Appendix A

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

1. In accordance with Section 25 of the Local Government Act 2003, the 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 2019/20.

2. Council is asked to consider these statements when considering the budget for 2019/20.

Statement on the Robustness of the Council's Budget Calculations

3. In respect of the proposed General Fund Revenue Budget and Capital Programme for 2019/20, Council is asked to consider the following statement from the Chief Financial Officer) when considering the budgets for 2019/20:-

   "This statement is given only in respect of the 2019/20 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 2019/20. 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 business rates retention scheme in 2013/14, the council's annual share of income from the business rate retention system is not guaranteed; it is dependent on the Council's ability to retain and grow its business rates base and other factors outside of our control (e.g. appeals).

   Estimating the Council's share of income from business rates for 2019/20 remains a challenge due to the ongoing uncertainty on the timing and level of appeals since the system for making appeals was revised in 2017. There remain a number of appeals outstanding against the 2010 rating list for which we can make an assessment but we have limited detail at the time of budget setting regarding appeals against the 2017 rating list.

   To inform the estimate of funding available to support council spending in 2019/20, estimates have been made regarding the value of business rates that will be collected in both 2018/19 and 2019/20. These estimates are based on a range of assumptions around changes in business rates - new property assessments, changes to existing properties, appeals against rateable values, applications for Retail Relief etc – and also levels of collection.

   Having reviewed these estimates, whilst I am content that they are reasonable and prudent based on information available at the time, I must advise Council that there continues to be volatility in business rates, particularly due to appeals and applications for rate reliefs. For this reason we continue to earmark an element of the minimum working balance in support of business rates to provide a degree of contingency should income fall below projected levels. This is important given the Council remains a member of the Lancashire Business Rates Pool and by virtue of this does not benefit from any safety net protection under the current scheme of business rates retention.

   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 2019/20.

Development of Budgets

The estimates of income and expenditure forming the council's general fund revenue budget and capital programme for 2019/20 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 Chief Executive, Director, Service Managers and Budget Holders. The base budget for 2019/20 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 scale of the council's operations continues to be impacted by ongoing resource constraints in the public sector. Within this budget setting round this is exacerbated by the growing amount of uncertainty within the MTFP forecasts as none of the future years within the MTFP contain the fixed settlement amounts secured in 2016 for a four year period. 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 for 2017 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. We also approach the next financial year with no clear view, at the date this report is written, of what the Brexit negotiations outcome will be with reports of a 'No Deal' hard Brexit still a possibility.

Locally, some budgets are more sensitive and responsive to changes in demand for services. The Firming Up adjustments in ***Appendix C*** *(Supported Accommodation additional budget provision of £100k) illustrate that potentially significant budget pressures can arise with little notice and outwith the control of the Council. Another example being 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. Pendle migrated to Full Service Universal Credit in November 2018; the impact is expected to be on a sliding scale which will gather momentum and therefore implications of this for the council's contract with Liberata will have to be monitored;*

- *changes in funding streams from Lancashire County Council (LCC) as it continues to implement significant budget savings; an example is the ending of the cost sharing agreement for waste collection which resulted in a loss of income to Pendle in 2017/18 £0.76m. The County continue to make large scale budget efficiencies to close their funding gap as budget pressures on adult and childrens' social care continue to rise.*

- *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 2019/20 will both:-

- *increase the amount required to be drawn from reserves to achieve a balanced budget for that year when the Budget Support Reserve is forecast to reduce to a balance of £0.200m within the MTFP period; and*

- *increase the requirement for savings during 2019/20 and later years at a time of further funding reductions that cannot be accurately quantified at this time, 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 £1.305m in 2020/22 and £1.398m in 2021/22).*

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 2019/20 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 2019/20, Councillors must have regard to the medium term financial position of the Council when deciding the budget and council tax for next year.

It was evident from the 4 year funding settlement that core government funding has reduced over that period this coming financial year, 2019/20. Beyond this, the level of uncertainty simply increases given the Government's intention to complete a Fair Funding Review of local authorities' relative needs and resources and move to implement 75% local retention of business rates. These render projections for 2020/21 and beyond problematic with the outcomes uncertain accepting that they could be more or less favourable than what is currently assumed.

Assuming a balanced budget is agreed for 2019/20, in line with that set out in the budget report, there is a need to achieve further savings of £2.7m over the period to 2021/22 based on current assumptions. These include assumed increases in Council Tax at the maximum permitted (being, 2.99%) without recourse to a referendum combined with the phased use of reserves.

