

## **REVIEW OF GENERAL FUND BALANCES 2017-18**

### **1 Purpose**

- 1.1 This report presents the risk assessment methodology applied in determining the minimum safe level of General Fund Working Balance used in budget planning and invites the Committee to consider the completeness and adequacy of the provision.

### **2 For decision**

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| 2.1 The Committee is invited to consider the risk assessment methodology and make any comments on its completeness and accuracy for use in budget planning for 2018/19. |
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### **3 Detailed Report**

- 3.1 There is a statutory requirement on all Councils to set a balanced budget each year. A balanced budget can legitimately include the use of general uncommitted balances, where the Council agrees that it is appropriate to do so.
- 3.2 It is prudent practice for Councils to maintain a General Fund uncommitted working balance against unexpected cost pressures or loss of income in order to ensure that the Council's finances remain balanced at all times.
- 3.3 The level of balance maintained by Aylesbury Vale District Council is reassessed annually and the minimum recommended safe level is applied in budget setting and planning.
- 3.4 This report presents the risk assessment methodology and the risks identified in determining the minimum recommended safe level of £2.5 million used in budget planning for 2017/18.
- 3.5 Members of the Committee are invited to review the methodology, the risks and the mitigations identified and consider their appropriateness in context of the budgetary pressures facing the Council.
- 3.6 Any recommendations will be passed on to the Cabinet member for Resources, who, together with the Director with the Responsibility for Finance, will consider these in developing a budget plan for 2018/19.
- 3.7 The assessment is attached to this report as Appendix A.

### **4 Supporting information**

- 4.1 Many of the financial pressures facing the Council have been the subject of previous reports to members. They are also referred to in the Quarterly Financial Digests and in the budget planning development reports.

### **5 Resource implications**

- 5.1 None.

## Identification of Risk within the Budget Strategy and Management Actions

Updated March 2017

	<b>Working Balance Cover Required</b>	<b>Risk</b>	<b>Provision</b>	
<i><b>Strategic Risks</b></i>				
Wholly Owned Companies	£500,000	M	£250,000	
Service Growth Pressure	£450,000	M	£225,000	
Partnership activity	£100,000	L	£30,000	
Application of Balances	£500,000	M/L	£200,000	
	<b>£1,550,000</b>			<b>£705,000</b>
<i><b>Corporate Risks</b></i>				
Business Rate Retention	£500,000	M/L	£200,000	
Aylesbury Local Plan	£500,000	M/L	£200,000	
Waterside Development	£250,000	M/L	£100,000	
Inflation	£250,000	M	£125,000	
Government Grant	£250,000	L	£75,000	
Interest Rates	£400,000	L	£120,000	
Industrial Tribunals	£200,000	M	£100,000	
Emergency Planning	£44,000	L	£13,200	
Financial Management	£450,000	M/H	£270,000	
	<b>£2,844,000</b>			<b>£1,203,200</b>
<i><b>Major Operational Service Specific</b></i>				
Aylesbury Vale Estate Income	£400,000	M	£200,000	
Planning & Building Control Income	£200,000	M	£100,000	
Recycling Income	£80,000	L	£24,000	
Car Parking Income	£250,000	M	£125,000	
Land Charges Income	£100,000	M	£50,000	
Waterside Theatre	£50,000	M	£25,000	
Aqua Vale and Swan Pool	£50,000	M	£25,000	
Monitoring Officer investigations	£25,000	L	£7,500	
IT systems	£250,000	L	£75,000	
	<b>£1,405,000</b>			<b>£631,500</b>
<b>Grand Total of Risk Provisions</b>	<b>£5,799,000</b>			<b>£2,539,700</b>

