

# WIRRAL COUNCIL

## CABINET

29 NOVEMBER 2012

<b>SUBJECT</b>	<b>LEVEL OF GENERAL FUND BALANCES</b>
<b>WARD/S AFFECTED</b>	<b>ALL</b>
<b>REPORT OF</b>	<b>INTERIM DIRECTOR OF FINANCE</b>
<b>RESPONSIBLE PORTFOLIO HOLDER</b>	<b>COUNCILLOR PHIL DAVIES</b>
<b>KEY DECISION</b>	<b>YES</b>

### 1 EXECUTIVE SUMMARY

- 1.1 This report is to specify the level of General Fund balances the Council maintains. It also sets out the approach that has been used to determine this level and suggests an approach to replenishing the Council General Fund balances.

### 2 BACKGROUND

- 2.1 Sound financial management principles require that sufficient funds are retained by the Council to provide a stable financial base at all times. To retain this stable financial base, the Council needs to maintain General Fund balances that are sufficient to provide a financial reserve for unanticipated expenditure and/or expenditure that is of an unforeseen, emergency nature.
- 2.2 The report to Cabinet on the 2012/13 budget on 21 February 2012 set the General Fund balances at a minimum of 2% of the net revenue budget. The sum of £6 million represented, at the time, an acceptable level having regard to the financial position of and the pressures facing the Council. Recent financial difficulties have prompted a review of the level of balances held.
- 2.3 The report proposes a new level of General Fund balances. It sets out how this has been determined and reflects the risks faced by and financial circumstances of Wirral. The report recommends that General Fund balances held are at, or above, this level and proposes an approach to reaching the recommend level.

#### **FINANCIAL RESILIENCE: LEVEL OF GENERAL FUND BALANCES**

- 2.4 The Council has and is facing funding reductions at a time when the demand for our services due to population changes and the economy is increasing. The current projected revenue forecast for the year, at Month 6 (to end September 2012), shows a potential General Fund overspend of £13.2 million.

- 2.5 The Audit Commission in its Annual Governance Report stated that the Council does not have robust financial control and continues to face a number of financial challenges. The Council needs to have in place arrangements to ensure its' sustainable financial health and to have measures in place to mitigate against financial risks. One aspect of this is the maintenance of sufficient General Fund balances.
- 2.6 The level of balances that the Council holds was set when approving the budget 2012/13 at 2% of the net revenue budget. This resulted in target level of £6m. With increasing financial pressures faced by all Councils best practice with regard to this area now recommends a move away from the use of a flat percentage when determining the level of general fund balances. The level should be based on the Council's own specific circumstances. The Council's Auditor Grant Thornton in their report "Surviving the storm: how resilient are local authorities?" has identified best practice as follows:
- The Authority operates within a locally determined appropriate level of reserves and balances.
  - The general fund balance is maintained at or above the locally agreed minimum level.

### **LOCALLY DETERMINED LEVEL OF GENERAL FUND BALANCES**

- 2.7 In determining the appropriate level of General Fund balances the Council should take account of the strategic, operational and financial risks facing the Council. In planning the financial future and the level of reserves the Council needs to take into account the main risks and uncertainties.

The risks identified are grouped as follows:

- Legislative changes
- Inflation and Interest Rates
- Grants
- Volume and Demand Changes
- Budget Savings
- Insurance and Claims

Details of the calculation are set out in Appendix 1.

### **REPLENISHING GENERAL FUND BALANCES**

- 2.8 It is essential the Council maintains an adequate level of General Fund balances to mitigate against current and future risks such as shortfalls in income and unanticipated expenditure. The agreed level of General Fund balance was set at £6 million, as part of the March budget decision. The current predicted outturn at month 6 indicates a level of General Fund balances at 31 March of £7.8 million. However there are a number of areas which could result in adverse future pressures on the budget and the General Fund in the current financial year. This predicted level is £4.7 million less than that recommended by the locally determined approach.

## SUMMARY OF THE PROJECTED GENERAL FUND BALANCES

Details	£m	£m
Projected balance 31 March 2013 when setting the Budget 2012/13		8.8
Add : Increase following completion of 2011/12 accounts	+2.0	
Add : Council Tax re-imburement met in 2011/12 rather than budgeted 2012/13	+3.9	
		14.7
Less : Cabinet decisions since the 2012/13 Budget was agreed	-0.7	
Add : Cabinet decision September 6 to release Earmarked Reserve	+7.0	+6.3
Less : Potential overspends, at M6		-
		13.2
Projected balance 31 March 2013		7.8

