APPENDIX D

ASSESSING MINIMUM WORKING BALANCE IN THE GENERAL FUND REVENUE ACCOUNT

The Head of Finance (s151 Officer) as the Chief Financial Officer has a statutory responsibility to ensure that the Council holds an adequate level of balances, and that there are “clear protocols for their establishment and use”. Guidance notes, published by the Chartered Institute of Public Finance and Accountancy (CIPFA), list a number of factors which should be considered in determining a minimum working balance. The table below lists these factors and officers’ response.

Factor	Response
Budget assumptions.	
The treatment of inflation and interest rates	Included in the report.
Estimates of the level and timing of capital receipts.	This is also covered in the reports on Non Housing Capital Programme and Treasury Management. Major risk includes the revenue implications arising from adverse cash flow management and is referred to in the risk section below. The Non-Housing Capital Programme (NHCP) has been developed in a way to minimise expenditure, so largely only essential expenditure is included. The NHCP programme will continue to be monitored regularly by Senior Management Team/ Heads of Service as well as the Capital Group and Cabinet. Wherever possible expenditure will be incurred only when there is sufficient funding in place. The MTFS includes Minimum Revenue Provision allowance to support the likely borrowing requirements for the NHCP in 2019/20.
The treatment of demand-led pressures.	In-year unplanned budget pressures will be dealt with through the budget monitoring process and reported to Cabinet if necessary. The Council has an excellent track record of effectively managing within its overall approved budget and has anticipated future years’ savings proposals

Factor	Response
	within the in-year budget monitoring process wherever possible. One area of specific concern remains in relation to the costs of changes introduced by the Government from April 2018 in relation to Homelessness responsibilities. There is a growing national and local trend relating to residents presenting as homeless and whilst the General Fund and HRA have estimated the financial impact of these changes it is likely that pressured experienced during 2018/19 will continue to be a factor during 2019/20 and future years.
The treatment of planned efficiency savings / productivity gains.	Service savings and income growth of almost £600,000 are factored into the 2019/20 budget. The Council continues to utilise its Invest to Save and Improve Reserve to implement any opportunity associated with delivering efficiency savings which may require an initial investment. The Council continues to explore all avenues to ensure efficiencies are maximised and delivered.
The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments.	The Council's biggest/ major contracts or partnerships are in respect of its wholly owned subsidiary HTS and with Veolia. These are referred to below. Whilst HTS Group is projected to generate dividend payments for the Council as sole shareholder these have been factored in to the MTFS and General Fund budget in such a way as to exercise caution in the early years of the company trading. The Council has a contractual arrangement with a private sector operator of the Parndon Wood Cemetery and Crematorium. The contract operates on a profit share basis. Other than the items referred to in the Non Housing Capital Programme, there are no

Factor	Response
	major capital developments funded by Council's resources. The Council, alongside the HCA, entered into Loan agreements in respect of the Enterprise Zone to enable significant private sector funding to be levered into the project. The first loan advance of £1million was advanced in March 2016 with the second advance of £1.5 million made in March 2017. Both advances were made only when it was demonstrated that there was sufficient capital value in the assets against which the Council will hold a property charge to secure the debt. The Council has also entered into a Development Agreement for the promotion, development and ongoing management of its land holding at London Road South as part of the Enterprise zone initiative.
The availability of reserves, government grants and other major funds to deal with major contingencies and the adequacy of provisions.	The Council's MTFS continues to stress the importance of using general reserves only for one-off items of expenditure, i.e. not to support on-going expenditure. In view of the changing funding arrangements and welfare benefits reforms by the Government, the MTFS assumes an on-going minimum General Reserve balance of £2.5million and recommends that the Council operates at a level above this to allow flexibility. The General Reserve is projected to be at a level of nearly £5.4m at 31 March 2019. The Council also holds a redundancy reserve to help to meet any severance costs that may arise as a result of service changes or transformation.
Financial standing and management	
The overall financial standing of the authority (level of borrowing, debt outstanding, Council Tax collection rates, etc).	The Council's level of general reserves is forecast to be above the revised minimum recommended level of £2.5m for 2019/20.
The authority's track record in	The Council uses a three-year MTFS as a

Factor	Response
budget and financial management including the robustness of the medium term plans.	useful tool for prudent financial planning and management. The 2019/20 -2021/22 MTFS reported to Cabinet shows that the financial plans being proposed result in a sustainable three-year budget proposal subject to the budget gaps in years two and three of the plan being achieved. It is vital to recognise that fiscal challenges resulting from the UK's international trading status as a result of the Brexit vote, as well as potential threats to business growth and sustainability, all pose a serious threat to future local authority funding levels. Meanwhile, the overall assessment of the Council's financial management processes as reviewed by the External Auditors and reported in September 2018 by Ernst and Young LLP (being the Auditors at that time) is that the Council has put in place proper arrangements to secure value for money in its use of resources.
The authority's capacity to manage in-year budget pressures.	The Council's budget monitoring processes are effective and involve a monthly monitoring by the Senior Management Board. The monthly monitoring also focuses on key risk areas such as income targets. The latest 2018/19 quarterly General Fund revenue budget monitoring report, presented to Cabinet on 6 December forecast overall under-spending of £1,076,000 representing a -1.78% variation against the overall gross expenditure. The corresponding figure for preceding years were: 2017/18 was -2.12%, 2016/17 was -0.95% 2015/16 was -0.55% and 2014/15 was -0.52%. Such figures demonstrate an excellent track record to managing in-year budgets, especially in light of the unprecedented

