

## **Report to Council**

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

**Portfolio Holder:** Cllr Abdul Jabbar MBE, Deputy Leader and  
Cabinet Member for Finance and HR

**Officer Contact:** Anne Ryans, Director of Finance

**Report Author:** Mark Stenson, Head of Corporate Governance  
**Ext. 4783**

**28 February 2018**

---

### **Reason for Decision**

To recommend that Council agrees the level of balances necessary to support the 2018/19 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.

The Council's external auditors, Grant Thornton, the Audit Commission (prior to their abolition) and the National Audit Office have all issued one or more reports dealing with in essence the very challenging financial future all Councils, including Oldham, are facing and how this is being dealt with. The most recent of these reports are:

- The “2016 tipping point? Challenging the current” Local Government publication which is the 6th annual update by Grant Thornton about the future financial resilience of Local Authorities.
- “Striking a Balance” about the level of reserves held by Councils produced by the Audit Commission.
- “Financial Sustainability of Local Government 2014” produced by the National Audit Office and the publication produced in 2016 on financial sustainability of local authorities: capital expenditure and resourcing.

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

This 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 2017 and it is proposed to action the same review again in 2018/19 after the closure of the accounts for 2017/18.

Cabinet considered the Statement of the Chief Financial Officer on Reserves, Robustness of Estimates and Affordability and Prudence of Capital Investments at its meeting of 19 February 2018 and commended the report to Council.

## **Recommendations**

It is recommended that Council:

- Approves the General Balances currently calculated for 2018/19 at £13.991m. Any excess funding in general balances at the financial year-end is to be transferred to the fiscal mitigation reserve to support future budgets.
- Notes that the initial estimate of General Balances to support the 2019/20 and 2020/21 budgets are amounts of £13.832m and £13.123m which reflect the budgetary challenges for these financial years.
- Notes the intended report to the Audit Committee on Reserves to ensure this area is subject to appropriate scrutiny.
- Agrees the actions necessary to secure a properly balanced budget as presented in paragraph 3.5.
- 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 2018/19 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 2018/19 budgets is detailed at Appendix 1. It also calculates an indicative recommended level of balances to support the 2019/20 and 2020/21 budgets. These allow for the current pressured state of the Council's finances which by way of example include, as the latest budget monitoring report highlights pressures in certain services, especially Children's Social Care.
- 1.4. The recommended level of general balances to support the 2018/19 budget is £13.991m. Assuming the Council remains on its present projection to spend within its 2017/18 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 2019/20 are £13.832m and for 2020/21 £13.123m. These are in line with the level of risk included in the 2018/19 calculation and reflect the need to keep an appropriate level of general balances to manage known challenges which include continued significant reductions in Central Government support resulting in a challenging savings target for both years 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 2017/18 year-end totalling £71.437m. 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 Reserve
- District Executive Reserve

2.5 In addition there are two other reserves, the Individual Schools Budget 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 from April 2018 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 until 2019/20, a decline in other income, rising costs and growing demand for many services are all challenging Councils' financial management and resilience.
- The continued potential changes in Council funding with the full retention of local business rates which started from 2017/18 with piloting of the new regime in GM, and potential new arrangements for changes to benefits associated with the expansion of Universal Credit. 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.

3.3. 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.

3.4. 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 MTFS.
- Interest and inflation assumptions - a prudent view of interest rates and inflation has been taken when constructing estimates for 2018/19. 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.

3.5. 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 the Executive Management Team (EMT) 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 and related capital financing charges included in the revenue estimates, with future years being estimated in the MTFS.
- 4.4. Given the scope of the current investment programme and the challenging financial circumstances 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. "Striking a Balance" and Other Reports on 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. There have been other reports produced which have reviewed the financial resilience of Local Authorities. The conclusion has been that the majority of Local Authorities have coped well with the continual reductions in central support but a minority are experiencing financial stress which has been reported in the press. These reports also highlight that the overall future financial environment is going to be very challenging and they expect an increased number of Authorities to experience financial stress.

## **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 £13.991m for 2018/19 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 2018/19 budget, in line with good practice and the duties of the Director of Finance.

## **9. Legal Services Comments**

- 9.1. Not Required.

