



Report to Council

Statement of the Chief Financial Officer on Reserves, Robustness of Estimates and Affordability and Prudence of Capital Investments

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Reason for Decision

To recommend that Council agrees the level of balances necessary to support the 2019/20 budget underpinned by the agreed policy on Earmarked Reserves, setting a properly balanced budget which includes the financing of capital investments within the present investment proposals.

Executive Summary

In order to comply with Section 25 of the Local Government Act 2003; the Authority's Chief Financial Officer (the Director of Finance) is required to report on the robustness of the estimates made for the purposes of the budget calculations and the adequacy of the proposed reserves. This information enables a longer-term view of the overall financial resilience of the Council to be taken. It also reports on the Director of Finance's consideration of the affordability and prudence of capital investment proposals. The level of general balances to support the budget and an appropriate level of Earmarked Reserves maintained by the Council in accordance with the agreed Council Policy on Earmarked Reserves, are an integral part of its continued financial resilience supporting the stability of the Council.

There have been several reports issued by the National Audit Office (NAO) on the subject of financial resilience within Local Authorities alongside a recent proposal by the Chartered Institute of Public Finance & Accountancy (CIPFA) for a Local Authority Financial Resilience Index. These issues are highlighted in Section 5 of the report but have largely been prompted by the financial failure at Northamptonshire County Council during 2018.

Members can be assured that Oldham Council continues to be well placed to meet the difficult financial challenges that it faces. The Council has prepared a detailed revenue budget within a five year Medium Term Financial Strategy (MTFS), a five year capital programme and continues the closure of accounts within an appropriate timeframe allowing early focus on the coming challenges and a robust financial transformation programme.

Financial resilience does depend in part on the Council maintaining an adequate level of reserves which are set out in this report. In order to scrutinise the level of reserves held by the Council the policy on earmarked reserves was considered by the Audit Committee in July 2018 and it is proposed to action the same review again in 2019/20 after the closure of the accounts for 2018/19.

Recommendations

It is recommended that Council:

- Approves the General Balances currently calculated for 2019/20 at £14.250m and that any excess funding in general balances at the financial year-end is to be transferred to the fiscal mitigation reserve to support the financial resilience of the Council.
- Notes that the initial estimate of General Balances to support the Medium Term Financial Strategy is as follows:
 - £14.840m for 2020/21 and
 - £14.136m for the years 2021/22, 2022/23 and 2023/24.
- Notes the intended report to the Audit Committee on Earmarked Reserves to ensure this area is subject to appropriate scrutiny.
- Agrees the actions necessary to secure a properly balanced budget as presented in paragraph 3.6.
- Agrees the actions necessary to ensure the prudence of the capital investments as noted in paragraph 4.4.

Statement of the Chief Financial Officer on Reserves, Robustness of Estimates and Affordability and Prudence of Capital Investments**1. Background on Calculating the Recommended Level of General Balances to support the 2019/20 Budget**

- 1.1. There are two approaches for deciding the optimum level of the general contingency reserve required for the Council to support its annual budget process. This is either a percentage of expenditure, which at one stage was recommended by the external auditors to be at a minimum 5% of net expenditure, or an approach based on an assessment of risk.
- 1.2. The agreed Council approach adopted for a number of years is to use a risk based approach based upon 11 areas of assessed risk:
 - Inflation is underestimated in the original estimates
 - Interest rates are underestimated
 - Changes to grant funding regimes
 - Some budgets are only indicative at the time the budget is agreed
 - Volatility in some budget headings between years
 - Efficiency gains expected in the agreed budget are not achieved
 - Unforeseen insurance costs
 - Emergencies which cannot be foreseen which occur on an ad hoc basis
 - Changes to budgets where targets are not met
 - Financial and Partnership guarantees given by the Council
 - Unforeseen events
- 1.3. The calculation to support the 2019/20 budgets is detailed at Appendix 1. It also calculates an indicative recommended level of balances to support the 2020/21, 2021/22, 2022/23 and 2023/24 budgets. These allow for the current pressured state of the Council's finances which by way of example include the continued pressures in certain services, especially Children's Social Care.
- 1.4. The recommended level of general balances to support the 2019/20 budget is £14.250m. Assuming the Council remains on course to spend within its 2018/19 agreed budget there will be no requirement to supplement from additional resources.
- 1.5. The detailed assumptions supporting the assessment of risk within the detailed general balances calculation are set out in Appendix 2.
- 1.6. The indicative level of balances for the Medium Term are £14.840m for 2020/21 and £14.136m for the years 2021/22, 2022/23 and 2023/24. These are in line with the level of risk included in the 2019/20 calculation and reflect the need to keep an appropriate level of general balances to manage known challenges. These include continued significant reductions in Central Government support resulting in a challenging savings target for the MTFS period on top of significant efficiencies already achieved.

2. Earmarked Reserves

- 2.1. The Council has 15 Earmarked Reserves as summarised in Appendix 3 and has estimated earmarked reserves at the 2018/19 year-end totalling £65.646m. Management of these reserves takes place via the monthly monitoring reports during the financial year and at the year-end as part of the closure of accounts.

