

## **BALANCES AND RESERVES STATEMENT 2018/19**

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### **SUMMARY**

The budget reported to Cabinet and Council in February 2018 contained an extract from the Balances and Reserves Statement 2018/19 which summarised the recommended range for unallocated balances. The attached 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 has been maintained at £15m to £32m for 2018/19, with sums above this level providing a mechanism to support the Council's budget planning by smoothing the impact of funding reductions over the medium term.
- 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.

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## **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 2018/19 - 2022/23 - report to Cabinet and Council February 2018

Local Authority Accounting Panel (LAAP) Bulletin 99 – Local Authority Reserves and Balances (July 2014)

# **STATEMENT ON 2018/19 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 2018/19 budget an appropriate level of unallocated balances for the authority is in the range from £15m to £32m. As the level of unallocated balances is expected to exceed this range, these additional resources will be available to support the Council's budgets and smooth the impact of funding reductions over the medium term.

## **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 (MTFF) 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 continues to reassess the risks it currently faces. Criteria as specified in Local Authority Accounting Panel (LAAP) Bulletin 99 (July 2014) 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 these 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 and sustained population growth, evidenced by the latest 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, Looked After Children, Homelessness 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 partial localisation of Business Rates Income and introduction of a local Council Tax Reduction (CTR) Scheme. During 2018/19 the Council will be participating in a London-wide Business Rates Retention Pilot Pool, which will see a greater proportion of income retained locally, however as this scheme is backed by a 'no detriment' guarantee from the Government no additional risk is being transferred at this stage.

- 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 assessed range for cover has been maintained at £15m to £32m. The upper end of this range represents the highest level of unallocated balances that the Council could reasonably justify holding over the longer term. Appendix 1 provides a breakdown this assessed range into its constituent elements.
- 2.6 As at December 2017 (Month 9 Budget Monitoring) General Balances were projected to total £39m at 31 March 2018, with the 2018/19 budget assuming £1m of this sum is released in the new financial year to support investment in Council services and leaving £38m unallocated General Balances at 31 March 2019.
- 2.7 As balances are above the £32m upper level, the Corporate Director of Finance has recommended the use the excess balances in the Council's broader financial planning. These excess balances will be required to support the Council's medium term planning by smoothing the impact of substantial funding government funding cuts over the period to 2022/23.
- 2.8 The General Fund revenue budget proposals for 2018/19 also included a contingency of £9m 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 2017 Which are set out in the table below:

<b>Reserves</b>	<b>Balance as at 31 March 2017 £000's</b>
<b>General Fund Reserves</b>	
Earmarked Reserves	
- Grants Unapplied	3,791
- Member Initiatives	13,226
- Other Reserves	8,814
- Public Health Reserve	2,705
- Parking Revenue Account / New Roads & Street Works Act	1,469
- PFI	512
<b>General Fund Earmarked Reserves</b>	<b>30,517</b>

- 3.2 Movement in and out of earmarked reserves is generally determined at outturn, with the latest budget monitoring position assuming that the balance of uncommitted earmarked reserves will reduce as a result of contributions towards the financing of transformation expenditure, planned releases of unapplied grant monies alongside other applications.

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#### **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.

## Assessment of General Fund Reserves Requirement

## Appendix 1

Assessment of General Fund Reserves Requirement	Minimum Level 2018/19 (£ million)	Maximum Level 2018/19 (£ million)	Minimum Level 2017/18 (£ million)	Maximum Level 2017/18 (£ million)	Principal Reasons for Requirement
The general financial climate to which the Council is subject	1.5	4.5	1.5	4.5	Sustained reductions funding forecast over the medium-term with the austerity agenda set to continue over this parliament
The overall financial standing of the authority	1.0	2.0	1.0	2.0	To manage adverse movement in the Council's financial standing
Estimates of level of locally raised income	2.0	3.0	2.0	3.0	Locally raised income accounts for approximately 80% of corporate funding
The treatment of planned efficiency savings / productivity gains	1.0 (-1.0m)	4.0 (-1.0m)	2.0	5.0	To manage risk around slippage of the Council's major savings programme, in response to funding reductions
The treatment of inflation and interest rates	2.0 (+1.0m)	2.5 (+1.0m)	1.0	1.5	Assumptions have been refreshed to reflect latest intelligence, and further provision included within this analysis
The financial risk inherent in major contract arrangements	1.5	4.5 (+1.0m)	1.5	3.5	To manage any impact of services arising from supplier risk, particularly in respect of Social Care provision
The treatment of demand led pressures	2.0	4.0	2.0	4.0	Increased demand for services from an aging and increasing population
The financial risks inherent in any major capital developments	1.0	2.5 (-1.0m)	1.0	3.5	Inherent risks due to significant level of investment required for school places
Estimates of the level and timing of capital receipts	1.0	2.0	1.0	2.0	Slippage on asset disposal programme could lead to increased borrowing
The availability of reserves and other funds to deal with major contingencies and pressures	2.0	3.0	2.0	3.0	Cover for unforeseen events over and above £500k budgeted provision for General Contingency
<b>Unallocated GF Reserves</b>	<b>15.0</b>	<b>32.0</b>	<b>15.0</b>	<b>32.0</b>	