**Risk Key:**

**High = 70% Provision**

**Medium /Low = 40% Provision**

**Medium/High = 60% Provision**

**Low = 30% Provision**

**Medium = 50% Provision**

Risk	Risk Mitigation / Control	Assessed Risk	Action
<b>Strategic Risks</b>			
<p>Wholly Owned Companies – The Council has interests in two companies, 100% in Vale Commerce and 95% in Aylesbury Vale Broadband.</p>	<ul style="list-style-type: none"> <li>- Ensure company accounting arrangements are well understood and audited</li> <li>- Regular monitoring of budgets and performance</li> </ul>	<p>Medium</p>	<p>Vale Commerce still has a low volume of transactions so is a lesser risk than Aylesbury Vale Broadband that has its expenditure funded by way of a loan from the Council.</p> <p>As with all commercial ventures, there is the possibility that the income generated will not be sufficient to cover the loan repayments.</p> <p><b><i>Working Balance cover required £500,000</i></b></p>
<p>Service Growth Pressure - There is a risk that not all service pressures have been identified and that additional unplanned financial pressures will need to be accommodated within the budget.</p>	<ul style="list-style-type: none"> <li>- Robust service planning exercise which seeks to look into the future and identify forthcoming financial issues</li> <li>- Adequate working balances to cover unexpected and unavoidable budget pressures</li> <li>- Regular monitoring of budgets and performance</li> </ul>	<p>Medium</p>	<p>The service planning process is now well developed and understood. Assistant Directors and their Service Managers will look forward to determine what service growth needs to happen to meet the Authority’s strategic objectives and what growth might be required to maintain existing service delivery. This information is fed into the Medium Term Financial Plan together with the results of the Capital Programme review exercise. The exercise cannot guarantee to pick up all pressures as some are not known at this stage. It is therefore considered prudent to provide working balances against the unforeseen at a level equivalent to 2% of net expenditure.</p> <p><b><i>Working Balance cover required £450,000</i></b></p>

Risk	Risk Mitigation / Control	Assessed Risk	Action
Partnerships – Failure to understand full financial commitment or liability to a partnership. Potential risk of adverse cash flow. Potential risk of funding withdrawal	<ul style="list-style-type: none"> <li>- Full financial and legal opinion of the structure and status of the partnership before committing to it</li> <li>- Ensure partnership accounting arrangements are well understood and audited</li> <li>- Ensure reimbursement is sought promptly.</li> </ul>	Low	<p>The Council is currently involved with a number of partnerships. These can involve upfront expenditure by the Authority with reimbursement by the Government. In theory there should be no liability to the Authority providing the accounting and auditing arrangements are properly maintained. Future partnership activity is expected to grow and will carry elements of cost risk associated with disengagement.</p> <p><b><i>Working Balance cover required £100,000</i></b></p>
Use of Balances – The Authority has a strategy to apply balances down to the risk assessed minimum level. The budget for 2017/18 proposes no contribution to or from Balances. Forecast balances for 2016/17 are expected to be above the target minimum but consideration has been given to supporting the IT Investment Programme and Change Programme. Beyond 2017/18 the MTFP identifies ongoing savings targets to balance the budgets.	<ul style="list-style-type: none"> <li>- Medium Term Financial Planning identifies the need to find budget savings</li> <li>- Budget planning identifies how these savings will be found</li> <li>- Business planning to build in actions necessary to deliver savings</li> </ul>	Low/Medium	<p>The Authority will need to continually identify savings or identify new areas of income through the commercial activities in order to balance budgets beyond 2017/18 in the medium term financial plan. The risk remains that this will not be achievable because of the increasingly difficult nature of the savings and new money to be found.</p> <p><b><i>Working Balance cover required £500,000</i></b></p>
<b>Corporate Risks</b>			
Business Rates Retention – The introduction of the new business rates retention scheme is still subject to changes and there is a danger that the expected income will not be as high as expected. The costs associated with the level of outstanding appeals is still unknown.	<ul style="list-style-type: none"> <li>- Assumptions within the MTFP might not be as expected</li> <li>- Monthly monitoring to highlight any potential movement in expected income</li> <li>- Monitoring of outstanding levels</li> </ul>	Low/Medium	<p>As this was a known risk the MTFP allows for the use of a new Business Rates Retention reserve to counter the variability of the scheme. Although, the reserve could be insufficient due to changes announced by the Government and the extension of the Small Business Rate Relief scheme.</p> <p><b><i>Working Balance cover required £500,000</i></b></p>

