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 £1.2million are factored into the 2017/18 budget. The Council continues to hold an 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 joint venture with Kier Harlow Limited and with Veolia. These are referred to below. There will be exposure to performance and financial related risks during 2017/18 as the newly formed LATC model is implemented for the delivery of its Housing Repairs and Environmental Services operations. Risks have been identified during the transition project and mitigated as far as possible. Whilst the new company is projected to generate dividend payments for the Council as sole shareholder these are not factored in to the 2017/18 base budget at this time due to the need to evaluate the impact of start-up costs being written off against year one profits during 2017/18. Increases in dividends receivable are reflected in years two and three of the MTFS. 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. The benefits of the contract extension have been included in the Councils budget and any future pressures arising from the retendering of the contract will be included once tender prices are known.

Factor	Response
	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 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 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 anticipated before the end of the 2016/17 financial year. Both advances have or 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. An option agreement to purchase an industrial site from the existing freeholder will not be exercised by the owners as a result of an agreement to sell the site to a third party. 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	The Council's MTFS continues to stress the importance of using general reserves only for one-off items of expenditure, i.e.

Factor	Response
contingencies and the adequacy of provisions.	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 2017/18 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 2017/18.
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 with no ongoing reliance within the budget of reserves.
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 2016/17 quarterly General Fund revenue budget monitoring report, presented to Cabinet on 8 December for forecasts overall under spending of £590,000 representing a -0.95% variation against the overall gross expenditure. The corresponding figure for 2015/16 was -

Factor	Response
	0.55% and for both 2014/15 and 2013/14 it was -0.52% and -0.20% respectively. Such figures demonstrate an excellent track record to managing in-year budgets, especially in light of the unprecedented government austerity 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 2015/16 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.
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 and that where possible services have looked to deliver against 2017/18 savings proposals in the current year to ensure that they are deliverable.
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

Factor	Response
	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 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 2020/21the 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 difficult to predict and 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 2017/18 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 to the delivery of Housing/non housing repairs and Environmental works from the JVCo to HTS (P&E) Ltd is likely to cause some volatility as the transition of such a significant contract takes place from one provider to another. The associated wind up of the JVCo entity will also be closely monitored and managed so as to minimise any financial impacts of the financial issues for the Council as a shareholder.

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 has been further increased to £4.2 million as recommended within the HRA Business Plan report to Cabinet in January 2016. 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 as far as is possible at the current time 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.

f) The budget assumes that the general level of reserves at 31 March 2017 will be £4,300,000 excluding any budget carry-forward request from 2016/17 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 £660,000 will need to be made over the period 2018/19 to 2020/21. In the absence of any additional external resources being made available it is likely that the Council will face further financial pressure beyond 2017/18 as a result of future Government proposals and policy/funding changes.

Conclusion: Although the Council has undertaken steps through the 2017/18 budget-setting process to reduce its exposure to a number of significant risks, it still faces risks that could potentially adversely affect it. 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 2017/18 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.