

Reserves Policy

The recommended reserves policy is as follows:

The risk assessment of the budget dictates the minimum level of general balances required.

One of the calls on any underspend at the end of the year will be a contribution to general balances. The value of the contribution will be determined with regard to the size of the underspend, the underlying strength of the balance sheet, the need to support the transformation programme, and other priorities.

The rationale for this policy is set out below.

Councils need balances so that they can deal with unforeseen calls on resources without disrupting service delivery. 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 auditor, it is not their responsibility to prescribe the appropriate level.

It is good practice for a risk assessment to be carried out to determine the level of reserves and the External Auditor expects the Council to review its reserves on an annual basis.

The risk assessment above shows that the total risk identified has been quantified at £5.6m for 2012-13 before contingency is allowed for. However, the appropriate level of reserves for a council to hold is extremely subjective. It is important to find a balance between being at risk of wiping out all reserves in a single bad year and having excessive reserves and thereby wasting taxpayer's money.

The Council should at least be able to cope with a modest overspend in any one year and still be in a stable financial position.

The target level of reserves depends on:

- The degree of risk contained in the budget
- The effectiveness of budget monitoring during the year
- The effectiveness of balance sheet management during the year
- The extent to which the Council has earmarked reserves and provisions to deal with specific items

The Council is continually working to improve financial management and the emphasis in 2012-13 will be on the accuracy of capital budget management and forecasting. In addition more emphasis will be placed on delivery of in-year savings and the delivery of new savings proposals.

The Council has built up more appropriate annual contributions to provisions for debt, litigation and insurance in the last few years, and strengthened its balance sheet, but still has few earmarked reserves.

There is greater risk arising from the continuing recession and the ongoing

requirement for large savings targets over a prolonged period.

Taking all this together, the target level for reserves should be £6m-£8m. This is an increase on the previously recommended range.

As at 31 March 2011 the level of General Fund Reserves was £7m, which is within the recommended minimum level.

A decision will be made at year end on the best use of any available capacity.

Virement Rules

1. Under the Constitution the Council is required to specify the extent of virement within the approved budget which may be undertaken by the Cabinet. Any other changes to the budget are reserved to the Council, other than any changes necessary to ensure compliance with the law, ministerial direction or government guidance.
2. Virement for these purposes is taken to include not only the transfer of budget provision between budget heads (including reserves or contingency provisions if such exist) but also the transfer of funds from general balances by way of a supplementary estimate. Virement rules apply equally to expenditure financed by increased income including grants.
3. A temporary virement relates solely to the current year – the changes are only made in the current year and the budget reverts back to its original state in the following financial year. A permanent virement is a permanent change to the budget.

Virements requiring Council approval

3. The approval of Council is required for any virement which:
 - Is a permanent virement, which creates an ongoing financial commitment over and above the approved budget, and/or involves a major change in policy as described by the Budget and Policy Framework
 - Involves the transfer of funds between revenue and capital budgets;
 - Is a temporary virement that is greater than £500,000 and represents a major change in policy as described by the Budget and Policy Framework.
4. These provisions are subject to annual review as part of the budget setting process.

Virements for which the Cabinet is responsible

5. The approval of the Cabinet is required for any temporary virement greater than £100,000.
6. The Cabinet may only approve temporary virements which are greater than £500,000 if they have been demonstrated not to represent a major change in policy as described.
7. The Cabinet may only approve permanent virements that have been demonstrated not to create an ongoing financial commitment over and above the approved budget or imply a major change in policy.
8. The Cabinet delegates approval of temporary virements below £100,000.

Virements delegated by the Cabinet to officers

9. For temporary virements less than or equal to £100,000 and greater than £50,000, the relevant Corporate Director and the Director of Finance (or

his/her nominated officer) may effect virements, subject to consultation with the relevant Portfolio Holder in each case.

10. Temporary virements less than or equal to £50,000 may be approved by the relevant Divisional Director and reported to their Corporate Director as part of monthly monitoring process. Virements above the specified limits or about which the relevant Portfolio Holder has concerns, must be referred to the Cabinet for approval.
11. Budgets may only be transferred between revenue or between capital budget heads provided that they:
 - do not involve new policy or policy change;
 - do not involve an increasing commitment in current or future years that cannot be contained within existing approved budget allocations; and
 - do not conflict with any prior decision made or policy or plan or strategy adopted by the Cabinet.

