APPENDIX D

ASSESSING MINIMUM WORKING BALANCE IN THE GENERAL FUND REVENUE ACCOUNT

The Deputy to the Chief Executive and Head of Finance and Property Services (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 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 2020/21.
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

Factor	Response
	anticipated future years' savings proposals within the in-year budget monitoring process wherever possible. An ongoing area of specific concern remains in relation to the 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 ongoing pressures will continue to be a factor during 2021/22 and future years. Government funding announcements made at SR20 indicate additional funding to be made available but at the time of setting the budgets there have been no specific announcements made in relation to this funding or its allocation. A possible further rea of pressure relates to the Careline service where a ECC lead procurement could lead to in year pressures in 2021/22.
The treatment of planned efficiency savings / productivity gains.	Service savings of £294,000 are factored into the 2021/22 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. In the 2021/22 budget proposals the savings and efficiencies are largely outside of direct service delivery.
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 financial returns to the Council as sole

Factor	Response
	shareholder these have been factored in to the MTFS and General Fund budget in such a way as to exercise caution. 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 Housing and Non Housing Capital Programme, there are currently no other 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. Cabinet approval has already been agreed for the council lead developments on is EZ land holdings and the financing of these will be met from agreed funding made available through SELEP.
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 £3.0m at 31 March 2021.

Factor	**Response**
	The General Reserve was utilised in 2020/21 to facilitate the advance payments of the Council's required pension's deficit to the Essex Pensions fund. The reserve will be replenished in over the MTFS period with the advance payment having generated a saving to the Council of £600k over the three years. The Council also holds a Severance reserve to help to meet any severance costs that may arise as a result of service changes or transformation. In light of the Covid Crisis the MTFS report and appendices makes a recommendations for £1million of the Severance reserve along with the 2021/22 planned government Covid grant to be used to establish a new Budget Resilience Fund. This proposal is made in recognition of the possible medium to long term impacts that may arise from the national crisis and to help to manage any budget shocks that may result. The fund will hold an estimated opening balance of £1.36million subject to formal approval.
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 2021/22.
The authority's track record in budget and financial management including the robustness of the medium term plans.	The Council uses a three-year MTFS as a tool for prudent financial planning and management. The 2021/22 -2023/24 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 need to fund the economy during the Covid crisis, its international trading status as the end of the transition phase of Brexit is reached on 31 December 2020, as well as potential threats to business growth and

Factor	Response
	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 by BDO LLP 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 2020/21 quarterly General Fund revenue budget monitoring report, presented to Cabinet on 3 December forecast potential overspend of £345,000 representing a 0.6% variation against the overall gross expenditure. The corresponding figure for preceding years were: 2019/20 was -0.14%, 2018/19 was -0.78% 2017/18 was -2.12% and 2016/17 was -0.95%. Such figures demonstrate an excellent track record of managing in-year budgets, especially in light of the unprecedented 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 2018/19 are expected to be unqualified by the Council's auditors. The 2019/20 audit is

Factor	Response
	not due to commence until January 2021. The external assessment of the Councils delivery under the Value for Money assessment was also unqualified.
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. As a result of the good work being undertaken to reduce the Council's exposure to risk in recent years the Councils insurance costs have seen significant reductions which is against the market trend.

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 unprecedented circumstances experienced as a result of the national Covid Crisis and the impacts on budgets are difficult to predict. As a result services to the public have been protected and as set out within the report a specific fund will be established to help manage the immediate ongoing budget implications during 2021/22 whilst a greater understanding of the longer term impacts on the Council and Harlow more widely are better understood.

b) The costs associated with any required 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 2022/23 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.

c) The Council's income budgets are especially difficult to predict as a result of the Covid crisis 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 2021/22 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.

d) 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.

e) 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.

f) The HRA has been impacted directly in a very similar way as the General Fund in so much as income streams have been adversely affected during 2020/21. This is largely due to lower recharges to service users, lower rent income due to economic conditions and higher void levels than planned during the crisis. These issues are under constant review and will be managed in the same way as underlying budgetary issues in the general fund budget. However there is the risk that the working balance will reduce as a result in the short term.

g) The budget assumes that the general level of reserves at 31 March 2021 will be nearly £3.1 million before any impact of budget carry-forward request from 2020/21 which will be reported in the normal way as part of the year-end reporting to Cabinet.

h) 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 2021/22 whilst there remains a forecast budget gap for the remaining two years of the strategy.

Conclusion: Although the Council has taken steps through the 2021/22 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 2021/22 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.