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<p>Aylesbury Local Plan – A new Aylesbury Local Plan is being drawn up and consulted on. Associated with that are the potential costs of fighting new applications and the actual cost of delivering the new Local Plan.</p>	<ul style="list-style-type: none"> <li>- Large number of new applications are received.</li> <li>- Costs of appeals.</li> </ul>	<p>Low/Medium</p>	<p>There is a currently a reserve to accommodate the costs of planning appeals but with the need to establish a new plan there could be more applications that may go to appeal. The reserve might be insufficient to met the demands.</p> <p><b><i>Working Balance cover required £500,000</i></b></p>
<p>Waterside North Developments - The planned Waterside project whilst capital in nature has implications for the revenue fund as the business cases, which rely upon generating income, have yet to be tested.</p>	<ul style="list-style-type: none"> <li>- Any potential losses should be quantified and their timing assessed as part of project planning.</li> <li>- The estimated income losses to be built into Budget Planning</li> </ul>	<p>Low/Medium</p>	<p>Income from the facilities needs to be monitored to ensure that it is received on time.</p> <p><b><i>Working Balance cover required £250,000</i></b></p>
<p>Inflation – A general inflation provision is built into the budget for 2017/18 and the remainder of the MTFP based on assumed inflation figures for the main categories of spend and income. There is a risk that this provision is inadequate given that the assumption used is largely around 1.0 to 1.5% for 2017/18. Although CPI is in line with the assumptions, RPI is slightly higher. The provision covers Salaries, Contracts, Business Rates and a General provision.</p>	<ul style="list-style-type: none"> <li>- Monitor the national economic conditions to see if the provision is reasonable and adjust the size of the provision annually if required</li> <li>- Regular budgetary control</li> <li>- Maintain adequate working balances</li> </ul>	<p>Medium</p>	<p>For future years of the Medium Term Financial Plan any under provision for inflation will need to be accommodated within a balanced budget scenario. However any under provision in the current year will need to be funded from either contingency provision or working balances. For this reason it is considered prudent to maintain around 1% of net expenditure within working balances for this eventuality.</p> <p><b><i>Working Balance cover required £250,000</i></b></p>
<p>Government Grant – That Grants are below the sums anticipated within the medium term financial plan.</p>	<ul style="list-style-type: none"> <li>- Ensure estimates of grant are reasonable and based upon Government indications.</li> </ul>	<p>Low</p>	<p>The Government has now committed to a four year settlement so clarity exists as to the level of future funding and this is reflected in the MTFP. Beyond this it is widely expected that the Government will review the system of Local Government Finance.</p> <p><b><i>Working Balance cover required £250,000</i></b></p>

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<p>Interest Rates – Risk that investment returns are below those used in the medium term financial plan. Reduction in interest rates by 0.25% equates to a General Fund loss of £147,500.</p>	<ul style="list-style-type: none"> <li>- Clear lending criteria set out in Treasury Management plan</li> <li>- Realistic interest projections used in MTFP based on City advice</li> <li>- Adequate balances to cover unexpected falls in interest rates</li> </ul>	<p>Low</p>	<p>With interest rates already as low as they realistically can go and with a reduction already factored into budget planning, this risk has diminished. The only risk remaining is that returns continue to remain low because of wider economic issues or concerns over counterparty credit worthiness. The interest equalisation reserve will continue to provide some cover but reliance on the reserve is being curtailed with the resulting risk falling on the General Fund balance.</p> <p><b><i>Working Balance cover required £400,000</i></b></p>
<p>Adverse Cash Flows from the Capital Programme – Significant investment income is derived from the investment of unspent capital resources. As the Capital Programme is delivered the amount of interest income will decrease. The speed at which capital balances are spent will have an impact upon income.</p>	<ul style="list-style-type: none"> <li>- Cash flow projections into future years</li> </ul>	<p>Low</p>	<p>The Capital Programme is now based around borrowing as existing resources have now been fully utilised. The impact of cash flows is factored in current plans but these will need to be regularly reworked.</p> <p>As with the risk identified above the fluctuations are covered in the Investment Equalisation fund in the first instance and then fall onto working balances.</p>
<p>Superannuation – Risk of actuarial revaluation of fund downwards requiring higher contributions from the Authority.</p>	<ul style="list-style-type: none"> <li>- Meet with actuary at least annually to ensure that the provision in the MTFP is based upon the latest actuarial views.</li> </ul>	<p>Very Low</p>	<p>The funding implications arising from the latest valuation are built into the Medium Term Financial Plan. The latest valuation (March 2016) is reflected in the budget for 2017/18 onwards. A review of public sector pensions has determined the level of future employer contributions.</p>
<p>Risk of increase in Government determined Employer NI contributions. (1% on Employers NI equates to £140,000 on the General Fund)</p>	<ul style="list-style-type: none"> <li>- Provide adequate working balances</li> </ul>	<p>Very Low</p>	<p>There has been no increase in NI contributions for 2017/18. The risk is that there will be increases in taxation in the future from the government to fund the public sector borrowing requirement deficit.</p>