The extent of savings required is such that it is not feasible to generate these simply from incremental reductions in services or wholly from back–office functions. Hence, savings on the scale required should be considered strategically and set in the context of the main areas of service spending. It is acknowledged that good progress has been made on these key areas, however the financial challenge facing the Council is such that more work is needed and it will take time to identify and implement the required level of savings. As a result Councillors are requested to commence this work early in 2019/20 to support the Council's ongoing transition to a lower and more sustainable cost base in subsequent years.

The extent to which savings are not agreed for 2019/20 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 an established and agreed 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 20120/21. Suffice to say, the financial challenge facing the Council remains substantial and there are undoubtedly difficult decisions ahead as we seek to align our service spending within our projected available resources.

Statement on the Adequacy of Financial Reserves

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

- *the Council's spending plans for 2019/20 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. That said, should there be a significant call on those reserves another review will need to be carried out.

***However, it is important to note the rate at which reserves are being used to support the General Fund Revenue Budget is not sustainable over the medium term without the 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 in July 2019 following the preparation of the Council's accounts for 2018/19."

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 agreed by Council as part of our current Strategic Plan. The Council's Strategic Plan has been reviewed in 2018 and therefore the budget estimated and key budget assumptions have been aligned to the Council's corporate objectives.
Financial Strategy (and Medium Term Financial Planning)	In preparing the Council's budget estimate for 2019/20, 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 Policy and Resources Committee on 18th December 2018 and 12th February 2019 so that decisions on the budget for 2019/20 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), the extent that the Council takes decisions that impacts those assumptions, will result in changes to the MTFP. Whilst the budget estimates shown in the Medium Term Financial Plan for 2019/20 to 2021/22 are, on the basis of current information, reasonably robust they are unaffordable given the projected levels of income. There is additional uncertainty attached to forecasts from 2020/21 given potentially significant developments nationally which will impact on the funding of local government. These are the Fair Funding Review and the implementation of 75% local retention of business rates income. The Financial Strategy proposed for future years retains the key themes of:- • ***Growing*** the Council's taxbases, both for business rates and for Council Tax/New Homes Bonus (or other future incentivisation income); • ***Charging*** for services where is it considered appropriate to do so on a cost recovery basis and to use spare capacity. It will also involve the introduction of new charges where this is considered feasible; • ***Saving*** costs by being more efficient, working in partnership with others or by prioritising some services over others when allocating resources. • ***Stop*** **–** determining what are not priorities and stop them given the financial challenge we face.

Factors	Commentary
	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 housing development within the Borough and thereby boosting our access to New Homes Bonus funding or any future other housing incentivisation scheme; • making savings over the next three years based on the MTFP savings requirement rather than relying solely on reserves to balance the Council's budget; a strategy that relies heavily on finite reserves will simply defer, not reduce, the need to make savings and the longer savings are put off the greater the amount required. • increasing the Council Tax in 2019/20 and subsequent years, to the extent this is possible without triggering a referendum. The Management Team proposal for 2019/20 is that the Band D Council Tax charge be increased by 2.99% (£7.70) and thereafter by the maximum amount within any revised thresholds set by Government. No consideration has been given to exceeding the referendum threshold although this policy remains open to consideration in future years; • no avoidable budget growth without compensating savings; • the planned use of the Budget Support Reserve in the period 2019/20 to 2021/22 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. Hence, the medium term plan assumes the use of £2.6m from the Budget Support Reserve between 2019/20 and to 2021/22. It is important that work begins early in the new financial year to both implement savings identified for 2019/20 and to start developing options for the delivery of future savings.
The level of funding likely from Central Government towards the cost of local services	For 2019/20, the Council's core revenue support grant will be included reduce by 33% and also be rolled into the Business Rates Retention regime. 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 was evident from this that our core government funding would continue to decline over this period. The Government has also outlined its intention to move to the position of 75% (formerly 100%) of business rates being retained 'locally' – currently the 'local' share is 50% (which is split between the County, Fire and us). The Council's BRR pooling agreement in 2019/20 will operate as a 75% Pilot scheme, however, the final scheme is still out for consultation and therefore there is still much detail to resolve in connection with this including the scheme design, new tier splits, and what responsibilities/functions will also transfer to authorities. No account has been taken of this in the current medium term financial plan.