- 2.2. Further detail of the estimated earmarked reserves held by the Council which are supported by the Reserves Policy are detailed in Appendix 3.
- 2.3. The Earmarked Reserves to meet known or expected liabilities where it is challenging to be specific about the exact financial amount of liability are:
- Council Initiatives
 - Insurance Reserve
 - Levy Reserve
 - Adverse Weather Reserve
 - Demand Changes Reserve
 - Transformation Reserve
 - Lifecycle Costs Reserve
 - Fiscal Mitigation Reserve
 - Taxation/Treasury Reserve
 - Emergency and External Events
- 2.4. The Earmarked Reserves required for other more specific, including invest to save purposes are:
- Balancing Budget Reserve
 - Regeneration Reserve
 - Integrated Working Reserve
 - Directorate Reserves
 - District Executive Reserve

2.5 In addition there are two other reserves, the School Balances reserve (which is not available for the Council to utilise) and the Revenue Grants reserve which is for specific grant related initiatives.

3. Robustness of the Estimates

- 3.1. Key factors in ensuring the robustness of estimates include the initial challenge process to establish the budget options, essential project management for the proposals, monitoring and reporting arrangements and the utilisation of key, skilled finance staff in drawing up detailed estimates and monitoring proposals going forward. Cross cutting and sound key assumptions are also vital in ensuring proper estimates.
- 3.2. There are a large number of factors which make the management of the Authority's budget much more challenging than it has been in the past. These include:
- Councils in areas with severe deprivation pressures face significant continued financial challenges. Unprecedented reductions in Government funding for a sustained period, constrained Council Tax increases to fund Adult Social Care, a decline in other income, rising costs and growing demand for many services are all challenging Councils' financial management and resilience.
 - As detailed within the Council's Month 8 financial monitoring report approved by Cabinet on 11 February 2019, Children's Social Care is a challenging area for Oldham. There has been a consistent rise in the numbers of looked after children and out of borough placements which has continued from 2017/18. Despite significant investment as part of the setting of the 2018/19 budget, there continues to be a structural overspend. For 2018/19 there is a projected overspend of £4.216m. Although management action is being implemented to reduce spending it is unlikely to have a significant impact prior to the start of 2019/20.

- There is a continued pressure for the Council with regard to its Dedicated Schools Grant (DSG) and in particular the High Needs Block. Despite the support from the Schools block in 2018/19, the DSG in Oldham is still expected to have an in-year deficit of £3.965m. It is an important element of the financial management of the Authority that the DSG is not in a deficit position and there has been action to try to address this. However, this has been more than offset by the increasing numbers of children with special needs entering the schools system. This remains a challenging issue for Oldham.
 - The continued potential changes in Council funding particularly with the notification that Government is moving to a 75% retention of local business rates from 2020/21 which is expected to replace the 100% pilot GM scheme that Oldham has been a part of from 2017/18, and potential new arrangements for changes to benefits associated with the expansion of Universal Credit.
 - Major changes to the Local Government Finance System are planned to coincide with the beginning of the next Spending Review period in 2020/21. As well as changes to the operation of the Business Rates Retention system, the Government is undertaking a 'Fair Funding' review that is examining how resources are distributed among Local Authorities taking account of spending needs and the ability to raise tax revenues and potentially other income locally. As review work is currently underway, few decisions have been made regarding the changes that are to be introduced. This, coupled with the lack of information regarding Government Departmental spending totals for 2020/21 and beyond, means preparing robust forecasts for all of the Council's Government provided/controlled funding sources is extremely challenging.
- 3.3. As shown above, the impact of these changes, and the level of further funding reductions in future years is not fully known, but the financial climate is more volatile with the Council carrying more financial risk than has ever been the case and funding is assumed to reduce for the foreseeable future.
- 3.4. These current and future financial challenges pose significant, and increasing, risks and require robust financial and budget management along with sufficient reserves to strengthen resilience against future uncertainty.
- 3.5. The preparation of the estimates has been based on the following base assumptions:
- Pressures and grant fall out - the former have as far as possible been absorbed by Directorates and the latter has likewise as far as possible been matched by corresponding expenditure reductions forecasted in the Medium Term Financial Strategy (MTFS).
 - Interest and inflation assumptions - a prudent view of interest rates and inflation has been taken when constructing estimates for 2019/20. Whilst these estimates are considered to be adequate at this point in time the uncertainty within the economy may lead to further revision.
 - Council Tax income assumptions - the estimates for Council Tax Tax base setting rely on a collection rate of 97% including that to be collected under the Council Tax Reduction Scheme. The position will be monitored during the year but the amount could vary for matters outside the control of the Council.