Risk	Risk Mitigation / Control	Assessed Risk	Action
<p>Self Insurance – That the self insurance provision is not sufficient to cover insurance claims against the Authority, including the potential residual MMI liability exposure for the period pre 1979.</p>	<ul style="list-style-type: none"> <li>- Assessment of each claim, potential liability and risk of losing.</li> <li>- Adequate third party insurance of high value risks</li> <li>- Limit exposure to claims through prudent use of insurance excesses</li> </ul>	<p>Very Low</p>	<p>Self Insurance reserves balances stand at £540,800 and this is considered adequate when measured against the uninsured risks. Highest value claims are insured against. Of this amount £83,606 has been set aside to cover any potential MMI claims.</p>
<p>Industrial Tribunals – Risk of awards against the Authority for employment cases lost at industrial tribunal and costs of defending.</p> <p>The change agenda facing the Council may involve downsizing of staff numbers this increases the potential for Industrial Tribunal cases.</p>	<ul style="list-style-type: none"> <li>- Comprehensive and tested employment policies</li> <li>- Adequate working balance or other provision against lost claims.</li> </ul>	<p>Medium</p>	<p>The infrequency of claims has been such in the past that no separate budget provision is now made. Any claims lost by the Council will therefore need to be met by use of working balances. Employment policies are sufficiently comprehensive to limit the highest claims but the future will require some working balance cover.</p> <p><b><i>Working Balance cover required £200,000</i></b></p>
<p>Emergency Planning – Risk of major incident in the Vale. Liability limited under the 2015/16 Bellwin scheme to £44,610.</p>	<ul style="list-style-type: none"> <li>- Disaster recovery plan that will ensure expenditure can be both made and recorded.</li> </ul>	<p>Low</p>	<p>The Bellwin scheme will provide a limit to the Authority’s financial exposure under an emergency incident and Disaster Recovery plans allow for expenditure to be recorded and for payments to be made. Cash flow shortfalls can be met from borrowing.</p> <p><b><i>Working Balance cover required £44,600</i></b></p>
<p>Financial Management – Risk that over or under spending occurs during the year, that it is not identified and that action is not taken as a consequence. The inclusion within the budget of difficult savings options, the need to set tighter budgets and the advance scoring of Vacancy Savings raises the prospect</p>	<ul style="list-style-type: none"> <li>- Robust financial controls, regulations and responsibility structures</li> <li>- Tried and tested financial systems</li> <li>- Robust and regularised systems of financial reporting</li> <li>- Systems for taking action on</li> </ul>	<p>Medium / High</p>	<p>The Authority has a robust system of financial controls and monitoring in place to ensure that under or overspending is identified early and brought to the attention of the Transition Board in order that action can be taken. Historically the Authority has under spent annually and this has been added to balances. Tighter budgets and no improvement in the economy means that the risk of overspending is now greater</p>

