BALANCES AND RESERVES STATEMENT 2013/14

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SUMMARY

The budget reported to Cabinet and Council in February 2013 contained an extract from the Balances and Reserves Statement 2013/14 which summarised the recommended range for unallocated balances. This Balances and Reserves Statement provides further detail on the Council's approach to the management and measurement of these, outlining technical accounting guidance used and analysis of specific risks that lead to a determination of a prudent reserves and balances range.

RECOMMENDATIONS

That the contents of the report are noted.

REASONS FOR OFFICER RECOMMENDATIONS

The balances and reserves statement has been produced based on an assessment of key risks and requirements for which balances and reserves need to be held by the Council, as part of exercising the Section 151 officer's professional duties with regard to budget setting.

INFORMATION

1 The Corporate Director of Finance, as the Council's Section 151 officer has a legal duty to comment on the robustness of budget estimates for the forthcoming year including the adequacy of the Council's reserves as part of the statutory annual budget setting process. This duty stems from the financial governance framework established under the Local Government Act 2003.

2 For Hillingdon, this duty is exercised through an extract of the Budget Report to Cabinet and Council in February of each year. This statement expresses a prudent level of unallocated General Fund balances that the Council should hold as a range based on assessment of the key strategic, operational and financial risks faced by the Council.

3 In the 2013/14 budget report, the recommended range for unallocated General Fund balances to be set at is £15m to £30m. From 1 April 2013 the Council will be exposed to additional risks associated with the localisation of Business Rates Income and abolition of Council Tax Benefit, which has led to an increase in the recommended range from £12.5m to £26.5m in 2012/13.

4 The attached Balances and Reserves Statement contains an underlying assessment against CIPFA criteria considering both internal and external financial risks to determine an identifiable recommended range for unallocated balances contained within the Budget Report.

LEGAL IMPLICATIONS

Decisions made by the Cabinet or a Cabinet Member must be 'Wednesbury' reasonable, i.e. Council officers need to present all the facts that are relevant to Members before they make a decision - otherwise decisions can be open to legal challenge.

BACKGROUND PAPERS

The Council's Budget: General Fund Revenue Budget, Housing Revenue Account Budget and Capital Programme 2013/14 - report to Cabinet and Council February 2013.

Local Authority Accounting Panel (LAAP) Bulletin 77 –Local Authority Reserves and Balances (November 2008).

STATEMENT ON 2013 ANNUAL REVIEW OF RESERVES

SUMMARY

The Council's Corporate Director of Finance has a duty under the Local Government Act 2003 to comment on the robustness of the Council's budget for the coming year. This comment is also required to consider the adequacy of the Council's reserves and balances. The Corporate Director of Finance has recommended that, based on the 2013/14 budget, an appropriate level of unallocated balances for the authority is in the range from £15m to £30m.

1. BACKGROUND

1.1 Under the Local Government Act 2003 the Corporate Director of Finance has a duty to recommend to Cabinet the level of reserves and balances required by the Council. This requirement is met through the inclusion each year in the Budget Report to Cabinet and Council the results of a review of reserves and balances. This is done in line with current CIPFA guidance, which states that when reviewing the Medium Term Financial Forecast and budget the Council should consider the establishment and maintenance of reserves. These can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements – earmarked reserves are accounted for separately but remain legally part of the General Fund.

1.2 When assessing the appropriate level of reserves the Corporate Director of Finance considers that the reserves are not only adequate but also necessary.

1.3 To do this, the strategic, operational and financial risks facing the Council are taken into account. The Council should retain adequate reserves to cover unexpected expenditure, allow contingency against implementation of major funding cuts and to cushion the potential impact of proposed changes to funding regimes. Equally the Council should seek to utilise the maximum resources available to achieve its objectives and to ensure that current resources are used for the benefit of the current tax payer. CIPFA do not recommend a stated amount or percentage of budget to be set as a reserve level recognising the many factors involved when considering an appropriate range can only be assessed locally.

1.4 Over the years, the Council has improved its level of reserves to an appropriate level from a relatively low base. However it still has a fairly low level of total reserves due to the relatively limited number and value of earmarked reserves compared with many councils.

1.5 Each earmarked reserve is subject to its own review of adequacy and a listing of these is detailed within the Statement of Accounts.

2. ADEQUATE LEVEL OF UNALLOCATED GENERAL FUND RESERVES

2.1 To determine the recommended level of reserves the Council has assessed risks it currently faces. Criteria as specified in Local Authority Accounting Panel (LAAP) Bulletin 77 (November 2008) have been followed for this purpose, alongside more recently identified financial risks arising in the medium term as a result of specific government proposals and transfer of new responsibilities to the Council. Details of which are shown in Appendix 1 and include:

- The robustness of the financial planning process (including treatment of inflation and interest rates, estimates of locally raised income and timing of capital receipts)
- How the Council manages demand led service pressures
- The treatment of planned savings / productivity gains and implementation of the Council's BID programme
- The financial risks inherent in any major capital project, outsourcing arrangements or significant new funding changes
- The strength of the financial monitoring and reporting processes
- Cash flow management and the need for short term borrowing
- The availability of reserves, Government grants and other funds to deal with major contingencies
- The general financial climate to which the Council is subject to and its previous record in budget and financial management.