- A best estimate of the amount of income to be collected from Non Domestic Rates with the most up to date information available from the Greater Manchester pooling arrangements.
- 3.6. In order to secure a balanced budget year on year it is essential that the base estimates are built on by:
- All budget changes agreed by the Council being actioned to deliver the estimated savings, or alternatives found to the same net value, by the relevant responsible officers.
 - Monthly monitoring of all budgets and reporting on an exceptions basis through the Director of Finance to senior officers and Cabinet.
 - Action being taken to address future forecast budget shortfalls in advance of the forthcoming financial years. In respect of this the Council's recent and on-going preparation of a multi-year budget is an example of enhanced good practice.

4. Prudence and Affordability

- 4.1. The current prudential borrowing regime places a duty on the Chief Financial Officer to ensure that the financial impact of decisions to incur additional borrowing over and above that supported by direct Government resources are affordable both in the immediate and over the longer term.
- 4.2. However given the changes in Local Government finance introduced in 2006/07 there is no longer any direct relationship between supported borrowing and the revenue support to finance it. Consideration of all new capital schemes and their revenue impact is therefore undertaken alongside other revenue issues to ensure that resources are allocated appropriately and are affordable.
- 4.3. The impact of the Council's current investment plans detailed in the capital programme which is set out elsewhere on this agenda are planned to be financed as far as appropriate utilising capital grant and capital receipts with the balance being funded through Prudential Borrowing. Related capital financing charges are included in the revenue budget for 2019/20, with future year's charges being estimated in the Medium Term Financial Strategy (MTFS).
- 4.4. Given the scope of the current investment programme and the challenging financial circumstances the Council has ensured that there is sufficient revenue budget to meet the capital commitments and it is essential that this remains so going forward. Subject to that, the capital estimates are considered prudent and affordable while supporting the aspirations and ambition of the Council.

5. Financial Resilience

- 5.1. On 6 December 2012 the Audit Commission produced a report into their research on the level of reserves held by Council's. The report, whilst produced a number of years ago, set out sound advice and recognised that there is no set formula for deciding what level of reserves is appropriate. It stated that having the right level of reserves was important and where reserves were low there could be very little resilience to financial shocks and sustained financial challenges. It also stated that where reserves are high, there is a risk that some Council's may retain certain funding which could otherwise be utilised as a one-off to support to the challenging savings targets required and give the time for transformation to deliver savings.

- 5.2. One conclusion from the Audit Commission report was that Councils needed to consider their present decision making around reserves in a number of areas:
- Undertaking an annual review to ensure reserves align with Medium Term Financial Plans.
 - Clarity about what earmarked reserves are for.
 - Ensuring earmarked reserves held to mitigate financial risk reflect an up to-date assessment of risk.
 - Monitoring the level and use of reserves over recent years, and comparing the Council's approach to other organisations facing similar circumstances.
 - Budget monitoring and forecasting to give Elected Members greater awareness of likely year-end movements on reserves.
 - Ensuring significant or unexpected variations to budget are dealt with.
- 5.3. In addition the Audit Commission report also recommended that the advice of the Director of Finance to Members on the level of reserves to be held includes a summary of the issues to be considered. To progress this issue in more detail the reserves position has been reported to the Audit Committee with the detailed Reserves Policy presented which aligned the Earmarked Reserves with the Corporate Objectives of the Council.
- 5.4. A report with regard to Local Government Financial Resilience was presented to the Overview and Scrutiny Performance and Value for Money Select Committee on 13 December 2018. The issue of financial resilience and sustainability across the Local Authority sector is highly relevant to the ongoing development of the Council's Medium Term Financial Strategy and associated budget options for 2019/20 and beyond.
- 5.5. In February 2018, the Chief Financial Officer of Northamptonshire County Council issued a notice under the powers of Section 114(3) of the Local Government Finance Act 1988, which was the first of its kind for over 20 years. This was followed by an unprecedented issue of a second Section 114 notice in July 2018 as the financial pressures for the Authority had not been adequately addressed.
- 5.6. Besides Northamptonshire County Council, several other Local Authorities have also been highlighted within the media with regard to financial resilience and sustainability and as a result a number of reports have now been released which highlight the very challenging financial future for all Councils, including Oldham.
- 5.7. In March 2018, the National Audit Office (NAO) published a report examining the financial sustainability of Local Authorities. Key messages from the report include:
- In real terms, Government funding for Local Authorities has reduced by 49.1% between 2010/11 and 2017/18. The reduction by 2019/20 is expected to reach 56.3%;
 - In the three years to 2016/17, service reductions accounted for less than half of funding reductions. Use of reserves and reductions in other spend have become more important in terms of balancing budgets;
 - In Councils that provide Social Care services, reserves have grown since 2010/11 but started to fall back in 2016/17; and
 - Reserves - based on their rate of use in that year (10.6%), single tier and County areas had the equivalent of less than three years' worth of reserves left.
- 5.8. Within the report the NAO also recommended that:
- Ministry for Housing, Communities and Local Government (MHCLG) should work with the sector to develop a long-term plan that is genuinely able to address the current financial and demand pressures in the sector and to secure its financial sustainability;