- 2.9 To take the balances to the level of £12 million in 2012/13 and £21 million in 2013/14 would require additional funds of £4.2 million and a further £9 million. A total of £13.2 million. There are a number of approaches to increasing general fund balances to the level recommended by the locally determined approach. The Council could move to the level recommended over one to three years. This would be through a strategic approach and over a specific time horizon. It would involve the commitment to prioritise resources to replenish the balances. This approach takes time and means that the Council's finance resilience is not immediately secured.
- 2.10 An alternative approach is to move as quickly as possible to the recommended level. This would provide immediate cover against unforeseen funding requirement. It would provide financial resilience. This could be achieved through examining other funds the Councils holds with a view to releasing those not needed to general fund balances.
- 2.11 The Council currently holds £86 million in earmarked reserves. These are held for specific funding purposes. For each there is a reason for it being held, along with specific details of how and when the reserve can be used. Reported to Members, following a review, twice yearly, their relevance and adequacy has recently been examined.
- 2.12 The Council as part of the management action being taken to address the current projected overspend has undertaken a review of all such reserves. Each department has undertaken an assessment of reserve balances current needed to use these and identified amounts which could be released back to general fund balances. An amount of £12.5 million has been identified for possible release. Details of the individual reserves to be released and those to be retained are provided within appendix 2. In summary the composition of amounts released from departments is as follows:

Department	Amount For Release from Reserves
	£000
Children and Young People	456
Adult Social Services	6
Finance	7,240
Law, HR and Asset Management	459
Regeneration, Housing and Planning	2,553
Technical Services	1,262
Insurance Fund	529
<b>Total</b>	<b>12,505</b>

- 2.13 Of the £12.5 million of earmarked funds currently available £2 million has been identified to create a rolling fund for efficiencies. Cabinet at its meeting on the 8 November agreed to the terms of reference of the Efficiency Investment Fund. It also recommended that Cabinet on 28 November receive a report on the creation of a “rolling fund” in the context of the risk level balances and the release of “spare” funds from earmarked reserves.
- 2.14 The use of £2 million of available earmarked reserves to create the rolling efficiency Investment Fund will leave £10.5 million available to be transferred into general fund balances. It is therefore recommended that £10.5 million of earmarked reserves are release to general fund balances. This will increase the predicted level of balances to £18.3 million at the 31 March 2013. if maintained at this predicted level balances would be close to the required level of £21.1 million for 2013/14.

### **3 RELEVANT RISKS**

- 3.1 This report is about setting the level of General Fund balances and the release of Earmarked Reserves and Provisions having regards to a risk based assessment.

### **4 OTHER OPTIONS CONSIDERED**

- 4.1 The options for setting the level of general fund balances included the following:
- (i) Maintaining and continuing with the current approach to the level of General Fund balances. This is in line with the Audit Commission suggested approach that Local Authorities hold balances at a minimum of 2% of the net budget.
  - (ii) Establishing a level of General Fund balances based on the level of regular Council expenditure and income eg two months of regular expenditure and income.
- 4.2 Both these options were felt to be inappropriate as they do not assess the specific circumstances that the Council faces.

## **5 CONSULTATION**

5.1 No consultation has been carried out in relation to this report.

## **6 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

6.1 As yet there are no implications for voluntary, community or faith groups.

## **7 RESOURCE IMPLICATIONS: FINANCIAL, IT, STAFFING AND ASSETS**

7.1 The locally determined approach to General Fund Balances would result in an increase in balances. It is proposed that the increase is funded from the release of earmarked reserves.

7.2 A risk assessment has been made of the cost and demand pressures on budgets, insurance liabilities, the achievement of budget savings, and other financial uncertainties which supports the proposed level of balances of approximately £12.5 million for 2012/13. This assessment is set out in appendix 1.

## **8 LEGAL IMPLICATIONS**

8.1 There are none arising directly from this report.

## **9 EQUALITIES IMPLICATIONS**

9.1 This is essentially a monitoring report which reports on financial performance.

## **10 CARBON REDUCTION IMPLICATIONS**

10.1 There are no implications arising directly from this report.

## **11 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

11.1 There are no implications arising directly from this report.

## **12 RECOMMENDATIONS**

12.1 Cabinet is asked to agree:

- a) The level of General Fund balances recommended is based a locally determined approach to the assessment of the financial risks that the Council may face in the future.
- b) The Council maintains it level of balances at or above the locally determined level of General Fund balances.
- c) The transfer of £10.5 million of earmarked reserves to the General Fund balances.

- d) The transfer of £2 million of earmarked reserves to enable the creation of an Efficiency Investment Rolling Fund.

### 13 REASONS FOR THE RECOMMENDATIONS

13.1 The Council needs to have good financial resilience at a time of increasing financial pressures and in difficult economic times. The holding of sufficient funds is part of the move to improve resilience. The locally and risk based approach to the level of general fund balance is in line with the achievement of this approach.

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### APPENDICES

Appendix 1 Risk Based Assessment of General Fund Balances.  
Appendix 2 Earmarked Reserves to be Released.

### SUBJECT HISTORY

Council Meeting	Date