## **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. CFHR-18-17

**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
Contact No:	0161 770 4783

**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	2018/19 Budget £000	Risk Factor	Value £000	2019/20 Budget £000	Risk Factor	Value £000	2020/21 Budget £000	Risk Factor	Value £000
<b>Inflation</b>									
Salaries including pensions	82,578	0.50%	413	84,230	0.50%	421	85,914	0.50%	430
Premises	9,986	0.25%	25	9,786	0.50%	49	9,586	0.50%	48
Transport	4,949	0.25%	12	4,850	0.50%	24	4,751	0.50%	24
Supplies	78,107	0.25%	195	76,545	0.25%	191	74,983	0.25%	187
PFI	20,395	0.00%	0	20,599	0.25%	51	20,805	0.25%	52
Other	Quantum		100	Quantum		100	Quantum		100
			<b>745</b>			<b>836</b>			<b>841</b>
<b>Interest Rates</b>									
Changes in rates	Quantum		250	Quantum		250	Quantum		500
			<b>250</b>			<b>250</b>			<b>500</b>
<b>Grants</b>									
H. Benefit/ Council Tax Support	1,220	0.00%	0	750	1.00%	8	434	1.00%	4

New Homes Bonus	1,601	0.00%	0	1,026	1.00%	10	424	1.00%	4
Business Rates Top Up	47,975	0.00%	0	40,644	0.50%	203	35,395	0.75%	265
Business Rates Retained	51,352	1.00%	513	53,256	1.50%	800	54,575	3.00%	1,638
Grants in Lieu of Business Rates	8,477	1.00%	85	8,642	1.00%	86	8,811	1.00%	88
Improved Better Care Fund	7,888	2.52%	199	9,736	1.00%	97	8,150	1.00%	82
Independent Living Fund Grant	2,661	0.00%	0	2,580	1.00%	26	2,500	1.00%	25
Department for Work and Pensions - New Burdens / Universal Credit	364	0.00%	0	364	0.00%	0	364	0.00%	0
Homelessness Support / New Burdens Grant	164	0.00%	0	62	0.00%	0	0	0.00%	0
Lead Local Flood Authority	11	0.00%	0	12	0.00%	0	0	0.00%	0
Adult Social Care Support Grant	701	0.00%	0	0	0.00%	0	0	0.00%	0
Discretionary Housing Payments Grant	654	0.00%	0	654	0.00%	0	654	0.00%	0
PFI Credits	13,262	1.00%	132	13,262	1.00%	132	13,262	1.00%	132
			<b>929</b>			<b>1,362</b>			<b>2,238</b>
<b>Estimated Budgets</b>									
Academies Loss	Quantum		500	Quantum		250	Quantum		250
Carbon Emissions	Quantum		25	Quantum		25	Quantum		25
			<b>525</b>			<b>275</b>			<b>275</b>

<b>Volume Changes</b>									
Council Tax including Adult Social Care	86,953	1.00%	870	91,029	0.25%	228	95,292	0.25%	238
Unity	Quantum		300	Quantum		300	Quantum		200
			<b>1,170</b>			<b>528</b>			<b>438</b>
<b>Budget Savings</b>									
2018/19	6,686	25.00%	1,672	6,686	2.00%	134	6,686	1.00%	67
2019/20	0	0.00%	0	17,986	25.00%	4,497	17,986	2.00%	360
2020/21	0	0.00%	0	0	0.00%	0	7,817	25.00%	1,954
			<b>1,672</b>			<b>4,631</b>			<b>2,381</b>
<b>Insurance</b>									
Medical Malpractice linked to Health Devolution	Quantum		500	Quantum		100	Quantum		100
			<b>500</b>			<b>100</b>			<b>100</b>
<b>Emergency Planning</b>									
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		400	Quantum		400	Quantum		400
Contractor Failure	Quantum		1,000	Quantum		500	Quantum		500
Environmental Incident	Quantum		1,000	Quantum		400	Quantum		400
Unforeseen disaster	Quantum		400	Quantum		400	Quantum		400
			<b>3,600</b>			<b>2,500</b>			<b>2,500</b>