- MHCLG should continue to strengthen its processes for assessing Local Authority funding requirements at future spending reviews especially in children's social care;
 - MHCLG should continue to build on its improved oversight of the sector's financial sustainability;
 - Government, led by MHCLG, should develop a clear understanding of the role and significance of Local Authorities as a whole in the context of the current funding climate; and
 - Government should improve outcome data.
- 5.9. This report from the National Audit Office shows that the majority of Local Authorities have coped well with the continual reductions in central support but an increasing proportion are experiencing financial stress which has been reported in the press.
- 5.10. In July 2018, CIPFA launched a consultation on its proposal to publish an annual index of financial resilience for English Councils based on six indicators. The initiative is driven by CIPFA's desire to support the Local Government sector as it faces a continued financial challenge. It was proposed that the index would be based on publicly available information and provide an assessment on the financial health of each English Council. On the 4 December 2018, CIPFA issued the response to this consultation. The index is currently in development but given the level of responses, CIPFA's consultation response now proposes 15 indicators within the index, including the following:
- 1) Reserves depletion time;
 - 2) Level of reserves;
 - 3) Percentage change in reserves;
 - 4) Ratio of Government grants to net revenue expenditure;
 - 5) Proportion of net revenue expenditure accounted for by Children's Social Care, Adult Social Care and debt interest payments;
 - 6) Ofsted overall rating for Children's Social Care; and
 - 7) External Auditor's Value for Money judgement.
- CIPFA considers it important to support Chief Finance Officers in providing information to assist in the context of financial health and resilience. It is anticipated that the finalised index will be available to support the 2020/21 budget process.
- 5.11. The most recent report was issued by the NAO on the 23 January 2019. This report detailed the pressures on Children's Social Care. The NAO concluded that the Department for Education (DfE) has made little progress in improving Children's Social Care services and that it does not understand what is driving demand in this area. This is a high area of risk for Local Authorities and highlights the extremely challenging future Council's face.
- ## 6. Budget Recommendations
- 6.1. The robustness of the estimates and the adequacy of the reserves are satisfactory. However this is only the case provided that action is taken to ensure that the balances are set at the level of £14.250m for 2019/20 as calculated in this report and that all budget options, or in year alternatives, are delivered as planned and monitored.
- ## 7. Consultation
- 7.1. The professional opinion of the Director of Finance on the overall adequacy of the total level of reserves is integral to the sign off of the overall agreed budget. It is seen as a key factor in why Local Authorities have been able to manage significant on-going year on year reductions in budget whilst remaining financially resilient.

- 7.2. The earmarked reserves as set aside by the Council at each financial year-end have been independently verified by the external auditor.
- 7.3. For the future it is important that the organisation undertakes an appropriate independent scrutiny of its reserves and it is proposed that the Audit Committee continues to consider reports from the Director of Finance on the matter.

8. Financial Implications

- 8.1. The review of reserves and provisions has identified that the Council will be required to maintain the recommended level of general balances to support the 2019/20 budget, in line with good practice and the duties of the Director of Finance.

9. Legal Services Comments

- 9.1. Under section 25 of the Local Government Act 2003, the Chief Finance Officer must report on the robustness of the estimates made for the purposes of budget calculations and the adequacy of the proposed financial reserves. (Paul Entwistle)

10. Co-operative Agenda

- 10.1. The adequacy of reserves and balances to underpin its agreed budget enables the Council to have long term security to support its aims and objectives and takes forward the co-operative ethos of the Council.

11. Human Resources Comments

- 11.1. Not Required.

12. Risk Assessments

- 12.1. There is a statutory requirement for the Director of Finance to calculate the balances required by the Council to support the production of the annual budget. The methodology utilised as detailed in Appendix 1 and 2 of this report is to assess the required level on the basis of risk. (Mark Stenson)

13. IT Implications

- 13.1. Not Required.

14. Property Implications

- 14.1. Not Required.

15. Procurement Implications

- 15.1. Not Required.

16. Environmental and Health & Safety Implications

- 16.1. Not Required.

17. Equality, community cohesion and crime implications

- 17.1. Not Required.

18. Equality Impact Assessment Completed?

18.1. Not Required.

19. Key Decision

19.1. Yes

20. Key Decision Reference

20.1. FCR-12-18

21. Background Papers

21.1. The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act :

File Ref: Background papers are provided in Appendices 1-3
Officer Name: Mark Stenson
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22. Appendices

22.1. Appendix 1 General Balances Calculation
Appendix 2 Eleven Areas of Risk for Oldham Council
Appendix 3 Earmarked Reserves

