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 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 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 within the in-year budget monitoring process wherever possible.

Factor	Response
The treatment of planned efficiency savings / productivity gains.	Efficiency savings of almost £1.1million are factored into the 2016/17 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 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 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 re-negotiated 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. There will be exposure to performance and financial related risks during 2016/17 as the Council moves towards the implementation of the LATC model for the delivery of its Housing Repairs and Environmental Services operations. Risks will be identified during the transition project and mitigated as far as possible through the project. 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

Factor	Response
	Committee's approval to enter into the contract. During 2011/12 the Council entered into a contractual arrangement with a private sector operator of the Parndon Wood Cemetery and Crematorium. The contract will operate on a profit share basis. The MTFS has anticipated 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 Council, alongside the HCA intends to enter into Loan agreements in respect of the Enterprise Zone to enable significant private sector funding to be levered into the project. The loans will be advanced in the late stages of 2015/16 and early 2016/17 but will only be made when it is clear that there is sufficient capital value in the assets against which the Council will hold a property charge to secure the debt. The Council will also enter 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

Factor	Response
	of £2.5million and recommends that the Council operates at a level above this to allow flexibility. The budget for 2016/17 and the revised MTFS include provision for any future redundancy 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 forecast level of general reserves is forecast to be at or above the revised minimum recommended level of £2.5m for 2016/17.
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.
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. The monthly monitoring also focussed on key risk areas such as income targets. The latest General Fund revenue monthly budget monitoring report, presented to Cabinet on 10 December for 2015/16, forecasts overall under spending of £382,000 representing a -0.55% variation against the overall gross expenditure. The corresponding figure for 2014/15 was -0.52% and for both 2013/14 and 2012/13 it was -0.2% and 0.27% respectively. Such figures demonstrate a track record to managing in-year budgets, especially in light of the unprecedented government austerity and funding reductions.

Factor	**Response**
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 2014/15 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 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 with only minor total variances reported.
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 with major premiums being held at existing levels wherever possible. A major procurement exercise was carried out during 2014/15 and the response from the insurance market has enabled the Council to diversify its insurance portfolio on the strength of the improvements made in this area of the Council's operations.

Key Financial Risks

In preparing the budget prudent assumptions have been made in respect of increases 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 any future 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 Council's income budgets remain an area of concern in the current economic conditions. Whilst prudent assumptions have been made about income utilising current information and performance, the budgets will be subject to on-going review throughout 2016/17as 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 allocation of the Kier Harlow Ltd contract charge against the appropriate service costs centres within the Council's budget have been the focus of previous reviews, especially in relation to the allocations between the General Fund and the Housing Revenue Account.

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 and will now be further increased to £4.2 million as recommended within the HRA Business Plan report to Cabinet. Further changes relating to the treatment of capital charges and the Government's recent proposals regarding rent reductions, earnings caps and extension of the RTB scheme to Housing Associations has been assessed and incorporated into the HRA Business Plan and budgets.

e) 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 during 2016/17.

f) The budget assumes that the general level of reserves at 31 March 2016 will be £3,803,000 excluding any budget carry-forward request from 2015/16 as forecast through the budget monitoring process.

g) The Council's medium- term General Fund Revenue Budget gap forecast shows that, in order to achieve a balanced budget, additional savings of £3.0million will need to be made over the period 2017/18 to 2020/21. In the absence of any additional external resources being made available the Council will face further significant financial pressure beyond 2016/17 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 2016/17 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 exceeds 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 2016/17 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.