2.2 The assessment, although based on the Council's procedures and structures, does necessarily have an element of subjectivity. In acknowledging this, the optimum level of reserves incorporates a range. The recommended range for 2013/14 is £15m to £30m. The upper end of this range represents the highest level of unallocated balances that the Council could reasonably justify holding. If balances were above the upper level, the Corporate Director of Finance would recommend that plans were developed to use the excess balances towards enhancing the delivery of the Council's strategic objectives in the current year. The equivalent figures recommended at the time of budget setting for 2012/13 were £12m to £26.5m.

2.3 The array of risk factors that determine the need to hold balances and reserves has changed since last year's budget setting process to take account of the substantial transfer of risk to the Council from Central Government from 1 April 2013 as a result of the 2012 Local Government Finance Act. This increase has been partially off-set through improvements to the Council's overall financial standing and a reduced risk around implementation of efficiency savings in 2013/14. Appendix 1 summarises movements in the level of balances recommended to manage the criteria set out above.

2.4 In summary, there is a broad spread of balances held against the key issues listed in paragraph 2.1. Most of the Council's balances are held to deal with the common risks that most local authorities need to manage on an ongoing basis, however there are a number of key issues for Hillingdon that drive the need to hold additional balances.

2.5 Firstly, Hillingdon has seen substantial population growth, evidenced by the 2011 census, which is set to continue into a period of further central government funding cuts. With the 2013 Comprehensive Spending Review expected to confirm funding reductions in line with recent experience, demographic growth will see increased demand for key services, including Adult Social Care, Education, and waste collection and disposal. Secondly, a number of issues arise from the presence of Heathrow Airport within the borough. In particular this is the driver of the Council's exceptional asylum caseload, which has a fragile, unpredictable and inadequate funding stream attached to the support for care leavers.

2.6 In addition to these local issues, he 2012 Local Government Finance Act has resulted in a significant transfer of risks from Central Government in relation to both the localisation of Business Rates Income and introduction of a local Council Tax Reduction Scheme. The particular issues arising from these policy developments are expanded upon below.

2.7 From 1 April 2013, 30% of the £330m business rates raised within the borough will be retained by the Council, which is intended to incentivise local investment in economic development, with any increases or decreases in revenues impacting directly upon the resources available to deliver local services. While there is a safety net built into this system to limit the extent of losses, the Council could still stand to lose up to £3.5m of funding before any additional central government funding could be accessed.

2.8 The second major reform relates to reform of the benefits regime. While Housing Benefit is to be transferred into the new universal credit, Council Tax Benefit is to be abolished from 1 April 2013. Responsibility for the replacement Council Tax Reduction schemes has been handed to locally authorities, to deliver with a 10% reduction in available funding. As a demand led budget, there is significant scope to increase substantially in response to worsening economic conditions while levels of funding are expected to decline in the medium term in line with general funding levels.

2.9 In addition, on 15 July 2011 the Department of Health confirmed the intention to transfer Public Health services from PCT's to local government with the intention of providing a service which focus on the prevention of illness. A ring fenced grant will be transferred from the NHS in April 2013, with shadow budget allocations due to be published shortly. Currently Hillingdon PCT has around £20m in resources to support public health activity.

2.10 Consideration of these risk factors have resulted in the upper end of the recommended range of reserves to be increased from £26.5 to £30m representing just 4% of gross expenditure and 11% of controllable expenditure if the Schools budget and Housing Benefit are excluded.

2.11 The approved budget for 2013/14 maintains balances at 2012/13 outturn levels, with neither a draw down from or payment into balances. The latest forecast for balances at 31 March 2013 is £28m, which is comfortably within the £15m to £30m range recommended for 2013/14.

2.5 The General Fund revenue budget proposals for 2013/14 also include a contingency of £22.9m which is identified against specific risks that are funded within the budget. Many of these risks, although not precisely quantifiable, have a high degree of certainty that they will be called upon in the year.

3. EARMARKED RESERVES

3.1 The Council has ring fenced earmarked reserves with balances as at 31 March 2012, which are divided between those required to meet a statutory or regulatory requirement and those held for management purposes. Table 2 details the balances held at 31 March 2012.

Table 2: Earmarked Reserves

Reserve	**Balance as at 31 March 2012**
Housing Revenue Account	13,842
Schools Delegated Funds	16,332
New Roads and Street works Act	142
Statutory & Regulatory Reserves	**30,886**
Abbotsfield School	465
Elections	208
Grant Funded Reserves	368
Highways Management	798
Self-Insurance Fund	307
Leisure Facilities Reserve	474
Libraries Reserve	96
Local Development Framework & New Years Green Lane	84
Miscellaneous	1,077
Music Bursary Fund	175
Ward Budget Initiative	263
Management Reserves	**2,476**
Total	**33,362**

3.2 Movement in and out of Earmarked reserves is generally determined on out-turn however it is expected that Schools Delegated Funds will decrease due to the withdrawal of schools reserves on becoming academies.