General Balances Calculation

Appendix 1

| Area of Risk | 2019/20 Budget £000 | Risk Factor | Value £000 | 2020/21 Budget £000 | Risk Factor | Value £000 | 2021/22 to 2023/24 Budget £000 | Risk Factor | Value £000 |
|---------------------------------|---------------------------|----------------|---------------|---------------------------|----------------|---------------|---|----------------|---------------|
| Inflation | | | | | | | | | |
| Salaries including pensions | 86,924 | 0.50% | 435 | 88,662 | 0.50% | 443 | 90,436 | 0.50% | 452 |
| Premises | 11,074 | 0.25% | 28 | 10,874 | 0.50% | 54 | 10,674 | 0.50% | 53 |
| Transport | 4,701 | 0.25% | 12 | 4,601 | 0.50% | 23 | 4,501 | 0.50% | 23 |
| Supplies | 78,210 | 0.25% | 196 | 77,210 | 0.25% | 193 | 76,210 | 0.25% | 191 |
| PFI | 21,142 | 0.00% | 0 | 21,353 | 0.25% | 53 | 21,567 | 0.25% | 54 |
| Other | Quantum | | 150 | Quantum | | 150 | Quantum | | 250 |
| | | | 821 | | | 916 | | | 1,023 |
| Interest Rates | | | | | | | | | |
| Changes in rates | Quantum | | 250 | Quantum | | 250 | Quantum | | 500 |
| | | | 250 | | | 250 | | | 500 |
| Grants | | | | | | | | | |
| H. Benefit/ Council Tax Support | 1,121 | 0.00% | 0 | 1,041 | 1.00% | 10 | 965 | 1.00% | 10 |

| | | | | | | | | | |
|---|---------|-------|--------------|---------|-------|--------------|---------|-------|--------------|
| New Homes Bonus | 961 | 0.00% | 0 | 358 | 1.00% | 4 | 270 | 1.00% | 3 |
| Business Rates Top Up | 40,653 | 0.00% | 0 | 55,324 | 0.50% | 277 | 56,430 | 0.75% | 423 |
| Business Rates Retained | 50,826 | 1.00% | 508 | 40,490 | 1.50% | 607 | 41,048 | 3.00% | 1,231 |
| Grants in Lieu of Business Rates | 10,503 | 1.00% | 105 | 8,007 | 1.00% | 80 | 8,168 | 1.00% | 82 |
| Improved Better Care Fund | 9,736 | 2.52% | 245 | 8,150 | 1.00% | 82 | 8,150 | 1.00% | 82 |
| Independent Living Fund Grant | 2,580 | 0.00% | 0 | 2,500 | 1.00% | 25 | 2,420 | 1.00% | 24 |
| Department for Work and Pensions - New Burdens / Universal Credit | 172 | 1.00% | 2 | 0 | 0.00% | 0 | 0 | 0.00% | 0 |
| Homelessness Support / New Burdens Grant | 256 | 0.00% | 0 | 0 | 0.00% | 0 | 0 | 0.00% | 0 |
| Lead Local Flood Authority | 12 | 0.00% | 0 | 12 | 0.00% | 0 | 12 | 0.00% | 0 |
| Social Care Support Grant | 1,917 | 0.00% | 0 | 0 | 0.00% | 0 | 0 | 0.00% | 0 |
| Winter Pressures Grant | 1,122 | 0.00% | 0 | 0 | 0.00% | 0 | 0 | 0.00% | 0 |
| Brexit Support Grant | 105 | 0.00% | 0 | 0 | 0.00% | 0 | 0 | 0.00% | 0 |
| Public Health Grant | 0 | 0.00% | 0 | 15,999 | 1.00% | 160 | 15,553 | 1.00% | 156 |
| Discretionary Housing Payments Grant | 638 | 0.00% | 0 | 638 | 0.00% | 0 | 638 | 0.00% | 0 |
| PFI Credits | 13,262 | 1.00% | 132 | 13,262 | 1.00% | 132 | 13,262 | 1.00% | 132 |
| Dedicated Schools Grant | Quantum | | 1,000 | Quantum | | 750 | Quantum | | 500 |
| | | | 1,992 | | | 2,127 | | | 2,643 |
| Estimated Budgets | | | | | | | | | |
| Academies Loss | Quantum | | 250 | Quantum | | 250 | Quantum | | 250 |

| | | | | | | | | | |
|---|---------|--------|--------------|---------|--------|--------------|---------|--------|--------------|
| Carbon Emissions | Quantum | | 25 | Quantum | | 25 | Quantum | | 25 |
| Childrens Social Care | Quantum | | 1,500 | Quantum | | 1,000 | Quantum | | 850 |
| | | | 1,775 | | | 1,275 | | | 1,125 |
| Volume Changes | | | | | | | | | |
| Council Tax including Adult Social Care | 92,090 | 1.00% | 920 | 96,583 | 0.25% | 241 | 101,289 | 0.25% | 253 |
| Collection Fund Surplus | 2,269 | 1.00% | 25 | 0 | 0.00% | 0 | 0 | 0.00% | 0 |
| Unity | Quantum | | 300 | Quantum | | 300 | Quantum | | 300 |
| | | | 1,245 | | | 541 | | | 553 |
| Budget Savings | | | | | | | | | |
| 2019/20 | 7,829 | 25.00% | 1,957 | 7,829 | 2.00% | 157 | 7,829 | 2.00% | 157 |
| 2020/21 | 0 | 0.00% | 0 | 22,871 | 20.00% | 4,574 | 22,871 | 2.00% | 457 |
| 2021/22 | 0 | 0.00% | 0 | 0 | 0.00% | 0 | 10,889 | 20.00% | 2,178 |
| | | | 1,957 | | | 4,731 | | | 2,792 |
| Insurance | | | | | | | | | |
| Medical Malpractice linked to Health Devolution | Quantum | | 100 | Quantum | | 100 | Quantum | | 100 |
| | | | 100 | | | 100 | | | 100 |
| Emergency Planning | | | | | | | | | |
| ICT disaster | Quantum | | 500 | Quantum | | 500 | Quantum | | 500 |
| Flooding | Quantum | | 150 | Quantum | | 150 | Quantum | | 150 |
| Offices | Quantum | | 150 | Quantum | | 150 | Quantum | | 150 |
| Emergency Planning | Quantum | | 300 | Quantum | | 300 | Quantum | | 300 |