Risk	Risk Mitigation / Control	Assessed Risk	Action
of overspending.	reported variances. - Adequate working balances		and should be provided for at an assumed maximum of 2% of net spend.  <b><i>Working Balance cover required £450,000</i></b>
<b>Major Operational Service Specific</b>			
Aylesbury Vale Estates, a company in which Aylesbury Vale has a 50% interest is in its fourth year of trading. When the company was established the deal was predicated on rental growth in order to generate a level of income which the Council has historically relied upon but not actually achieved. The risk remains that the current market conditions mean that income targets cannot be achieved in the short term.	<ul style="list-style-type: none"> <li>- Implementation of Property Strategy</li> <li>- Economic Development and Asset Management Strategies to ensure that there is demand for commercial units in the town and an adequate supply of quality commercial units to match the demand.</li> <li>- Adequate working balances to allow phased reduction in income taken for budget setting purposes.</li> </ul>	Medium	As there is no longer the reserve to deal with the transitional income loss, future income losses will fall upon General Fund working balances but it is still hoped that within the next few years the income stream should have developed and grown.  <b><i>Working Balance cover required £400,000</i></b>
Contract Renegotiation / Re-tender – Contract price coming back much higher than assumed increase level built into the MTFP as a result of renegotiation / re-tendering exercise.	<ul style="list-style-type: none"> <li>- Market testing / Benchmarking exercises to assess the current market rate for these contracts.</li> <li>- Adequate provision made within working balances</li> </ul>	Very Low	The MTFP includes provision for contract increases based upon contract conditions and the advice of external consultants who carried out market testing exercises to see what the Authority should expect to pay. It is therefore assumed that the risk of all contracts exceeding the budget provision is relatively small.
Planning / Building Control Income – Subject to rises and falls in the housing market. It is therefore demand led and potentially volatile.	<ul style="list-style-type: none"> <li>- Make income assumptions based upon market conditions</li> <li>- Monitor income situation through budgetary control</li> <li>- Adequate working balances</li> </ul>	Medium	The housing market is showing signs of recovery but it still has a significant impact upon planning income. This is compounded by changes to planning rules reducing the number of developments that require planning permission.  <b><i>Working Balances cover required £200,000</i></b>



Risk	Risk Mitigation / Control	Assessed Risk	Action
<p>Recycling Income – The income from recycling is heavily tied into the demand for recyclable materials. Should the demand for these materials diminish then we could end up having to pay to dispose of the materials instead of currently receiving a fee.</p>	<ul style="list-style-type: none"> <li>- Monitor situation through liaison with budget holder</li> <li>- Seek alternative purchasers</li> </ul>	Low	<p>The increase in recyclable materials, and therefore the income associated with it, as a result of the change to the one bin collection method continues to be factored into budget planning but there remains a risk of volatility and, therefore, future unplanned income losses.</p> <p><b><i>Working Balance cover required £80,000</i></b></p>
<p>Car Parking Income – This is a demand led function and income is therefore subject to market forces. The budget assumes additional income from proposed increases in charges but the risk remains that people will either use alternative forms of transport or avoid using our car parks thereby not generating the planned levels of increased income.</p>	<ul style="list-style-type: none"> <li>- Monitor income situation through budgetary control</li> <li>- Adequate working balances</li> <li>- Model Car Park account for future years and build in to budget planning</li> </ul>	Medium	<p>Car parking pay and display income remains on target. The reduced levels of income from the Exchange Street car park has been reflected in the 2017/18 budget. A review of the pay and display tariffs will be carried out during 2017/18 and any increase in the tariffs will be reflected in the MTFP for 2018/19.</p> <p><b><i>Working Balance cover required £250,000</i></b></p>
<p>Land Charges Income - Subject to rises and falls in the housing market. It is therefore demand led and potentially volatile.</p> <p>Deregulation, increased competition and a collapse in the housing market have detrimentally affected demand and consequentially income from this service.</p>	<ul style="list-style-type: none"> <li>- Make income assumptions based upon market conditions</li> <li>- Monitor income situation through budgetary control</li> <li>- Adequate working balances</li> </ul>	Medium	<p>It is now assumed that the market has bottomed out and that income will not reduce still further but as the market for private searches continues to develop this risk cannot be ruled out.</p> <p><b><i>Working Balance cover required £100,000</i></b></p>
<p>Housing Benefits – The amount of benefits payable is dependent upon wider economic conditions. The Authority receives 100% reimbursement</p>	<ul style="list-style-type: none"> <li>- Budgetary Control to monitor the position</li> <li>- Use of Benefits Reserve to protect the budget position</li> </ul>	Medium	<p>The Benefits reserve currently has a balance of £807,000. The impact of changes to Housing Benefit entitlement will be kept under review. Ongoing monitoring and management of the reserve</p>