Factor	Response
	government austerity, the uncertain economic environment and funding reductions.
The strength of the financial information and reporting arrangements.	In addition to the budget monitoring process referred to above, the financial information and reporting processes are also underpinned by Budget Monitoring Guidelines, Financial Regulations and Contract Standing Orders. The Council's annual accounts for 2017/18 were unqualified by the Council's auditors and the Auditor again recognised significant and on-going improvements being made to this aspect of the Council's financial reporting regime. The external assessment of the Councils delivery under the Value for Money assessment was also unqualified by Ernst & Young and was one of the earliest reports issued at that time.
The authority's virement and end-of-year procedures in relation to budget under/overspends at authority and departmental level.	The latest monthly budget monitoring reports forecast that the Council will adhere to the budgets it has set.
The adequacy of the authority's insurance arrangements to cover unforeseen risks.	In order to reduce insurance costs in future years, a strategy is being developed to target inspections and a programme of works to reduce the Council's exposure to risk. The Councils budget includes on-going provision for this work to continue. A review of the Insurance fund by an independent actuary has indicated that the contributions and balance provide a good level of cover against potential claims exposure. The Council's Insurer, Zurich, has also recognised the good work being undertaken to reduce the Council's exposure to risk in recent years with major premiums being held at existing levels wherever possible.

Key Financial Risks

In preparing the budget prudent assumptions have been made in respect of investment returns and likely income. However, there are a number of key financial risks which have not been eliminated and these are summarised below:-

a) The costs associated with any future workforce reductions will be met from the Council's own resources. In light of the uncertainties surrounding the Governments proposals to radically change the funding arrangements for local authorities with effect from 2020/21 the redundancy provisions contained within Earmarked reserves will be kept under review to ensure any future costs can be managed whilst minimising risk to the General Reserve.

b) The Council's income budgets remain an area difficult to predict and are subject to fluctuations linked to the performance of the wider economy. Whilst prudent assumptions have been made about income utilising current information and performance, the budgets will continue to be subject to on-going review throughout 2019/20 as part of normal budget monitoring processes. This work will ensure that income budgets are aligned to likely income achieved and to identify any underlying risks of non-achievement of the in-year and future budget plans.

c) The change for the delivery of Housing/non-housing repairs and Environmental works to HTS (P&E) Ltd in February 2017 continues to be successful and the new company is operating well; the company's start-up costs were transferred to the company in the form of a loan during 2017, as agreed by Cabinet. Loan repayments are being maintained on a monthly basis and do not currently present a risk to the Council.

d) The major change in relation to Housing Self-Financing brings with it risk for the Council. The HRA became self-reliant from April 2012 and any significant variations to the Business Plan will have to be managed locally by the Council. To mitigate risk, including the costs of the major debt settlement undertaken in March 2012, the HRA minimum working balance was increased to £2.5 million to enable any volatility to be better managed in the future. Recommendations remain in place to maintain the working balance at £4.0 million to accommodate any possible requirements that may be placed on the Council as landlord once the full outcome of the Grenfell Enquiry has been made public. Further changes relating to the treatment of capital charges and the Government's recent proposals regarding the extension of the RTB scheme to Housing Associations has been assessed as far as is possible at the current time and incorporated into the HRA Business Plan and budgets. Provision of resources to undertake the identification and development of plans for new house-building have also been factored into the Business Plan.

e) The budget assumes that the general level of reserves at 31 March 2019 will be nearly £5,400,000 before any impact of budget carry-forward request from 2018/19 which will be reported in the normal way as part of the year-end reporting to Cabinet.

f) Subject to future Government funding announcements the Council's medium-term General Fund Revenue Budget forecast shows that there is currently a balanced budget proposal for the 2019/20 financial year with significantly lower budget gaps than in previous years forecast for 2020/21 and 2021/22 subject to the outcome of the Government funding review and Spending Review 2019 due to be announced in the Autumn of 2019.

Conclusion: Although the Council has taken steps through the 2019/20 budget-setting process to reduce its exposure to a number of significant risks, it still faces risks that could potentially adversely affect its financial position. Many of these risks may be manageable on their own. Indeed some of the 'risk' factors above could have a positive effect on the Council, e.g. if locally generated income exceeds the amount budgeted. The Council has also improved its internal arrangements, e.g. in respect of responding to money market reforms by further tightening of investment security within its Treasury Management arrangements. It also has a good track record of managing its annual budgets.

Against this assessment of risk it is recommended that the minimum working balance for the General Reserve during 2019/20 should remain at £2,500,000 and that the Council should seek to operate above this level to provide flexibility during a period of financial uncertainty and pressure specifically in relation to future Government funding changes. This will ensure that the Council has adequate provision to meet unexpected events and financial demands should they arise.