

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

1. In accordance with Section 25 of the Local Government Act 2003, the Chief Executive (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 2020/21.
2. Council is asked to consider these statements when considering the budget for 2020/21.

Statement on the Robustness of the Council's Budget Calculations

3. In respect of the proposed General Fund Revenue Budget and Capital Programme for 2020/21, Council is asked to consider the following statement from the Chief Executive acting in his capacity as the Council's Chief Financial Officer when considering the budgets for 2020/21:-

"This statement is given only in respect of the 2020/21 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 2020/21. 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, collection etc).

Estimating the Council's share of income from business rates for 2020/21 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 2020/21, estimates have been made regarding the value of business rates that will be collected in both 2019/20 (for the estimate of the estimated Collection Fund Surplus of £1.010m) and 2020/21 (for the estimated amount of retained Business Rates). These estimates are based on a range of assumptions around changes in business rates - new property assessments, changes to existing properties, appeals against rateable values, applications for Retail Relief etc – and also levels of collection.

Having reviewed these estimates, including the amounts held in the relevant provisions, whilst I am content that they are reasonable and prudent based on information available at the time, I must advise Council that there continues to be volatility in business rates, particularly due to appeals, applications for rate reliefs and collection. For this reason, I have included in the budget a contribution of £610k to the Business Rates Volatility Reserve (funded from the Collection Fund Surplus referred to above) in support of business rates to provide a degree of contingency should income fall below projected levels. I have also earmarked an element of the minimum working balance for this purpose. 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 2020/21.

Development of Budgets

The estimates of income and expenditure forming the council's general fund revenue budget and capital programme for 2020/21 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 Director, Service Managers and Budget Holders. The base budget for 2020/21 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.

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

- staffing budgets which are dependent on various factors include agreement on pay awards, turnover and, more recently, difficulties in recruitment of staff requiring use of temporary of Agency cover to maintain service provision;*
- Housing Benefits where, in recent years, the growth of supported accommodation where Housing Benefit subsidy is paid at 60% has led to increasing costs for the Council;*
- the vitality of the local housing market which impacts on services such as Housing, Planning, Building Control and Local Land Charges. In particular, income budgets for these areas have been set with regard to known and predicated market conditions 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.*

These examples illustrate the potential volatility in budgets 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;*
- the effect of changes to legislation which may create additional cost burdens. Aside from known changes in legislation, 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, following the General Election in December 2019, the new Government has set out a legislative programme which may have implications for the delivery of Council 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;
- whilst Parliament has now agreed the Withdrawal Agreement, being the basis on which the United Kingdom will leave the European Union, the issue of BREXIT remains largely unresolved. The UK will enter a transition period which will run until 31st December 2020 in which the Government will endeavor to agree the UK's future relationship with EU. It is unclear at this stage whether agreement will be reached, on what basis and what, if any, the implications will be for local government.

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

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

Acknowledging the above and setting this within the wider control framework and financial management arrangements applied within the council I consider the Council's budget for 2020/21 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 2020/21, Councillors must have regard to the medium term financial position of the Council when deciding the budget and council tax for next year.

The Council's Medium Term Financial Plan to 2022/23 shows a deficit of c£2m. This is based on assumptions of Government funding which cannot be confirmed with any certainty at this stage. As Councillors will be aware, the Settlement for 2020/21 is for one-year only. The Government is planning to undertake a Comprehensive Spending Review in Autumn 2020 which, amongst other matters, is expected to establish the funding envelope for Local Government. How this funding will be distributed to individual local authorities is not known but it will be influenced by many factors including, for example, the outcome of the Fair Funding Review and the review of the Business Rates Retention Scheme. Taken together, these have the potential for significant changes in the Council's future funding.

The Council's Financial Strategy is based around four key strands – Grow, Charge, Save and Stop. Progress is being made on the implementation on measure in all of these strands. That said, the budget reductions required is such that it is not feasible to make incremental reductions in services or wholly from back-office functions, particularly given the amount of savings made since 2010. Budget reductions on the scale 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 budget reductions.

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

As in previous years, Councillors are requested to commence the development of budget options early in 2020/21 to support the Council's ongoing transition to a lower and more sustainable cost base in subsequent years.

Therefore, despite there being an established and agreed Financial Strategy, the degree of of uncertainty with future funding allocations combined with the projected scale of the savings required by the Council to ensure a balanced budget each year means that I cannot, at this stage, comment on the robustness of budget estimates with effect from 2021/22. 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 2020/21 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.

In particular, during the lifetime of the current Medium Term Financial Plan, it is projected that the entirety of the Budget Support Reserve will be used. By that time, the Council will have had to take the necessary action to balance expenditure 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 2020 following the preparation of the Council's accounts for 2019/20."

