes in the funding for New Homes Bonus and the extent to which the Council can influence its share of this funding from local housing growth above the new national baseline;

Factors	Commentary
	• the ongoing changes to the Benefits regime with the phased implementation of Universal Credit and ongoing welfare reforms; • 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). • as the Council reduces in size, funding will be required to help meet the 'cost of change'; • legislative changes leading to increased costs for the Council. An example last year was that of the Anti-Social Behaviour, Crime and Policing Act. This above is not an exhaustive list and there will be other issues that arise either due to local priorities or statutory obligations.