

Policy on Balances and Reserves

1.0 Background:

- 1.1 Section 25 of the Local Government Act 2003 requires the Council's S151 Officer (Chief Financial Officer – Director of Finance and Commercial) to report to Members on the robustness of the estimates and the adequacy of the reserves for which the budget provides.
- 1.2 The purpose of this Annex is to:-
- support the statement required to conform to Section 25
 - confirm the use of the Council's balances and reserves, and
 - re-affirm the Council's policy on the level of balances and reserves
- 1.3 The Council currently maintains a number of balances and reserves, each of which has a purpose approved by Members. Each of the balances and reserves will be considered in turn later in this Annex.
- 1.4 The Chartered Institute of Public Finance and Accountancy (CIPFA) considers that a case for introducing a statutory minimum level of reserves, even in exceptional circumstances has not been made. The Institute believes that Local Authorities, on the advice of their Finance Directors, should make their own judgements on such matters taking into account all the relevant local circumstances. Such circumstances vary and there is a broad range within which authorities might reasonably operate depending on their particular circumstances.
- 1.5 There is no definitive guidance as to the minimum level of balances or reserves, either as an absolute amount or as a proportion of expenditure, since each Local Authority is independent, operates in a unique local environment and the decision is one of a number of inter-related decisions taken as part of its Financial Strategy. Section 32 of the Local Government Act 1992 requires billing authorities (such as Hambleton) to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. Budgets are based upon forecasts of pay and price inflation, changes in interest rates, and the demand for and levels of service to be provided. The purpose of balances and reserves is to provide for unexpected changes from these forecasts and to provide for the financing of some expenditure. Consequently, the provision of an appropriate level of balances and reserves is a fundamental part of prudent financial management over the medium term.

2.0 Balances and Reserves:

2.1 Each of the Council's balances and reserves is considered below.

2.2 General Fund Working Balance

2.2.1 Setting the level of this general reserve is just one of several related decisions in the formulation of the medium-term financial strategy and the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements. In addition to the cash flow requirements of the authority the following factors should be considered:-

Budget Assumptions

- treatment of inflation
- interest rates
- treatment of demand led pressures (e.g. take-up of housing benefits)
- levels of income
- financial risks inherent in significant funding partnerships
- the availability of other funds to deal with emergencies
- estimates of the level of and timing and capital receipts, S106 monies and general cashflows

Financial Standing and Management

- the overall financial standing of the authority
- the authority's track record in budget and financial management
- the capacity to manage in-year budget pressures
- the strength of financial information and reporting arrangements
- the authority's financial procedure rules and budgetary flexibility
- the adequacy of insurance arrangements to cover major unforeseen risks

Adequacy of inflation

- 2.2.2 Budgetary provision is made for inflation in respect of pay, prices and contract expenditure. The 2021/22 budget contains a sum of £132,890 for such inflation. An adverse variance of 1% in the assumptions made to these forms of expenditure could result in additional expenditure of £182,190.

Adequacy of interest rate assumptions

- 2.2.3 Interest rate assumptions are reported in the Treasury Management Strategy Statement. Interest rate assumptions are made for both borrowing and investments. There are two types of investment, one is where the Council borrows for its capital programme, this is described as a non-treasury investments - due to the expenditure being either for commercial activity or for valid service delivery - and therefore they do not always give priority to security and liquidity over yield. However, 'treasury investments' do and this is the second type where Council's surplus funds are available for investment. This is detailed in the guidance provided in the CIPFA Prudential Code and the Statutory Investment guidance. In addition, there is also a requirement to ensure borrowing is not in advance of need or that the borrowing is not taken for a period of time greater than 50 years; these decisions will be reported to Members at the earliest opportunity.
- 2.2.4 The Council intends to use its surplus funds to support the capital programme, where Government is in support of this. Government announced in November 2020 in the Chancellors Autumn Statement their response to the Public Works Loan Board(PWLB): future lending terms consultation. This stated that following close work with local authorities and sector representatives to develop these reforms, the government is now able to lower the interest rate of PWLB lending by 100bps for all new Standard Rate and Certainty Rate loans arranged from 9am on 26 November 2020; this is as long as there is no intention from the local authority to buy investment assets primarily for yield at any point in the next three years. This supports the decision that Council made in September 2020 to suspend the Commercial Investment strategy where no commercial activity will occur in

2021/22.