| | | | | | | | | | |
|----------------------------------|---------|--|---------------|---------|--|---------------|---------|--|---------------|
| Contractor Failure | Quantum | | 250 | Quantum | | 250 | Quantum | | 250 |
| Environmental Incident | Quantum | | 400 | Quantum | | 400 | Quantum | | 400 |
| Unforeseen disaster | Quantum | | 400 | Quantum | | 400 | Quantum | | 400 |
| | | | 2,150 | | | 2,150 | | | 2,150 |
| Changes | | | | | | | | | |
| Debt Collection | Quantum | | 100 | Quantum | | 100 | Quantum | | 100 |
| | | | 100 | | | 100 | | | 100 |
| Financial Guarantees | | | | | | | | | |
| Contractual Disputes | Quantum | | 500 | Quantum | | 500 | Quantum | | 500 |
| Levying Bodies | Quantum | | 250 | Quantum | | 250 | Quantum | | 250 |
| Pensions | Quantum | | 500 | Quantum | | 500 | Quantum | | 500 |
| Devolution | Quantum | | 150 | Quantum | | 150 | Quantum | | 150 |
| Investments | Quantum | | 1,000 | Quantum | | 500 | Quantum | | 500 |
| Grant Claw back | Quantum | | 250 | Quantum | | 250 | Quantum | | 250 |
| | | | 2,650 | | | 2,150 | | | 2,150 |
| Other | | | | | | | | | |
| Flexible Use of Capital Receipts | Quantum | | 210 | Quantum | | 0 | Quantum | | 0 |
| General | Quantum | | 1,000 | Quantum | | 500 | Quantum | | 1,000 |
| | | | 1,210 | | | 500 | | | 1,000 |
| TOTAL | | | 14,250 | | | 14,840 | | | 14,136 |

Eleven Areas of Risk for Oldham Council

| Number | Area of Risk | Analysis of Risk |
|--------|--|--|
| 1 | Inflation is underestimated in the original agreed estimates | <p>There are two issues. Firstly, there may be some items of expenditure - those where prices are linked into exchange rate for example - where any estimate of inflation is a "best guess" and the future market rate is difficult to predict given price volatility. The risk assessment puts a figure to the higher level of inflation that would seem to be unreasonable to include in a budget, but might come to pass. Secondly, information is less accurate for years 2 and 3.</p> <p>At the present time the level of inflation for the past financial years has been certain for areas such as salaries with minimal wage increases. Certain other costs have increased at a higher rate than estimated. Going forward given the fluctuations in exchange rates into the next three financial years the inflationary pressures are very difficult to estimate and the dynamics may change with increased pressure on wage costs due to a recognition the levels set in the pay cap need review as against commodities such as fuel. The calculation of a recommended balance reflects this.</p> |
| 2 | Interest rates are underestimated | <p>This is similar to 1 above, but for a specific area of risk.</p> <p>Interest rates at the present levels for borrowing money are at a very low level. The general predictions are that increases may take place at a point in 2019/20. Allowing for borrowing profiles, the 2019/20 budgets have been prepared on the present levels of interest paid by the Council linked to the present estimate of borrowing required. A small change in the interest rates could have a significant impact on the Council's budget in respect of the amount paid. Predictions of when accurate interest rate rises will occur have proved to be challenging for a number of years and continue to be volatile.</p> <p>In respect of the return achieved by the Council on money it has placed on the money market then the return as budgeted for is at a historically low level. There is also an added pressure that safe havens for the Council to invest surplus cash have reduced in past years.</p> <p>There is the specific risk to consider here of the continued volatile banking market and the consequential risk to Councils of the security of their investments.</p> |

