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 Corporate 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
The treatment of demand led pressures.	In year unplanned budget pressures will be dealt with through budget monitoring process and reported to Cabinet if necessary. The Council has an excellent track record of effectively managing within its overall approved budget.

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Factor	Response
The treatment of planned efficiency savings / productivity gains.	Efficiency savings of almost £1.5million are factored into the 2014/15 budget. The Council continues to hold an Invest to Save and Improve Fund 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.
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 joint venture with Kier Harlow Limited and with Veolia. These are referred to below. The dividend amount payable under the joint venture agreement is based on a complex formula and is dependent upon the operational and financial performance of Kier Harlow Limited. This contract was renegotiated during 2012/13 with further efficiencies and cost reductions identified as a result. The contract will now run until 2017. Performance bonds are in place to protect the Council where necessary The Council entered into an Inter-authority Agreement with Essex Councils in 2009/10 and signed a seven year contract, commencing June 2009 with Veolia for the collection of waste. All known costs associated with this contract have been included in the budget and the risks associated with this contract were reported to Environmental and Community Services Committee at the time of seeking Committee's approval to enter into the contract. During 2011/12 the Council entered into a contractual arrangement with a private sector operator for the operation of the Parndon Wood Cemetery and Crematorium. The contract will see investment in the facilities and will operate on a profit share basis. The MTFS reflects

Factor	Response
	the impact of this change in service delivery. Other than the items referred to in the Non Housing Capital Programme there are no major capital developments funded by Council's resources. The Council is the Accountable Body for Growth Area Funding. Procedures are in place to ensure that monies received by the Council are distributed to project partners in accordance with grant scheme conditions.
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 budget for 2014/15 and the revised MTFS include provision for any potential redundancy costs.
Financial standing and management	
The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates etc).	The Council's forecast level of general reserves is forecast to be at or above the revised minimum recommended level of £2.5m for 2014/15.
The authority's track record in budget and financial management including the robustness of the medium term plans.	The Council uses a five year MTFS as a useful tool for financial planning and management. The overall assessment of the Council's financial management processes as reviewed by the Audit Commission is that the arrangements are sound and that good financial management is evident across the Council.

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Factor	Response
The authority's capacity to manage in-year budget pressures.	The Council's budget monitoring processes are effective and involve a monthly monitoring by CMT and Heads of Service. Such monthly monitoring has also focussed on key income targets. The latest General Fund revenue monthly budget monitoring report presented to Cabinet on 12 December for 2013/14 forecasts overall under spending of £157,000 representing a -0.2% variation against the overall gross expenditure. The corresponding figures for each of 2012/13 and 2011/12 was -0.27% for both years. Such figures demonstrate a track record to managing in-year budgets, especially in light of the unprecedented recession.
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 2012/13 were IFRS compliant and unqualified by the Audit Commission. The Auditor recognised significant and on-going improvements being made to this aspect of the Councils financial reporting regime.
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 progress. A review of the Insurance fund by an independent actuary has indicated that the contributions and balance provide

Factor	Response
	a good level of cover against potential claims exposure. The Councils Insurer Zurich has also recognised the good work being undertaken to reduce the Councils exposure to risk.

Key Financial Risks

In preparing the budget prudent assumption have been made in respect of increase in interest costs 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 redundancies will be met from the Council's own resources. Given the future savings projections contained within the MTFS the redundancy provisions contained within Earmarked reserves and the revenue budget will be kept under review to ensure any future costs can be managed whilst minimising risk to the General Reserve.

b) The costs of energy in the global market is both a current and future budget issue for the Council. The Energy costs for 2014/15 have increased by over £120,000 and it is likely that this on-going pressure will be a feature of future years budget processes despite the investment being made in energy efficiency measures across Council sites.

c) The Council's income budgets remain an area of concern in the current economic conditions. Whilst prudent assumptions have been made about income the budgets will be subject to on-going review throughout 2014/15 to 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 allocation of the Kier Harlow Ltd contract charge against the appropriate service costs centres within the Council's budget has continued to be updated especially in relation to the allocations between the General Fund and the Housing Revenue Account. The MTFP includes an increased provision to address this issue over the period of the revised MTFS.

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 has been increased to £2.5 million to enable any volatility to be better managed in the future. Further changes relating to the treatment of capital charges and the impact this will have on the HRA and the delivery of the business plan have been considered in the refresh of the plan and the preparation of the 2014/15 HRA revenue budget.

f) Interest rates may fluctuate, and any increase in interest rates will result in additional cost to the General Fund budget. Despite the long term historically low levels of interest rates there is a likelihood that rates may begin to rise in early 2015/16.

g) The budget assumes that the general level of reserves at 31 March 2014 will be £2,800,000 excluding any budget carry forward request from 2013/14 as forecast through the budget monitoring process.

h) The Council's medium- term General Fund Revenue Budget gap forecast shows that, in order to achieve a balanced budget, additional savings of £4.9million will need to be made over the period 2015/16 to 2018/19. In the absence of any additional external resources being made available the Council will face further significant financial pressure beyond 2014/15 based on the current Comprehensive Spending Review announcements by the Government and other proposed Government policy and funding changes.

Conclusion: Although the Council has undertaken steps through the 2014/15 budget setting process to reduce its exposure to a number of significant risks, it still faces risks that potentially could adversely affect the Council. 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 exceed the amount budgeted. The Council has also improved its internal arrangements, e.g. in respect of 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 2014/15 should remain at £2,500,000 and that the Council should seek to operate above this level to provide flexibility during a period of extreme financial uncertainty and pressure. This will ensure that the Council has adequate provision to meet unexpected events and financial demands should they arise.