Factors	Commentary
Council Tax Base	The Policy and Resources Committee agreed a Council Tax Base of 24,061.3 Band D Council Tax properties for 2019/20 in December 2018, an increase of 1.68% when compared to the previous year. The Tax Base reflects a rate of collection of Council Tax for 2019/20 of 96% unchanged from that adopted for the current financial year. The Council has robust procedures to monitor the rate of Council Tax collection during the financial year.
Referendum Threshold set by the Secretary of State in respect of Council Tax Increases	For 2019/20, the Government has indicated that for district councils “excessive” increases are 3% or more and greater than £5. Increases above these limits will trigger a referendum of local taxpayers. There is no Council Tax Freeze Grant for 2019/20. The recommendation to the Policy and Resources Committee and Council from Management Team is that the Council increase Council Tax by £7.70 (2.99%) at Band D for 2019/20.
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 2019/20 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 revised estimate approved by Policy and Resources Committee the General Fund Revenue Budget for 2018/19 is estimated to be underspent by £167k. This underspend brought about, in the main, by the re-phasing of the Capital Programme and staff turnover. Neither of these factors represent permanent recurring budget savings. The Medium Term Financial Plan for the period 2019/20 to 2021/22 shows a shortfall in projected resources giving rise to a significant savings requirement. The Council has in place a strategy which combines the planned use of reserves to smooth the level of savings required in each year but nevertheless this still requires Councillors to agree the necessary reductions in expenditure to balance spending within available resources. A review of the Council’s Minimum Working Balance justifies retaining a balance of £1.0m. The adequacy of this will remain subject to review on an at least annual basis. Equally, a review of specific reserves has been undertaken and these are assessed as being adequate for the purpose for which they were created. These too will be subject to at least an annual review.

Factors	Commentary
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 2017/18 and our arrangements for ensuring value for money in the year. 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 are slightly below target for 2019/20. Collection performance continues to be managed closely 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 was assessed against the revised 2016 CIPFA/SOLACE framework. Overall, our arrangements were found to be robust with only a small number of areas requiring 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 reports to the Council's Policy and Resources Committee 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 and levels of cover obtained. The Council implemented a contract of insurance with Zurich Municipal from 01/04/2013 for an initial 5 year term and recently agreed to extend this for a further 2 years. There continue to be close links between the work to ensure adequate insurance arrangements, risk management and business continuity. This work is overseen by Chief Financial Officer 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 2019/20. Likewise the Council's Emergency Plan has been updated and was subject to review and testing in 2017.
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 2017/18 (as reported to Accounts and Audit Committee in July 2018).

Factors	Commentary
Interest Rates	The bank base rate is currently 0.75% and is expected to rise gradually in 2019 and 2020. This has a direct impact on the levels of investment returns the Council expects to receive. Looking ahead, interest returns have been set at 0.75% for 2019/20, 1.00% for 2020/21 and 1.25% for 2021/22 although these will be reviewed as part of the on-going development of the Medium Term Financial Plan. This reflects the expectation that interest rates will remain relatively low over the medium term. Interest rates on long term debt are fixed at the rate at which the debt was taken. The Council's present debt which consists wholly of loans from the Public Works Loan Board has a consolidated rate of interest of 3.11%. Annually, the Council agrees a Treasury Management Strategy which sets out how both borrowing and investments will be managed throughout the year. For 2019/20, this will be reported to Council in March 2019. To mitigate against fluctuations in interest rates, and therefore changes in investment returns, the General Fund Minimum Working Balance includes provision for loss of income in the short term.
Pay and Price Inflation	An allowance of 2% has been factored in to the budget for the Local Government pay award in 2019/20. 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 2018 was 2.0% (3.0% for December 2017) and the Retail Price Index was 3.2% (4.1% for December 2017).
Fees and Charges	Annually, the Council reviews its fees and charges. The outcome of the most recent review was reported to the Policy and Resources Committee in September 2018. 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 2019/20 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.

Factors	Commentary
	In recommending the budget for 2019/20 to Council, the Policy and Resources Committee 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 past changes in the funding for New Homes Bonus and uncertainty around its future after 2019/20 plus the extent to which the Council can influence its share of this funding from local housing growth above the new national baseline; • the ongoing changes to the Benefits regime including the impact of Full Service Universal Credit and ongoing welfare reforms. This is difficult to predict especially as changes to the programme of claimants transferring to UC recently being announced by government; • as partners and other local organisations experience reductions in their funding this may affect access to services they provide within 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 'costs of change'; • legislative changes leading to potential increased costs for the Council. This above is not an exhaustive list and there will be other issues that arise either due to local priorities or statutory obligations.