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| | | <p>The Government system for allocating grants can appear short-term and a “best guess” has to be offered in lieu of hard facts. Currently there are a number of issues with the general regime.</p> <p>The Local Government Finance Settlement has been based on the submission of the Council’s efficiency plan which guaranteed funding levels to 2019/20. This shows a continued reduction in Government grant which needs to be matched by transformation savings which are not guaranteed.</p> <p>Changes to the present business rates regime linked into the full retention pilot being managed by the Greater Manchester family.</p> <p>Major changes to the Local Government Finance System are planned to coincide with the beginning of the next Spending Review period in 2020/21. As well as changes to the operation of the Business Rates Retention system, the Government is undertaking a ‘Fair Funding’ review that is examining how resources are distributed among Local Authorities taking account of spending needs and the ability to raise tax revenues and potentially other income locally.</p> <p>The continuing transformation of functions linked into devolution such as those provided by the health service.</p> <p>Potential changes to specific grant funding which is being absorbed in the former revenue support grant after a number of financial years.</p> |
| 4 | Some budgets are only indicative at the time the budget is agreed | <p>There are some initiatives that are known will happen, but are not sufficiently advanced to accurately cost.</p> <p>The impact of the current trend where a number of schools currently administered by the Council who may wish to become an independent Academy is unknown and the impact this has on previously notified grant funding.</p> |

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| 5 | Volatility in some budget headings between years | <p>There are long standing areas of risk where the Council budget for the middle of the range, but might find the outturn for a year at the higher end.</p> <p>In respect of Council Tax there is a risk that the Collection Rate falls reducing the future amount which can be drawn down in future years.</p> <p>In respect of housing benefit on payments there is a risk that changes to the system such as the introduction of Universal Credit leads to a claim for additional costs.</p> |
| 6 | Efficiency gains expected in the agreed budget are not achieved | <p>The budget includes an assumption that the Council will deliver ambitious savings; the risk is that they may be delivered at a slower rate.</p> <p>Based upon 2009/10 to 2018/19 experience the achievement of the budget savings programme in monetary terms has shown significant achievement. In the next four financial years from 2019/20 there are further challenging budget savings required. These savings requirements mean it is prudent to retain some balances should these targets not be achieved.</p> |
| 7 | Unforeseen Insurance Costs | <p>Acts of God can result in higher insurance traffic than had been anticipated.</p> <p>Oldham Council would seem to be appropriately covered on this aspect re the general assessment in that it has been based on a detailed yearly Actuarial Review. It also has included a reserve to meet the costs of MMI claims should the Scheme of Arrangement be activated. The assessment of the Council that the scheme would be activated proved to be accurate and sensible prudent accounting has negated any financial impact from the initial levy. The matter will now be subject to continual review.</p> <p>The uncertainty going forward is associated with the current economic climate and adverse weather conditions, which it is anticipated, will increase the number of claims made against the Council. On the present Insurance arrangements however the value of claims is individually capped at £250,000 for liability claims and £100,000 for premises.</p> <p>With the transfer of Public Health functions and the devolution agenda on health a new risk now exists to the Council around whether insurance cover can be obtained from the present insurance arrangements in respect of medical malpractice.</p> |

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| 8 | Emergencies which cannot be foreseen which can occur on an ad hoc basis | <p>Were disasters to occur, the Council needs to have balances in place to pick up costs that will fall to the Council. A disaster such as one involving ICT could occur on a one-off basis.</p> <p>There has also been a recent incidence where a key supplier has gone into administration.</p> <p>The Council area does also cover higher grounds including Saddleworth, which if weather conditions are extreme can lead to additional unbudgeted costs such as snow clearance in winter.</p> <p>There is an emerging risk to the Council around environmental impact from items outside of its control such as the illegal dumping of waste which requires remediation.</p> |
| 9 | Changes to budgets where targets are not met | <p>Change necessarily means doing things in a way for which we have no evidence. The assumptions made maybe wrong.</p> <p>This is the most difficult area to predict but there will be unforeseen costs which are not envisaged when the budget is prepared.</p> <p>It is also anticipated that a change in the general environment caused by an economic shock outside the control of the Council could cause a reduction in the debt collected.</p> |
| 10 | Financial and Partnership guarantees given by the Council | <p>There are a number of obligations and risks to the Council around its financial guarantees which have been given to a wide variety of organisations and projects:</p> <ul style="list-style-type: none"> • In a complex organisation there are contractual disputes for claims against the Council. • There is a desire from contributing Districts to keep levy increases as low as possible. This will increase the financial stress on these organisations and ultimately it is the Districts who would assist if there is a shortfall. • In respect of staff previously employed by the Council but transferred to other organisations the Council has agreed to underwrite the pension costs. This risk has increased for 2019/20 due to changes in national standards re recognising cost risk. • Grant clawback could occur whereby the Council is the accountable body for a grant. • Investments of the Council where market value can fluctuate. |
| 11 | Unforeseen Events | <p>This covers matters not considered in 1-10 but it is considered prudent to hold an amount in the General Balances.</p> |

