

LONDON BOROUGH OF HARROW

BUDGET REVIEW 2004-2005

GENERAL FUND BALANCES - PRUDENT LEVEL OF RESERVES

In December 2003 the Council approved the level of general reserves that we should hold at a minimum of £4m with an optimum level of £7m.

This report reviews the information provided last year, and considers whether any change needs to be made to the minimum and the optimum level of general fund reserves. The report does not cover reserves held by schools, nor does it consider earmarked reserves.

The recommendations of the Executive Director Business Connections as the Council's Section 151 Officer under his statutory responsibility under the Local Government Act 2003 is that

- a) Retain a minimum prudent level general fund reserves (excluding schools) of £4m at the end of any financial year.
- b) To agree an optimal level of general fund reserves of £7m for the period of the Medium Term Budget Strategy for the period 2004-5 to 2006-7.
- c) To maintain the optimal level for the period of the Medium Term Budget Strategy for the period 2004-5 to 2006-7
- d) To review the level of general fund reserves annually

It is the responsibility of each authority to set its level of reserves based on local conditions, but taking into account national factors. Although advice can be sought from the external auditors it is not their responsibility to prescribe minimum or optimum level.

In setting the level the authority should take into consideration the advice of their chief financial officer, taking into account all local relevant circumstances. A well managed authority, with a prudent approach to

budgeting should be able to operate with a relatively low level of reserves.

The Audit Commission's Corporate Performance Assessment (CPA) takes account in assessing an authority's financial standing, the level of financial reserves. They also expect a good authority to review their reserves on an annual basis.

As at the 31st March 2003 the level of General Fund Reserves was £5.2m, within the range approved by Council.

In arriving at the levels set out in the recommendations (minimum £4m, optimal £7m) the following factors have been taken into account:-

Inflation and interest rates	Assumption has to be made of the general level of inflation, pay awards and interest rates. The teachers pay award is known and general inflation is relatively low and stable enabling reasonable assumptions to be made.
Service pressures	The Council approves an annual budget and MTBS, however reserves have to be held for unavoidable financial implications such as changes in legislation.
Cash flow management	The budget assumes that growth, savings and income generation will occur during the year. Dependant upon the timing reserves may be required to avoid major fluctuations in cash flow.
Risk management	The level of reserves is dependant upon effective risk management. The more effective the management the lower the level of reserves needed.
Financial management	Strengthening of the MTBS, to take account of inherent pressures and risks, general monitoring and financial management and action to tackle potential problem areas are all considered
External factors	Emergency planning provisions,

	disaster recovery action and robust business planning are factors to be taken into account
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My judgement is that the level of reserves should be under normal circumstances between 2% and 3% of net revenue expenditure. Using a base budget for 2004-5 of £242m, this would give general reserves within the range of £4.8m and £7.3m.

As indicated above it is possible to set a lower level of reserves dependant upon our financial management in overall terms. Given the work done on the specific areas in the table and the fact that a major element, the teachers pay award is known, with a low level of inflation it is my view that general reserves can be set at a lower level at this stage.

Consequently the minimum level should be retained at £4m and the optimum level at £7m.

The level of reserves will be monitored throughout the year taking into account any changes in circumstances and a report submitted annual of the proposed levels.