Balances and Reserves Statement 2015/16

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SUMMARY

The budget reported to Cabinet and Council in February 2015 contained an extract from the Balances and Reserves Statement 2015/16 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.

RECOMMENDATION

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 The recommended range for unallocated balances remains consistent with 2013/14 at £15m to £30m, with the overall upper limit for balances £15m higher, at £45m, to take account of the planning drawdown from reserves included in the Medium Term Financial Forecast from 2015/16.

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: Medium Term Financial Forecast 2015/16 - 2019/20 - report to Cabinet and Council February 2015

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

STATEMENT ON 2015 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 2015/16 budget an appropriate level of unallocated balances for the authority is in the range from £15m to £30m. In addition to these unallocated balances, further sums in the range from £5m to £15m are recommended to manage the combined impact of a number of severe funding reductions.

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.

1.5 Each category of earmarked reserve is subject to its own review of adequacy and each 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 the 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 indentified 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 and the adequacy of provisions;
- The general financial climate to which the Council is subject and its previous record in budget and financial management.

2.2 Most of the Council's balances are held to deal with the common risks outlined above 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.

2.3 Hillingdon has seen substantial population growth, evidenced by the latest GLA/ONS population estimates, which is set to continue into a period of further central government funding cuts over the medium term. Continuing pressures arising from demographic growth will see increased demand for key services, including Adult Social Care, Education, Housing 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 asylum seekers.

2.4 In addition to these local issues, the 2012 Local Government Finance Act 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 (CTR) Scheme. While such localisation is expected to provide a mechanism to benefit from local economic growth, the corresponding transfer of risk is reflected in the recommended level of balances

2.5 The array of risk factors that determine the need to hold balances and reserves have been reviewed since last year's budget setting process and the level of cover against each risk criteria refreshed, although the overall recommended level of reserves remains unchanged from 2014/15. To take account of the continuation of Central Government's austerity programme and increasing reliance on locally raised income, provision against these risks has been increased, while the continuation of a low inflation environment has enabled a reduction in the provision held against interest and inflation risk.

2.6 The recommended range for unallocated balances therefore remains unchanged at £15m to £30m. The upper end of this range represents the highest level of unallocated balances that the Council could reasonably justify holding. As balances are above the upper level, the Corporate Director of Finance has recommended the use the excess balances in the Council's broader financial planning.

2.7 In addition to unallocated balances, these excess balances will be required to support the Council's Medium Term Financial Forecast, smoothing the impact of substantial funding government funding cuts over the period to 2019/20. A further £5m to £15m is included in the overall level of appropriate balances to support this strategy. Appendix 1 summarises movements in the level of balances recommended to manage the criteria set out above, with the headline range for General Balances during 2015/16 being £20m to £45m.

2.8 The approved budget for 2015/16 includes a drawdown of £5m from the 2014/15 outturn balances, which are projected to reach £40m by 31 March 2015 as at Month 9, and would result in forecast balances of £35m by 31 March 2016.

2.9 The General Fund revenue budget proposals for 2015/16 also included a contingency of £10.3m which is identified against specific in year 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 2014 Which are set out in Table 2 below:

Table 2: Reserves (excluding General Fund Working Balance)

Reserves	Balance as at 31 March 2014 £000's
General Fund Reserves	
Earmarked Reserves	
- Grants Unapplied	6,487
- Member Initiatives	8,317
- Other Reserves	5,457
- Public Health Reserve	1,284
- Parking Revenue Account / New Roads & Street Works Act	459
Total General Fund Reserves	**22,004**
Housing Revenue Account Reserves	34,245
Schools Delegated funds Reserves	17,669
Total Reserves	**45,173**

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 cannot 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 2015/16 (£m)	Reserves Required 2014/15 (£m)
The general financial climate to which the Council is subject	Sustained reductions in funding over the medium term with the reductions in spend in the public sector likely to continue beyond 2020, with the December 2014 Autumn Statement implying an acceleration in funding cuts during 2016/17 and 2017/18.	1.5 - 4.5	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 2015/16.	1.5 – 2.0	1.5 – 2.0
Estimates of level of locally raised income	With the local retention of business rate revenues together with Council Tax and other income streams now amount to more than 70% of the council's corporate funding. There continues to be a risk from volatility in this income which would impact upon the Council's finances.	2.0 – 4.0	2.0 – 3.5
The treatment of planned efficiency savings / productivity gains	The budget for 2015/16 contains £9.9m of savings, which are substantially developed and ready for implementation in 2015/16. Whilst governance and monitoring arrangements have been strengthened, with regular reporting on delivery of savings to Cabinet, delivering these savings on top of the substantial already delivered since 2010 becomes more difficult and therefore the risk of slippage or non delivery increases.	2.0 – 4.0	2.0 – 4.0
The treatment of inflation and interest rates	Limited inflation has been included in the 2015/16 budget to reflect the latest intelligence, however there remains a possibility that an improving economy could lead to earlier than projected growth in inflation.	1.0 – 1.0	1.0 – 2.0
The financial risk inherent in any major outsourcing 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. Although the Council has outsourced facilities management, and revenues services, some services have been in sourced including leisure management. These contracts continue create residual risks to be managed by the Council.	1.0 – 2.0	1.0 – 2.0
The treatment of demand	The Council has a robust financial planning process (MTFF) embedded across	2.0 – 4.0	2.0 – 4.0

Area of Risk	Details	Reserves Required 2015/16 (£m)	Reserves Required 2014/15 (£m)
led pressures	the organisation. Through this process, reasonable assumptions about demand and funding pressures have been made and a prudent view of demand led pressures 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 budgeted contingency and development fund is largely to take account of potential demand led pressures on key expenditure and income streams.		
The financial risks inherent in any major capital developments	The Capital Programme includes substantial investment in primary and secondary schools and for new facilities such as a theatre and museum, 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 from this significant investment.	1.0 – 3.5	1.0 – 3.5
Estimates of the level and timing of capital receipts	The estimate of the capital receipts in the 2015/16 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 – 2.0
The availability of reserves, Government grants and other funds to deal with major contingencies and the adequacy of provisions	Whilst there remains a continuous risk, the level of reserves has increased and an adequate level of provisions has been built into the budget.	2.0 - 3.0	2.0 - 3.0
Planned drawdown from balances from 2015/16	To manage the impact of funding further reductions in the council's budget from 2015/16 drawdown from reserves are included in the MTFF.	5.0 - 15.0	5.0
	Total General Fund Balances	**Range £20-£45**	**Range £20-£35**