Anticipated Earmarked Reserves as at 31/03/2019

| Earmarked Reserve | Balance £000 | Assessment of Current Risk |
|-----------------------------|-----------------|--|
| Council Initiatives Reserve | (3,963) | <p>There are a number of projects and programmes of work which the Council considers to be priority initiatives. This includes:</p> <ol style="list-style-type: none"> 1) There is a Corporate Priority to support the learning and attainment agenda to promote the improvement of results in schools. 2) Expected costs to assist with the preservation of Foxdenton Hall to support the Chadderton Together Group. |
| Insurance Reserve | (12,933) | <p>This includes:</p> <ul style="list-style-type: none"> i) Any claims made prior to 1974 when the external insurance arrangements of the Council are not clear and the assumption is that the Council will bear the full cost of any claim made. ii) Claims relating to asbestos related matters which are not covered by external insurance premiums. These claims are expected to reach their peak in the next ten years. iii) Derelict buildings classed as heritage buildings where the Council's Insurers will only provide insurance cover on a debris only basis. Should there be a fire then it is possible the Council will have to replace at full cost without insurance cover in place. iv) Other claims against the Council not covered by the terms and conditions of the Insurance Policy. A recent trend has been for insurance companies to get more challenging around whether coverage is in place for high value claims. <p>The amount to include in the Insurance Reserve at the year-end is calculated via an Actuarial report which is currently being produced for the end of the financial year 2018/19. The amount could increase or decrease at the year-end as reported dependent upon the output of this Actuarial Review.</p> |

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| Levy Reserve | (403) | This reserve has been set aside to smooth the impact of future levy increases on the Council budget. |
| Adverse Weather Reserve | (1,500) | This reserve is set aside to support unplanned expenditure as a result of an unforeseen weather event such as flooding or severe winter weather when the base budget provision is not adequate to meet the costs incurred within the financial year. As seen in recent events within the North West area the damage caused by severe weather cannot be foreseen at budget setting and can be considerable in terms of damage caused. |
| Demand Changes Reserve | (2,000) | The Council has set funds aside to allow for the unbudgeted increase in demand, especially costs associated with looked after children which are difficult to predict and because of circumstances outside the control of the Council which can fluctuate from year to year. |
| Transformation Reserve | (8,576) | This reserve has agreed resources set aside to provide for any costs of implementing the Council's budgets requirements as set out in the Medium Term Financial Strategy to fund investment required to enable the continued transformation of services to achieve efficiency savings. |
| Lifecycle Costs Reserve | (6,611) | This reserve is required to equalise out between years the costs estimated to be incurred by the Council on both Building Schools for the Future (BSF) and the non BSF PFI and LIFT contracts already let. It is anticipated that over the next few years the money set aside in this Reserve will remain at the same level to offset the increases in the Unitary Charge on the project to the revenue account in the later financial years of the PFI contract. The grant to support the PFI remains static throughout the period of the scheme whilst costs increase but are felt to be at risk of potential reduction from future Government austerity measures. |

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| Fiscal Mitigation Reserve | (5,558) | The financial environment in which the Council operates has changed from 1st April 2013. Instead of having certainty around the amount of income it will receive in relation to Business Rates, there is a risk of underperformance and business rate appeals. Should there be less income collected than previously estimated then a proportion of the loss falls on the Council and will impact on the overall amount of resources available for future budgets. It is also the case that the cost of change will be considerable given the budget reductions required from the Council in the next five years. This reserve reduces the risk to the Council of reducing resources due to external matters outside its control such as a reduction in economic output and will finance some of the future costs of change the Council is likely to face. |
| Taxation/Treasury Reserve | (625) | There is from time to time unforeseen tax liabilities to the Council imposed from the audits undertaken by HMRC. This reserve has been set aside to meet these unforeseen costs. |
| Emergency and External Events Reserve | (2,616) | This reserve has been established to ensure that the Council has sufficient resources to address costs arising from events such as flooding including the requirement to undertake emergency repairs. |
| Balancing Budget Reserve | (8,818) | This reserve provides the resources required to underpin the 2019/20 budget. |
| Regeneration Reserve | (5,646) | The Council has an extensive and ambitious regeneration agenda and resources have been set aside to support projects such as the Heritage Centre and Town Centre vision which span more than one financial year. |
| Integrated Working Reserve | (3,067) | This reserve represents resources that have been set aside to support initiatives arising from the Greater Manchester devolution agenda including joint working with the Oldham Clinical Commissioning Group (CCG) around Adult Social Care, other Greater Manchester Councils and the Greater Manchester Combined Authority. |

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| Directorate Reserves | (2,595) | This is a reserve created following discussions within the Council whereby requests from services to finance future expenditure on key Council priorities have been agreed. |
| District Executive Reserve | (735) | This is a reserve which has funds set aside to support the work of the District Executives across the Borough. |
| Total Estimated Earmarked Reserves 31/03/2019 | (65,646) | |

Schools/Grant Related Reserves

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| Individual School Balances | (1,415) | This earmarked reserve consists of the estimated individual school balances as at 31/03/2019 held by schools under their delegated budgets. These funds are not available for Council use. |
| Revenue Grants Reserve | (5,870) | This is a technical reserve created under the accounting requirements of International Financial Reporting Standards. It relates to grants received often in relation to education services which are paid over to the Council in the financial year but with grant conditions giving the flexibility for the expenditure to be incurred by the end of the Academic Year. Previously these grants would have been classed as receipts in advance in the final accounts. The money must be spent in accordance with the specific grant conditions. |