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

Factors	Commentary
<p>The Council's Aims and Priorities</p>	<p>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.</p> <p>The Council's Strategic Plan was reviewed in 2019 and therefore the budget estimates and key budget assumptions have been aligned to the Council's corporate objectives.</p>
<p>Financial Strategy (and Medium Term Financial Planning)</p>	<p>In preparing the Council's budget estimate for 2020/21, 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 Policy and Resources Committee on 13th February 2020 so that decisions on the budget for 2020/21 can be taken in the context of the longer term impact for the Council. Equally, this is reflected in the development of a Financial Strategy which, amongst other matters, seeks to combine prudent use of reserves with efforts to align the Council's ongoing expenditure with ongoing resource levels.</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), the extent that the Council takes decisions that impacts those assumptions, will result in changes to the MTFP.</p> <p>Whilst the budget estimates shown in the Medium Term Financial Plan for 2020/21 to 2022/23 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 2021/22 given potentially significant developments nationally which will impact on the funding of local government. These are the Comprehensive Spending Review expected in Autumn 2020, the Fair Funding Review and changes to the Business Rates Retention Scheme, both of which are expected to impact from April 2021.</p> <p>The Financial Strategy proposed for future years retains the key themes of:-</p> <ul style="list-style-type: none"> • Growing the Council's taxbases, both for business rates and for Council Tax along with any schemes, if any, the Government uses to incentivise the supply of housing (like the existing New Homes Bonus Scheme); • 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;

Factors	Commentary
	<ul style="list-style-type: none"> • 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, seek other organisations who could provide them or stop them given the financial challenge we face. <p>Underpinning the current strategy are the following strands:-</p> <ul style="list-style-type: none"> • pursuing a Jobs and Growth Strategy aimed at increasing, amongst other matters, the number of business rateable properties in Pendle thereby increasing the Council's share of retained business rates; • encouraging housing development within the Borough thereby boosting our access to additional income which the Government may distribute to reward the supply of housing growth; • making savings over the medium term based on the MTFP savings requirement rather than relying solely on reserves to balance the Council's budget; a strategy that relies heavily on finite reserves will simply defer, not reduce, the need to make savings and the longer savings are put off the greater the amount required. • increasing the Council Tax in 2020/21 and subsequent years, to the extent this is possible without triggering a referendum. The Management Team proposal for 2020/21 is that Council Tax charge be increased by 1.99% (an increase of £5.28 at Band D) 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 2020/21 to 2022/23 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 all of the Budget Support Reserve between 2020/21 and 2022/23. <p>Acknowledging that the proposed budget for 2020/21 is balanced, it important that work begins early in the new financial year to start developing options for the delivery of future savings.</p>

Factors	Commentary
<p>The level of funding likely from Central Government towards the cost of local services</p>	<p>The Council accepted the Government's 4-year funding offer under which allocations of Revenue Support Grant have been set through to 2019/20. For 2020/21, the Government has made a one-year only settlement, pending the Comprehensive Spending Review in Autumn 2020 where it is expected the Government will set medium term funding information for the period from April 2021.</p> <p>For 2020/21, the Council will revert back to the 50% Business Rate Retention Scheme. Estimates of Business Rates to be retained have been produced and feature in the Council's budget for 2020/21. The Council also expects to participate in the Lancashire Business Rates Pool in 2020/21.</p> <p>For 2020/21, the Council's core Revenue Support Grant will be £1.164m which is a marginal increase when compared to the current financial year.</p> <p>At this stage, given the Comprehensive Spending Review in Autumn 2020, the Fair Funding Review and the review of the Business Rate Retention Scheme, all of which will impact on funding allocations from April 2021, it is not possible to say with certainty what Government funding the Council will receive after 2020/21. Forecasts of funding included in the Medium Term Financial Plan are based on estimates for 2020/21 and information provided to the Council by LG Futures who the Council retains as support on these matters.</p>
<p>Council Tax Base</p>	<p>The Council agreed a Council Tax Base of 24,257.6 (24,061.3 in 2019/20) Band D Council Tax properties for 2020/21 in December 2019, an increase of 0.82% when compared to the previous year.</p> <p>The Tax Base reflects a rate of collection of Council Tax for 2020/21 of 96% unchanged from that adopted for the current financial year.</p> <p>The Council has robust procedures to monitor the rate of Council Tax collection during the financial year.</p>
<p>Referendum Threshold set by the Secretary of State in respect of Council Tax Increases</p>	<p>For 2020/21, the Government has indicated that for District Councils, the core principle is 1.99% or £5, whichever is greater. Anything above these limits will trigger a referendum of local taxpayers. There is no Council Tax Freeze Grant for 2020/21.</p> <p>The recommendation to the Policy and Resources Committee and Council from Management Team is that the Council increase Council Tax by £5.28 (1.99%) at Band D for 2020/21.</p>
<p>The Prudential Code and its impact on capital planning (including the Corporate Capital Strategy)</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 2020/21 which is considered to be affordable, prudent and sustainable.</p>