Recognition of virements

12. As part of monthly monitoring procedures directorates should be forecasting the full year outturn position. Where action plans to address potential overspends do not reduce the forecast overspend, temporary virements should be made from underspendings elsewhere to reflect the forecast overspend that is not covered by measures in the action plan. Action plans that address overspends of £100,000 or more must be approved by the Cabinet.
13. If directorates do not effect virements in accordance with the virement rules the Corporate Director of Resources has the power to require virements to be effected.
14. When virements are reported they will be assumed to be temporary virements unless it is specifically stated that they are permanent virements.
15. Where a virement is moving funds from one directorate to another, both Corporate Directors must approve the transfer.
16. Where a new capital scheme is to be added to the capital programme or an existing capital scheme is to be deleted from the capital programme Cabinet approval must be sought.

Cumulative virements

17. Where successive virements to or from the same budget head result in the cumulative virement reaching the above thresholds, approval should be sought as set out above.

Carry Forward Policy

18. In general a revenue or capital budget is available for the year in question and unspent balances will not be carried forward. However, the Cabinet may agree to carry forward an unspent balance from one year to the next dependent upon the merits of the case put forward. Unspent balances will only be considered for carry forward where:

- the Council's revenue/capital budget is not overspent in total;
- reserves and balances are at an appropriate level; and
- the item is fully funded from grant and the grant will be lost if the item is not carried forward.

19. All other commitments will have to be accommodated within the new year budget

Report of the Chief Finance Officer

Under the Local Government Act 2003 the Corporate Director of Finance (in her capacity as the Chief Finance Officer under S151 of the Local Government Act 1972) is required to comment on the robustness of the budget and the adequacy of reserves. Her report is set out below.

Robustness of the Budget

Clearly the economic climate and the Local Government Settlement make this budget round particularly challenging and there is considerable uncertainty about public sector pay, inflation, interest rates, the property market, and employment levels. All these issues affect the Council's own finances and every effort has been made to ensure that the technical assumptions underpinning the budget are robust. The economic climate also has major implications for Harrow's residents and businesses and may therefore create additional demand on services.

In my view the budget is robust.

I have taken a number of factors into account in arriving at my opinion:

- Reasonable assumptions have been made in relation to inflation
- Service managers have made reasonable assumptions about demand led pressures and taken a prudent view of volatile areas
- Savings proposals have been explored in some detail and Directorates have confirmed that they are achievable
- The grant settlement for 2012-13 has been published (with a few grants still to be announced)
- Prudent assumptions have been made about capital financing costs and investment income
- The recommended increases in fees and charges are in line with the assumptions in the budget
- A risk assessment has been conducted
- The budget for 2012-3 includes a contingency of £1m to help manage risk

A sensitivity analysis for the key assumptions is attached.

Adequacy of Reserves

The Council has suitable provisions and some earmarked reserves to deal with particular issues such as insurance claims, bad debts, litigation and employment matters.

General balances are adequate.

Budget Monitoring

The Local Government Act 2003 also introduced requirements in relation to budget monitoring and management action. Budget monitoring arrangements are in place in Harrow. These arrangements are continually being developed, and the risk areas identified in the assessment will be kept under review. The financial position can change relatively quickly and any adverse variations must be identified and addressed promptly by service managers to avoid further calls on reserves.

2012-13 Budget Sensitivities

Budget area	Assumption in 2012-13 budget	Change	Impact
Pay	Increase of 0%	+ 0.5%	+ £475k
General Prices Inflation	Increase of 2%	+/- 0.5%	+/- £453k
Utilities Inflation	Increase in line with general inflation at 2% with a specific addition of £493k	+/- 1%	+/- £17k
Investment Income	Base rate is 0.5% for the year	+/- 0.5%	+/- £220k
Council Tax collection rate	Collection rate of 98.5%	+/- 0.25%	+/- £260k

Note that a variation in the collection rate would be managed within the collection fund in-year and have an impact on the revenue budget the following year

Model Council Tax Resolution

Harrow Council

Council Tax Resolution 2012-2013

Cabinet to approve as part of the Summons for Council, the model budget and Council Tax resolutions reflecting the recommendations of Cabinet and the GLA precept.

Council is requested to determine the level of the Council Tax for 2012-2013 in the light of the information on the precept and make the calculations set out in the resolution shown below.

- (1) To note that at its meeting on 15 December 2011 the Council calculated the amount of 88,140 as its Council Tax Base for the year 2012-2013 in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992 made under Section 33 (5) of the Local Government Finance Act 1992.
- (2) That the following amounts be now calculated by the Council for the year 2012-2013, in accordance with Sections 32 to 36 of the Local Government Finance Act 1992:
- (i) Being the aggregate of the amounts which the Council estimates for the items set out in Section 32 (2) (a) to (e) of the Act. (**Gross expenditure**) £582,789,314
 - (ii) Being the aggregate of the amounts which the Council estimates for the items set out in Section 32 (3)(a) to (c) of the Act. (**Gross income including use of reserves**) £409,676,096
 - (iii) Being the amount by which the aggregate at (i) above exceeds the aggregate at (ii) above, calculated by the Council, in accordance with Section 32(4) of the Act, **as its budget requirement for the year.** £173,113,218
 - (iv) Being the aggregate of the sums which the Council estimates will be payable for the year into its General Fund in respect of redistributed non-domestic rates, revenue support grant, increased by the amount of the sums which the Council estimates will be transferred in the year from its Collection Fund its Collection Fund in accordance with Section 97(4) of the Local Government Finance Act 1988 (Collection Fund Surplus) £68,530,701

(v) Being **the amount to be raised from Council Taxes**

Calculated as the amount at 2 (iii) above less the amount at 2 (iv.) above.