3.3 An explanation as to the function and source of funds for these reserves can be found in note 2 of the Statement of Accounts.

4. UNFUNDED RESERVES

4.1 Local authorities also hold other reserves that arise out of the interaction of legislation and proper accounting practice. These reserves, which are not resource-backed and can not be used for any other purpose, are also detailed in the Council's Statement of Accounts.

Risk Management

5.1 The Code of Audit Practice makes it clear that it is the responsibility of the audited body to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. The financial risks need to be assessed in the context of the Council's overall approach to risk management.

5.2 The process by which the contingency budget is constructed links directly into the Council's risk management process. Significant risks are identified and recorded in risk registers which are regularly reviewed and updated as part of the risk management process. The process provides for review by senior officers, Group Directors, Cabinet Members and the Audit Committee addressing both executive functions and governance requirements. This process is integral to ensuring the effectiveness of the budget strategy. The key financial risks identified in the corporate risk register are reflected either directly in the budget strategy or are covered by the retained level of unallocated balances and reserves.

APPENDIX 1

Further detail on Assessment of Required General Fund Revenue Balances

Area of Risk	Details	Reserves Required 2013/14 (£m)	Reserves Required 2012/13 (£m)
The general financial climate to which the Council is subject	Indications are that the next Comprehensive Spending Review period will see sustained reductions in Central Government funding beyond 2014/15, while there is limited evidence of wider economic recovery.	1.5 - 4.0	1.5 – 4.0
The overall financial standing of the authority	The financial strength of the council continues to improve with prudent assumptions factored into the MTFF for growth in income, while a comprehensive development and risk contingency is funded for 2013/14.	1.5 – 2.0	1.5 – 4.0
Estimates of level of locally raised income	With the introduction of local retention of business rate revenues from April 2013, there is scope for volatility in this income to impact upon the Council's finances. Losses above £3.5m in any single year will be mitigated by safety net payments from central government.	2.0 – 3.5	N/A
The treatment of planned efficiency savings / productivity gains	The budget for 2013/14 contains £17.1m of savings, which are substantially developed and ready for implementation in 2013/14. Governance and monitoring arrangements have been strengthened, with regular reporting on delivery of savings to Cabinet.	2.0 – 3.0	2.0 – 5.0
The treatment of inflation and interest rates	Limited inflation has been included in the 2013/14 budget and the current trend is decreasing. However, specific risks remain in relation to contracts and fuel. The low interest rate environment continues and this has been factored into the budget.	1.0 – 2.0	1.0 – 2.0
The financial risk inherent in any major outsourcing / insourcing arrangements	The Council is reliant on external providers for a range of key services, especially in social care for residential and nursing care provision, and housing providers for temporary accommodation. Some of these suppliers are reliant on private finance linked to asset values for their viability. In the current financial climate this poses an increased risk of service failure to the Council. The Council has outsourced facilities management, leisure management and revenues services, and these	1.0 – 3.0	1.0 – 3.0

	contracts create residual risks to be managed by the Council.		
The treatment of demand led pressures	The Council has a robust financial planning process (MTFF) embedded across the organisation. Through this process, reasonable assumptions about demand and funding pressures have been made and a prudent view of volatile areas has been taken. All known pressures across the Council are included as funded items in the MTFF, with additional funding in future years linked to forecast demand. The budget contingency is largely to take account of potential demand led pressures on key expenditure and income streams. The increase in level of required reserves from 2012/13 is intended to address the risks associated with the new Council Tax Reduction scheme.	2.0 – 5.0	1.0 – 3.0
The financial risks inherent in any major capital developments	The Capital Programme includes for substantial investment in primary schools, which alongside the potential for extensive investment within the Housing Revenue Account will result in a corresponding increase in the level of financial risk arising.	1.0 – 2.5	1.0 – 1.5
Estimates of the level and timing of capital receipts	The estimate of the capital receipts in the 2013/14 Capital Programme is based on a schedule of assets that have been identified for sale. If disposals are lower than projected then alternative options to achieve disposals or compensatory improvements to asset utilisation will be considered.	1.0 – 2.0	1.0
The availability of reserves, Government grants and other funds to deal with major contingencies and the adequacy of provisions	Whilst there remains a slight risk, the level of reserves has increased and an adequate level of provisions has been built into the budget.	1.0	1.0
The Council's capacity to manage in year budget pressures, and its strategy for managing both demand and service	There is a well-developed monthly budget monitoring process in place, ensuring adverse variations are identified promptly by service managers. The monthly challenge and review process ensures the early identification and resolution of issues.	1.0 – 2.0	1.0 – 2.0

delivery in the longer term			