2.2.5 The average borrowing rate for 2021/22 is now stated at 1.6% with further detail contained in the Treasury Management Strategy Statement. The Council's surplus funds have reduced due to their use in the support for the capital programme in previous years and therefore income generated will be lower. The surplus funds invested are sensitive to changes in interest rates especially given the short-term nature (less than 1 year) of most of the investment activity and the need to retain some cash liquidity for day to day purposes. The interest rate market environment remains at a very low level with Bank Rate at 0.10% due to the uncertainty of leaving the European Union and the impact of the COVID-19 pandemic. The 2021/22 budget assumes an average of 0.75% over the year with opportunities to invest core cash for longer terms and use some short term borrowing for cash purposes if required.

Treatment of demand led pressures

2.2.6 Demand volatility can affect both expenditure (e.g. take up of Housing Benefits) and income (eg number of planning applications). Housing Benefit is a significant item of expenditure estimated at £12.44m in 2021/22. The Localised Council Tax Support Scheme presents a particular risk to the Council's reserves position, increases in Council Tax support claimants in year will be funded by the Council, subsidy at a reduced rate will not be received until the following year. If payments increase by 1% the cash flow implications would be in the order of £124,400.

Levels of income

2.2.7 The major income budgets in relation to fees & charges in 2021/22 are those relating to:-

	£
Leisure Services	3,239,440
Development Control	1,058,710
Parking Charges	972,300
Markets	181,000
Licensing	178,320
Land Charges	85,000
Environmental Services	145,760
Planning Services	81,500
Waste Collection	161,000
Recycling	900,000

Total income from fees and charges is budgeted to be £7,003,030 in 2021/22. The economy is clearly volatile at the moment due to the uncertainty about leaving the European Union but more importantly in connection with the COVID-19 pandemic. A moderate fall in demand of say 3% would lead to a reduction in income of about £202,427, however due to the pandemic and the loss of income from some fees & charges (– mainly Leisure Services and Parking Charges - and when the uncertainty of when these services will operate at levels pre March 2020 when the pandemic hit) £1,500,000 has been set aside in the financial strategy from the one-off fund reserve to cover all eventualities.

External Partnerships

- 2.2.8 Members are aware that the Council acts as the 'Accountable Body' for a number of partnerships. With the potential for these to grow in number the financial exposure increases, however it is felt that a contingency to deal with this is not required as there are sufficient funds in reserves.

Responding to emergencies

- 2.2.9 Examples of emergencies in the past include flooding. As a Local Authority the Council can in certain cases gain financial protection from the Government's Bellwin Scheme, which was used most recently by the Council in the December 2015 floods; no funding was required for the 2019 floods. However, the Bellwin Schemes only reimburses 85% of eligible expenditure above a specified threshold. If further resources were required, it is felt that there are sufficient funds in reserves to cover these requirements. Therefore, in the 2021/22 Financial Strategy £1,500,000 has been set aside in the one-off fund reserve to cover all eventualities.

Capital financing and general cashflows

- 2.2.10 The Council maintains a Capital Programme which is supported by external funding, on-going capital receipts, reserves and external borrowing. The timing of such receipts rarely matches the expenditure profile, often lagging by months.
- 2.2.11 Similarly the timing of the Council's income, principally from Council Tax and Business Rate income, does not always match the Council's outgoings (mainly salaries, capital and precept payments). This is particularly the case in February and March when income from Council Tax and Business Rates reduces significantly as the normal instalments cease.
- 2.2.12 Consequently, it is necessary to maintain an accurate cash flow forecast to invest surplus funds or take short borrowing to maximise the treasury management position of the Council. Long term borrowing will occur if the need arises in accordance with the capital programme.
- 2.2.13 In order to support the Council's revenue budget and ensure funds are available it would appear that a General Fund Working Balance of around £2,000,000 is required. A level of £2,000,000 equates to approximately 4.2% of the Council's gross annual budget requirement. This combined with the Council's internal financial controls should ensure the authority recognises financial 'issues' early and has the capacity to respond accordingly. ***It is recommended that the Council maintain a sum of £2,000,000 as its General Fund Working Balance.***

2.3 Council Taxpayers Reserve

- 2.3.1 The purpose of this reserve is currently "To support revenue spending on community projects and on enhancing service delivery". ***It is recommended that the purpose of the Council Taxpayers Reserve is maintained.***
- 2.3.2 The level of the reserve is considered as part of every review of the Financial Strategy, and needs to be sufficient to fulfil its purpose over the life of the Strategy. Clearly over time the level of the reserve will diminish. However, in order for the Council Taxpayer to receive the maximum benefit from the reserve, this should be

in a structured and considered way in accordance with expectations of the level of Council Tax assumed in the Financial Strategy.

