

ASSESSING MINIMUM WORKING BALANCE IN THE GENERAL FUND REVENUE ACCOUNT

The Deputy Chief Executive and Director 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 within the report.
Estimates of the level and timing of capital receipts.	<p>This is also covered in the reports on Non Housing Capital Programme and Treasury Management.</p> <p>Major risk includes the revenue implications arising from adverse cash flow management and is referred to in the risk section below.</p> <p>The Non-Housing Capital Programme (NHCP) has been developed to ensure that its revenue costs are affordable within the wider context of the General Fund budget whilst maintaining the overall condition of its operational asset portfolio.</p> <p>The NHCP programme will continue to be monitored regularly by Senior Management Board 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 2023/24 and this will be kept under review during the year with planned expenditure being reviewed and reduced if necessary.</p>
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

APPENDIX D

Factor	Response
	<p>necessary. The Council has an excellent track record of effectively managing within its overall approved budget.</p> <p>An ongoing area of specific concern remains in relation to the ongoing economic conditions following Covid and the war in Ukraine. The report sets out clearly the intention to set further resources aside to manage ongoing in year volatility through the application of those resources if necessary as has been the case in 2022/23.</p>
<p>The treatment of planned efficiency savings / productivity gains.</p>	<p>Service savings/efficiencies of £1.95m are factored into the 2023/24 budget.</p> <p>The Council continues to explore all avenues to ensure efficiencies are maximised and delivered.</p>
<p>The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments.</p>	<p>The Council's biggest/ major contracts or partnerships are currently in respect of its wholly owned subsidiary HTS and with Veolia.</p> <p>Whilst HTS Group is projected to generate financial returns to 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..</p> <p>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.</p> <p>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.</p> <p>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</p>

APPENDIX D

Factor	Response
	<p>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 and these loans were seen as low risk at the time of their approval. These loans are due for repayment in full in March 2023.</p> <p>Cabinet approval has already been agreed for the council lead developments on its EZ land holdings and the financing of these will be met from agreed funding made available through SELEP.</p> <p>The successful bids made in respect of the Towns Fund and Levelling Up Fund will draw nearly £44m of capital funding in to the regeneration of the town centre. These projects will be closely managed so as to ensure that the schemes are delivered within that grant funding envelope.</p>
<p>The availability of reserves, government grants and other major funds to deal with major contingencies and the adequacy of provisions.</p>	<p>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 £2.7m at 1 April 2023.</p> <p>The report sets out proposals to increase the Budget Stabilisation Reserve to a level of £1.4m to help meet the budget volatility risk due to inflationary and other pressures during 23/24</p>
<p>Financial standing and management</p>	
<p>The overall financial standing of the authority (level of borrowing, debt outstanding, Council Tax</p>	<p>The Council's level of general reserves is forecast to be £2.7m and therefore above the minimum recommended level of £2.5m</p>

APPENDIX D

Factor	Response
collection rates, etc).	for 2023/24.
<p>The authority's track record in budget and financial management including the robustness of the medium term plans.</p>	<p>The Council uses a three-year MTFS as a tool for prudent financial planning and management. The 2023/24 -2025/26 MTFS reported to Cabinet shows that the financial plans being proposed result in a balanced 2023/24 budget.</p> <p>It is vital to recognise that fiscal challenges resulting from the UK's need to fund the economy during the Covid crisis, and the economic volatility created across a number of economic markets as a result of the war in Ukraine continue to pose a serious threat to future local authority funding levels and the inflationary pressures being borne by local authority services.</p> <p>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.</p>
<p>The authority's capacity to manage in-year budget pressures.</p>	<p>The Council's budget monitoring processes are effective and involve monthly monitoring by the Senior Management Board.</p> <p>The monthly monitoring also focuses on key risk areas such as income targets.</p> <p>The latest 2022/23 quarterly General Fund revenue budget monitoring report, presented to Cabinet on 1 December forecast potential overspend of £666,000 representing a 1.2% variation against the overall gross expenditure. The corresponding figure for preceding years were:</p> <p>2020/21 was +0.6% 2019/20 was -0.14%, 2018/19 was -0.78% 2017/18 was -2.12% and</p>

APPENDIX D

Factor	Response
	<p>2016/17 was -0.95%.</p> <p>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.</p>
<p>The strength of the financial information and reporting arrangements.</p>	<p>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.</p> <p>The Council's annual accounts for 2018/19 are expected to be unqualified by the Council's auditors. The 2019/20 audit recommenced in Q3 2022/23.</p> <p>The external assessment of the Councils delivery under the Value for Money assessment was unqualified.</p>
<p>The authority's virement and end-of-year procedures in relation to budget under/overspends at authority and departmental level.</p>	<p>The latest monthly budget monitoring reports forecast that the Council will adhere to the budgets it has set and where there is variation the resources that have prudently been set aside to manage such volatility will be applied to support the 2022/23 budgetary position as planned.</p>
<p>The adequacy of the authority's insurance arrangements to cover unforeseen risks.</p>	<p>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 Council's 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 Council's insurance costs have seen significant reductions which is against the market trend.</p>

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 coupled with the impacts of the war in Ukraine on the world economy are difficult to predict. The 2023/24 budget proposals contain plans to mitigate the impacts through increasing budgetary provision where possible particularly in relation to Pay, Energy/fuel and the medium to longer term impacts of covid on income streams. Services to the public will be protected as far as possible and contributions are once again planned to provide a specific budget fund to deal with in year budget volatility as far as possible.
- 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 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 2023/24 budget proposals include reductions in some income budgets where there is clear evidence that the levels of income achieved pre covid are not likely to return.
- 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 £3.5 million reflecting a sum of £389 per council dwelling and broadly aligned to the sector norm.
- e) The HRA has been impacted directly in a very similar way as the General Fund in so much as income streams have been further impacted during 2022/23. 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 may reduce as a result in the short term.

- f) The budget assumes that the general level of reserves at 31 March 2023 will be £2.7 million.
- g) 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 2023/24.

Conclusion: Although the Council has taken steps through the 2023/24 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 also has a very 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 2023/24 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.