Risk	Risk Mitigation / Control	Assessed Risk	Action
<p>from the Government so the liability to the Authority is greatly reduced. Local authority error is not fully reimbursed and can represent an area of budget uncertainty. Council Tax Benefit changed from the 1<sup>st</sup> April 2013 to a discount and entitlement which means that more of the population are now liable to pay an element of the tax.</p>			<p>fund is a feature of budget management.</p> <p>The impact of new customers having to pay council tax could lead to an increase in arrears and a higher level of debts.</p>
<p>Bed &amp; Breakfast – There is a risk that on-going recessionary pressures might create additional demand that cannot be contained within Griffin Place.</p>	<ul style="list-style-type: none"> <li>- Monitoring of the situation</li> <li>- Effective housing advice early on to prevent homelessness arising in the first instance</li> </ul>	<p>Very Low</p>	<p>Demand has yet to show any real increase but homelessness tends to be slower in presenting itself.</p>
<p>Aqua Vale Pool – There is risk that the management contract cannot meet their required income levels.</p>	<ul style="list-style-type: none"> <li>- Management contract tender within existing budget.</li> <li>- Monitoring the contract to ensure that the contractor delivers what was promised.</li> </ul>	<p>Medium</p>	<p>Monitor the contract to ensure the Council continues to receive the income expected.</p> <p><b><i>Working Balances cover required £50,000</i></b></p>
<p>Private Rent Guarantees – AVDC underwrites rent in private properties. Changes in HB operation could mean more guarantees are called upon.</p>	<ul style="list-style-type: none"> <li>- Reserve Fund maintained to cover any guarantee exercised. Cover is appx 50% of sums guaranteed.</li> </ul>	<p>Very Low</p>	<p>Maintain fund and monitor impact of changes in HB operation .</p>
<p>Waterside Theatre – The costs associated with operating the new theatre have been assessed and budgeted for accordingly</p>	<ul style="list-style-type: none"> <li>- Monitoring of progress</li> <li>- Review of business plans</li> </ul>	<p>Medium</p>	<p>Although the agreement with the operator mitigates the main financial risks, there is the possibility with such a substantial building that there is an unforeseen cost risk.</p> <p><b><i>Working Balances cover required £50,000</i></b></p>
<p>Monitoring Officer Investigations – the widened scope of responsibility means that the MO has responsibility for</p>	<ul style="list-style-type: none"> <li>- Provision of training for Parishes and Members</li> <li>- Operation of Standards Board</li> </ul>	<p>Low</p>	<p>Occurrences cannot be pre planned. If investigations cannot be sourced internally there will be a need to draw on balances. This risk will reduce with the</p>

Risk	Risk Mitigation / Control	Assessed Risk	Action
<p>investigations including Parish issues across the district. Investigations can be costly.</p>			<p>planned changes to the standard regime. <b><i>Working Balances cover required £25,000</i></b></p>
<p>IT system supplier failure – IT systems underpin all activities and if a supplier defaults there will be a need for action to maintain Council operation.</p>	<ul style="list-style-type: none"> <li>- Monitor situation</li> <li>- Remain in contact with supplier</li> <li>- Seek back up cover</li> </ul>	<p>Low</p>	<p>Monitor situation <b><i>Working Balances cover required £250,000</i></b></p>