2.4 Repairs and Renewals Fund

2.4.1 The purpose of this reserve is “To provide revenue and capital support to assist funding of the repairs and renewals”. ***It is recommended that the purpose of the Repairs and Renewals Fund is maintained.***

2.4.2 The reserve was established from what was the Capital Fund with monies added to it from the Council Tax Payers Reserve. ***The reserve will be maintained for the duration of the Financial Strategy.***

2.5 Computer Fund

2.5.1 The purpose of this reserve is "To provide revenue and capital support to assist funding of computer related purchases". ***It is recommended that the purpose of the Computer Fund is maintained.***

2.5.2 The reserve was established from monies transferred from the Council Tax Payers Reserve. ***It is recommended that the reserve will be maintained for the duration of the Financial Strategy.***

2.6 Community Safety Partnership Reserve

2.6.1 The purpose of this reserve is currently “To receive surpluses and deficits from the Community Safety Partnership Accounts”. ***It is recommended that the purpose of the Community Safety Partnership Reserve is maintained.***

2.6.2 The reserve is kept as good accounting practice and is not expected to have a significant balance in it.

2.7 One Off Fund

2.7.1 The purpose of this reserve is “To improve or sustain service delivery”. ***It is recommended that the purpose of the One-Off Fund is maintained.***

2.7.2 This reserve is maintained to provide funding for service improvements or unexpected events. Therefore, in 2021/22 £1,500,000 has been set aside for the potential continued loss of income in leisure services and parking charges due to the ongoing implications of the COVID-19 pandemic. It is recommended therefore that the minimum balance on this Reserve be kept at £200,000. This is considered adequate and is sustainable within the current Financial Strategy.

2.8 Grants Fund

2.8.1 The purpose of this reserve is currently “To fund revenue grants to organisations on an annual basis”. ***It is recommended that the purpose of the Grants Fund is maintained.***

2.8.2 The level of the fund was initially established to provide for three years financing and will therefore have a reducing balance over the period. It is expected that the

fund will reduce to zero at the end of 2021/22 and therefore further funds have been allocated to the Grant Fund for a further year 2022/23 to support organisation in the community.

2.9 Economic Development Fund

2.9.1 The purpose of this reserve is “To fund initiatives that support and encourage economic growth and stability in Hambleton”. ***It is recommended that the purpose of the Economic Development Fund is maintained.***

2.9.2 This fund was established in 2014/15 with a balance of £5,000,000. It was anticipated that this funding will last for 5 years however due to the development of schemes which benefits the community and additional funding to be received in future years, the reserve is projected to continue to 2025/26. According to 10-Year Capital Programme the last spend is in 2025/26

2.10 Make a Difference Fund

2.10.1 The purpose of this reserve is to invest in worthy local community projects which help improve life in neighbourhoods and support the work of the voluntary sector. ***It is recommended that the purpose of the Make a Difference Fund is maintained.***

2.11 Local Plan Reserve

2.11.1 The purpose of this reserve is “To assist in the funding of a continuous programme of Local Plan preparation and review”. ***It is recommended that the purpose of the Local Plan Reserve is maintained.***

2.12 Community Housing Fund

2.12.1 The purpose of this reserve is “To use funding from the Department for Communities and Local Government to support community led housing initiatives in accordance with grant guidelines”. ***It is recommended that the purpose of the Community Housing Fund is maintained.***

2.13 Income Generating Reserve

2.13.1 The Purpose of this reserve is “To financially support projects in initial stages of development which will generate revenue income to contribute to the future funding of the Council”. ***It is recommended that the reserve will be maintained for the duration of the Financial Strategy.***

3.0 Level of Balances and Reserves:

3.1 The use of balances and reserves is a critical feature in the Council’s approach to financial management. They enable council tax to be maintained at low levels, support the capital programme and deliver service improvements.

3.2 It is considered important therefore that the level of balances is monitored to ensure that adequate levels are maintained to fulfil their purpose. To a large extent this is done through the Financial Strategy and also targets have been

established where each major reserve that is on-going has a year-end balance which is within a 6% tolerance of the balance reflected in the Council's Financial Strategy. The major reserves include the Council Tax Payers, Repairs and Renewal and Computer Fund which are on-going and support the four year financial strategy. Performance against the target will continue to be reported to Members as part of the year end procedures. It should be noted that the tolerance in previous years for major reserves has been 10%, due to the impact on COVID-19 the position is now 6% tolerance, which is an affordable and sustainable position for the Council's reserves.

3.3 Experience has shown, however, that due to the nature of receipts and payments into and out of the One Off Fund, it is not possible to accurately forecast the level of this reserve at the year end. A more appropriate target for this reserve would be to ensure that a minimum balance is retained.

3.4 ***It is recommended that the targets for Reserve balances are:***

- a) A minimum balance for the One Off Fund of £200,000; and***
- b) For all major on-going reserves - Council Tax Payers, Repairs and Renewals and Computer Fund - within a 6% tolerance on the year-end balance as reflected in the Financial Strategy.***