

BRIEFING NOTE

TO: Budget and Resources Scrutiny Committee

Current Position of Council Reserves

Author: Extract from the Draft 2019/20 Budget Report to Cabinet on 4 December 2018

Dated: 27 November 2018

Please note that this is an extract from the much larger report on the whole of the 2019/20 budget presented to Cabinet on 4 December, therefore the numbering of the tables and the annexes has been left as they appear in the original report.

1. Background

- 1.1 Section 25 (1) of the Local Government Act 2003 requires that ‘the Chief Finance Officer of the authority must report to it on the following matters:
 - i. the robustness of the estimates made for the purposes of the calculations, and
 - ii. the adequacy of the proposed financial reserves.’
- 1.2 Section 25 (2) requires that an authority shall have regard to the report when making decisions about the calculations in connection with which it is made (i.e. setting its budget). This element of the draft Budget report and associated annexes outlines the assessment of the adequacy of reserves and robustness of the draft Budget.

2. Current Position

- 2.1 In preparing the Budget for 2019/20, where a clear financial impact has been identified, this has been dealt with through the actions set out in the report presented to Cabinet on 4 December 2018. Where the impact is not known, this has been highlighted as a risk.
- 2.2 The draft Budget adequately reflects known issues including the best forecast position at this point in time. The demand pressures and other issues will continue to be reviewed before the Budget is finalised in February and reviewed if necessary.
- 2.3 A Budget Risk Register is included in **Annex E**, which sets out the potential risks and issues and an assessment of the adequacy of the Council’s level of reserves is set out in **Annex F**.
- 2.4 At the time of preparing the draft budget there were a number of significant uncertainties which potentially could revise the current view on the adequacy of GF reserves. A view on these will be taken as part of the final budget proposals in February 2019:
- 2.5 There remains significant uncertainty over the impact of Brexit on the UK economy and how this might translate locally. Whilst an assessment has been

made and is reflected in the view on the level of GF reserves this view may change depending on events leading up until the finalisation of the budget in February 2019.

- 2.6 The projections for reductions in the demand for temporary accommodation are based on investment in a range of measures including prevention and alternative lower cost accommodation. These reductions are based on recent trends in the first half of 2018/19. This will be reviewed again ahead of the final budget being set to ensure that these remain on track.
- 2.7 Business Rates, at present the earmarked reserve to militate against Business Rate fluctuations is £3m. Over the last five years the Business Rate Retention scheme has seen considerable fluctuations of between £6m benefit to £5m loss. This area therefore remains a risk and to ensure the Council is well placed to manage this risk the surplus from the projected Collection Fund Adjustment Account will be transferred to this reserve (para 3.32). The level of appeals settled and now actively under Check, Challenge, Appeal will be reviewed prior to February Cabinet to ensure that both sufficient reserves and that adequate provision are in place for 2019/20.
- 2.8 Recycling contamination - The contract to operate the MRF includes a 10% threshold for contamination of Authority Materials, above which the Authority will pay any charges where sampling has been undertaken with the quality assessment protocols. Contamination levels in Milton Keynes are higher than the threshold, and negotiations are currently being undertaken with the contractor to agree the basis of future charges to compensate for resulting loss in recycle value and higher operating costs. The impact of this negotiation will be reviewed prior to February Cabinet.

Table 16: Section 151 Officer's Assessment on the Adequacy of Reserves

Reserve	Balance at 31/3/2018	Forecast Balance at 31/3/2019
GF Working Balance	(19.680)	(20.479)
Specific Risk Reserves*	(16.739)	(17.856)
Total Reserves Available to meet known and unknown budget risks	(36.419)	(38.335)
% Net Revenue Budget**	19.1	20.0

**See annex F which sets out details of these reserves held to manage specific known budgetary risks.*

*** This excludes schools budgets (DSG) and the HRA for which a separate reserve is held. It should however be noted that the Council continues to underwrite certain financial risks around schools funding, a provision for which is included within the risk assessment.*

3. What Next / Future Developments

In the medium term, the financial strategy to achieve financial sustainability requires the Council to develop more innovative solutions and to consider its risk appetite to create greater financial benefits. The reducing size and increasing complexity to deliver these benefits also means there will be less ability to manage risk in year. The likelihood is the General Fund Balance will need to increase over the medium term aligned to the changes in target operating model and reflecting the difficulty of delivery further budget reductions and income.

4. Conclusions

- 4.1 The General Fund Balance of £18.1m is estimated to be adequate to meet the Council's financial needs in 2019/20.
- 4.2 This view takes account of the reserves included in the Council's latest audited Accounts as at 31 March 2018; the movement of these reserves since that date (as tracked through the Budget Monitoring process); and the proposed use of reserves as part of the draft Budget 2019/20.

Annexes:

Annex E - Risk Assessment of General Balance 2019/20 - as at December 2018

Annex F - Reserves