<b>Changes</b>									
Debt Collection	Quantum		100	Quantum		100	Quantum		100
			<b>100</b>			<b>100</b>			<b>100</b>
<b>Financial Guarantees</b>									
Contractual Disputes	Quantum		1,000	Quantum		500	Quantum		500
Levying Bodies	Quantum		0	Quantum		250	Quantum		500
Pensions	Quantum		1,000	Quantum		500	Quantum		500
Devolution	Quantum		250	Quantum		250	Quantum		500
Investments	Quantum		1,000	Quantum		500	Quantum		500
Grant Claw back	Quantum		250	Quantum		250	Quantum		250
			<b>3,500</b>			<b>2,250</b>			<b>2,750</b>
<b>Other</b>									
General	Quantum		1,000	Quantum		1,000	Quantum		1,000
			<b>1,000</b>			<b>1,000</b>			<b>1,000</b>
<b>TOTAL</b>			<b>13,991</b>			<b>13,832</b>			<b>13,123</b>

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 2018/19. Allowing for borrowing profiles, the 2018/19 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>

3	Changes to grant funding regimes	<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>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> <p>There are also issues for the Council highlighted in its final accounts as contingent liabilities around potential grant claw back on specific projects as detailed in the contingent liabilities section of the audited final accounts.</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>
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 2017/18 experience the achievement of the budget savings programme in monetary terms has shown significant achievement. In the next four financial years from 2018/19 there are further challenging budget savings required. These savings requirements mean it is prudent to retain some reserves 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>
8	Emergencies which can be foreseen which can occur on an ad hoc basis	<p>Were disasters to occur, the Council needs to have a reserve in place to pick up costs that will fall on 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>

		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.
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"> <li>• In a complex organisation there are contractual disputes for claims against the Council.</li> <li>• 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.</li> <li>• 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 2018/19 due to changes in national standards re recognising cost risk.</li> <li>• Grant clawback could occur whereby the Council is the accountable body for a grant.</li> <li>• Investments of the Council where market value can fluctuate.</li> </ul>
11	Unforeseen Events	This covers matters not considered in 1-10 but it is considered prudent to hold an amount in the General Balances.



## Anticipated Earmarked Reserves as at 31/03/2018

Earmarked Reserve	Balance £000	Assessment of Current Risk
Council Initiatives Reserve	(3,617)	<p>There are a number of projects and programmes of work which the Council to be priority initiatives. This includes:</p> <ol style="list-style-type: none"> <li>1) There is a Corporate Priority to support the learning and attainment agenda to promote the improvement of results in schools.</li> <li>2) Expected costs to assist with the preservation of Foxdenton Hall to support the Chadderton Together Group.</li> </ol>
Insurance Reserve	(12,782)	<p>This includes:</p> <ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>iii) Derelict buildings classed as heritage buildings were 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.</li> <li>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.</li> </ol> <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 2017/18. The amount could increase or decrease at the year-end as reported dependent upon the output of this Actuarial Review.</p>

Levy Reserve	(189)	This reserve has been set aside to smooth the impact of future levy increases on the Council budget.
Adverse Weather Reserve	(1,250)	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 be considerable in terms of damage caused.
Demand Changes	(1,959)	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	(8,461)	This reserve has agreed resources set aside to provide for any costs of implementing the Councils 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	(6,542)	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.

Fiscal Mitigation Reserve	(16,536)	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 three 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	(2,630)	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	(7,264)	This reserves provides the resources required to underpin the 2018/19 budget.
Regeneration Reserve	(2,530)	The Council has an extensive and ambitious regeneration agenda and resources have been set aside to support projects such as the Heritage Centre and the Town Centre Masterplan which span more than one financial year.
Integrated Working	(4,362)	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.

Directorate Reserves	(2,349)	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	(341)	This is a reserve which has funds set aside to support the work of the District Executives across the Borough.
<b>Total Estimated Earmarked Reserves 31/03/2018</b>	<b>(71,437)</b>	

#### Schools/Grant Related Reserves

Individual School Balances	(4,656)	This earmarked reserve consists of the individual school balances as at 31/03/2018 held by schools under their delegated budgets. These funds are not available for Council use.
Revenue Grants Reserve	(3,841)	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.