Factors	Commentary
	<p>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</p>
<p>Financial Standing (including adequacy of reserves)</p>	<p>On the basis of the revised estimate approved by Policy and Resources Committee the General Fund Revenue Budget for 2019/20 is estimated to be underspent by £175k. This underspend brought about, amongst other matters, an underspend on staffing, reduced debt charges and additional investment income. Any variations that have an ongoing impact on the Council's budget in the current year have been factored into the budget for 2020/21.</p> <p>The Medium Term Financial Plan for the period 2020/21 to 2022/23 shows a shortfall in projected resources giving rise to a significant savings requirement.</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 this still requires Councillors to agree the necessary reductions in expenditure to balance spending within available resources.</p> <p>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. As required by Statute, these too will be subject to at least an annual review.</p> <p>The Council's External Auditors gave an unqualified opinion on the Statement of Accounts for 2018/19 and, in the context of our Financial Standings, our arrangements for ensuring value for money in the year. This is an annual review and given the pressure on the Council's financial position, the Council's External Auditors</p> <p>In this context, Councillors may be aware that the Chartered Institute of Public Finance and Accountancy (CIPFA) has produced the Resilience Index which assesses the financial standing of every local authority in the Country. In this assessment, Pendle is considered to be at High Risk of financial failure given the range of statistics assessed.</p>
<p>Financial Management</p>	<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 considered fit for purpose.</p> <p>As indicated above, the Council's External Auditors gave an unqualified opinion on the Statement of Accounts for 2018/19 and our arrangements for ensuring value for money in the year. The former suggests that the External Auditors are able to place reliance on the Council's arrangements for financial management.</p>

Factors	Commentary
	<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 are broadly in line with target for 2019/20. Collection performance continues to be managed closely through the Partnership Steering Group operated by the Council in partnership with Liberata.</p>
Corporate Governance and Risk Management	<p>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.</p> <p>The Council also has a risk management policy and framework which underpins the Strategic Risk Register.</p> <p>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.</p>
The adequacy of the Council's Insurance Arrangements	<p>The Council's insurance arrangements are reviewed annually as part of the review of premiums paid and levels of cover obtained.</p> <p>The Council implemented a contract of insurance with Zurich Municipal which is due to expire in March 2020. A procurement exercise is currently underway for the contract of insurance which will be effective from April 2020.</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 the Risk Management Working Group. The minutes of the Risk Management Working are reported to Management Team.</p>
Business Continuity Arrangements	<p>The Corporate Business Continuity Plan (BCP) has been updated and includes an impact analysis for specific services. A test of the arrangements is planned for March 2020.</p> <p>Likewise the Council's Emergency Plan has been updated and was subject to review and testing in November 2019.</p>
Arrangements to secure Value for Money	<p>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 2018/19 (as reported to Accounts and Audit Committee in July 2019).</p>
Interest Rates	<p>The bank base rate is currently 0.75% and is expected to rise to 1.0% by December 2021. This has a direct impact on the levels of investment returns the Council expects to receive.</p>

Factors	Commentary
	<p>Looking ahead, interest returns have been set at 0.75% for 2020/21, 1.00% for 2021/22 and 1.25% for 2022/23 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.</p> <p>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 2.94%.</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 2020/21, this will be reported to Council in March 2020.</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>
<p>Pay and Price Inflation</p>	<p>An allowance of 3% has been factored in to the budget for the Local Government pay award in 2020/21.</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>Consumer Price Inflation at December 2019 was 2.0% (1.9% for December 2018) and the Retail Price Index was 2.7% (1.7% for December 2018).</p>
<p>Fees and Charges</p>	<p>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 2019.</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>
<p>Demand Led Pressures</p>	<p>Where possible, the forecasts of income and expenditure forming the Council's budget estimates for 2020/21 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>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.</p>

Factors	Commentary
	<p>In recommending the budget for 2020/21 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.</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>
<p>Emerging Pressures</p>	<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 our core funding generally, there are a range of issues which may require investment:-</p> <ul style="list-style-type: none"> • a focus on economic growth and job creation to support business and increase employment which should yield additional business rates income; • the Nelson Town Deal may require match funding from the Council and other local organisations; • the ongoing changes to the Benefits regime including the impact of Full Service Universal Credit and ongoing welfare reforms. This is difficult to predict especially as changes to the programme of claimants transferring to UC recently being announced by government; • as partners and other local organisations experience reductions in their funding this may affect access to services they provide within 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. <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>