£104,582,517

(vi) Being the amount at (v) divided by the Council Tax Base, calculated by the Council at its meeting on 15 December 2011 in accordance with Section 33 (1) of the Act, as the basic amount of its Council tax for the year. **(The average Band D Council Tax)**

£1,186.55

(vii) Valuation Bands

	A	B	C	D	E	F	G	H
£	791.03	922.87	1,054.71	1,186.55	1,450.23	1,713.90	1,977.58	2,373.10

Being the amounts given by multiplying the amount at (vi.) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

(3) That it be noted that for 2012-2013 the Greater London Authority stated the following amount in precept issued to the Council, in accordance with section 40 of the Local Government Finance Act 1992, for each of the categories of dwellings shown below

Valuation Bands

	A	B	C	D	E	F	G	H
£	206.55	240.97	275.40	309.82	378.67	447.52	516.37	619.64

(4) That, having calculated the aggregate in each case of the amounts at (2)(vii) and (3) above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of Council Tax for the year 2012-2013 for each of the categories of dwellings shown below

Valuation Bands

	A	B	C	D	E	F	G	H
£	997.58	1,163.84	1,330.11	1,496.37	1,828.90	2,161.42	2,493.95	2,992.74

HARROW COUNCIL
REVENUE BUDGET SUMMARY 2012-2013

	2011-2012 Original Budget £000	2012-2013 Original Budget £000
Local Demand - Borough Services		
Adults and Housing	67,508	66,431
Children's Services	40,852	39,475
Community and Environment	43,986	48,674
Place Shaping	4,382	3,547
Legal and Governance	3,566	3,379
Assistant Chief Executive	12,275	3,854
Corporate Finance	7,834	18,634
Transformation Programme	-389	-519
Total Directorate Budgets	180,014	183,475
Corporate items	2,213	148
Provisions for debt/litigation	325	425
Capital Financing adjustments	-4,463	-8,327
Council Tax Support Grant	-2,580	-2,608
Total Net Expenditure	175,509	173,113
Collection Fund Surplus b/f	-1,978	-1,335
Formula Grant	-70,126	-67,196
Local Demand on Collection Fund	103,405	104,582
Funds / Balances		
Balances Brought Forward	7,000	7,000
Adjustment to Balances	0	0
Balances Carried Forward	7,000	7,000
Council Tax for Band D Equivalent		
Harrow (£)	1,186.55	1,186.55
<u>Increase</u> Harrow (%)	0.00%	0.00%
Taxbase	87,148	88,140

Forecast reserves and provisions

Earmarked Reserves	Estimated Reserves at start of year 1 April 2012	Planned Contributions included in MTFS	Estimated Use of reserves in-year	Estimated Reserves at year end 31 March 2013
	£m	£m	£m	£m
Insurance Reserve	500	-	500	-
Employee and Litigation related	555	-	555	-
Transformation & Priority Initiatives Fund	250	-	250	-

Note:

- Employee and Litigation reserve will be transferred to the provision in-year if required – shown below **
- Insurance reserve will be transferred to insurance provision in-year if required – shown below *.

Provisions	Estimated position at 1 April 2012	Planned Contributions included in MTFS	Estimated Use of reserves in-year	Forecast Balances at year end 31 March 2013
	£000	£000	£000	£000
Insurance provision	5,300	1,180 (base) 350 (MTFS) 500*	1,500	5,830
Employee & Litigation Provision	2,119***	100 (MTFS) 555 **	2,100	674
Sundry Bad Debt Provision	845	-	100	745

- *** Assumes £1.4m underspend in 2011-12 to bolster redundancy provision

Stakeholder Meetings

A series of meetings with key stakeholders to share information took place in January. They are listed below:

Stakeholder	Meeting	Date
Partner organisations	Harrow Chief Executives	16 January 2012
Local Businesses	Harrow Business Consultative Forum	23 January 2012
Unions	Employees Consultative Forum	24 January 2012
Schools	Education Consultative Forum	25 January 2012
Tenants and Leaseholders	Tenants' Leaseholders' and Residents' Consultative Forum	30 January 2012
Overview and Scrutiny	Special meeting of O&S to review the budget	31 January 2012