



wide range of functions. Proportionate public engagement and consultation activity on the Council's medium term financial planning and budget setting processes have been undertaken as noted in paragraphs 6.3 to 6.8, above. It is intended to prepare a detailed report on issues raised during the consultation process which will be placed on the Council's website.

14 Appendices

1. Summary of the proposed MTFP to March 2015.
2. Business Unit Cash Limits 2012-13
3. Changes and Variations
4. Reserves:
 - 4a: Reserves Policy
 - 4b: Reserves and their Adequacy
 - 4c: Risk Evaluation.
5. The Treasury Management Strategy Statement.
6. The Formal Budget Resolution
7. Cabinet Report of 7th February 2012: Financial Planning 2012-13 to 2014-15.

15 Local Access to Information Act

15.1 The following reports are relevant:

- Financial Planning 2012-13 to 2014-15
(Cabinet 7th February 2012)
- Financial Planning 2012-13 to 2014-15
(Cabinet 20th December 2011).
- Financial Planning 2012-13 to 2014-15: mid year budget update
(Cabinet 4th October 2011)

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MEDIUM TERM FINANCIAL PLAN TO MARCH 2015

Appendix 1

	2011-12				2012-13				2013-14				2014-15			
	Revised Budget £'000	Pre-Agreed Growth £'000	New Growth £'000	New Savings £'000	Pre-Agreed Growth £'000	New Growth £'000	New Savings £'000	Base Budget £'000	Pre-Agreed Growth £'000	New Growth £'000	New Savings £'000	Base Budget £'000	Pre-Agreed Growth £'000	New Growth £'000	New Savings £'000	Base Budget £'000
Funding Requirement - General Fund																
Service Areas (excluding Corporate Recharges and Capital Financing Costs)																
Adults and Housing	90,143	2,790	0	(3,594)	(3,043)	86,296	2,485	0	0	(1,590)	87,191	0	0	0	0	87,191
Place and Sustainability	43,546	(60)	1,900	(2,308)	(1,289)	41,789	1,900	0	0	(1,494)	42,195	0	750	0	(800)	42,145
Public Health	848	0	0	0	0	848	0	0	0	0	848	0	0	0	0	848
Children and Young People's Services	66,058	(1,983)	0	(2,470)	(942)	60,663	(741)	0	0	(1,042)	59,980	0	0	0	(810)	59,970
Sub-Total	200,594	747	1,900	(8,372)	(5,274)	189,995	3,644	0	0	(4,126)	189,313	0	750	0	(1,610)	188,253
Corporate Services																
Corporate Resources	29,937	0	0	87	(409)	29,615	4,000	0	0	(1,665)	31,930	0	0	0	(380)	31,540
Chief Executive	11,578	0	0	(527)	(1,065)	9,986	0	0	0	(900)	9,086	0	0	0	(50)	9,036
Non-Service Revenue	46,007	(114)	3,290	(5,016)	(106)	49,981	2,794	0	(3,863)	(3,787)	39,185	0	4,700	0	0	43,885
Inflation	(1,947)	6,337	(620)	0	0	3,770	5,500	0	0	0	9,270	0	8,000	0	0	17,270
Government Grant etc to be allocated	0	0	1,023	0	0	1,023	0	64	0	0	1,087	0	0	0	0	1,087
TfI to reserves - One Borough One Future	0	0	1,200	0	0	1,200	0	0	0	(1,200)	0	0	0	0	0	0
TfI from Reserves - Risk provision	0	0	(800)	0	0	(800)	800	0	0	0	0	0	0	0	0	0
Budget Shortfall	0	0	0	0	0	0	0	0	0	(6,051)	(6,051)	0	0	0	0	(6,051)
Potential Budget Shortfall	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(19,273)	(19,273)
Sub-Total	85,575	6,223	4,093	(5,456)	(1,580)	88,855	12,294	864	(3,863)	(13,623)	84,507	0	12,700	0	(19,713)	77,494
Total Funding Requirement	286,169	6,970	5,993	(13,828)	(6,854)	278,450	15,938	864	(3,863)	(17,749)	273,620	0	13,450	0	(21,323)	265,747
Funding Sources																
Core Grants (excl DSG)	29,248	0	0	2,600	685	82,533	0	0	0	(3,930)	28,603	0	0	0	0	28,603
New Homes Bonus	1,200	0	0	0	485	1,685	0	0	0	0	1,685	0	0	0	0	1,685
Formula Grants	153,221	0	0	(12,000)	0	141,221	0	0	(3,500)	0	137,721	0	0	0	(10,573)	127,148
Council Tax	102,500	0	0	511	0	103,011	0	0	2,600	0	105,611	0	0	0	2,700	108,311
Total Available Funding	286,169	0	0	(8,889)	1,170	278,450	0	0	(900)	(3,930)	273,620	0	0	0	(7,873)	265,747

Appendix 2

Business unit cash limits	2012-13
	Cash limit
	£'000
Central Directorate Office (Adults & Housing)	965
Adults and Community Services	68,666
Community Housing Services	16,665
Adults and Housing	86,296
Central Directorate Office (Place & Sustainability)	497
Front Line Services	27,904
Planning, Regen and Economy	2,718
Property	5,860
Leisure Services	1,776
Culture, Libraries & Learning	3,375
BSF Revenue / Direct Services / Prop & Contracts	(342)
Place & Sustainability	41,789
Public Health	848
Public Health	848
Central Directorate Office (Corporate Resources)	202
Revenues, Benefits & Customer Services	7,275
Corporate Finance	5,188
Corporate Procurement	1,640
Legal services	2,296
Information Technology	13,015
Corporate Resources	29,615
Prevention and Early Intervention	11,173
Children & Families	49,024
Business Support and Development	1,133
Director's Budget	(667)
Children&Young People's Services	60,663
Chief Executive	2,277
Electoral Service	310
Human Resources	1,331
Organisational Development & Committee	862
Local Democracy	934
Policy, Intelligence & Partnerships	2,878
Communications	1,395
Chief Executive	9,986
Non Service Revenue	44,061
Inflation	3,770
Gov't Grant etc to be allocated	1,023
Transfers to/(from) Reserves	400
Non Service Revenue	49,254
Total Funding Requirement	278,450

Changes and Variations

Item	Potential / Known Budget Pressure	2012-13 over 2011-12 £'000	2013-14 over 2012-13 £'000	2014-15 over 2013-14 £'000
1	Inflation	3,770	5,500	8,000
2	NLWA - levy etc	1,000	2,500	250
3	Increase in cost of concessionary fares	1,300	500	500
4	Council Tax Benefit - subsidy 10% reduction	0	4,000	0
5	Risks to future government funding etc	2,500	2,600	2,700
6	Debt Financing Costs (net)	(3,063)	319	0
7	Service Growth (pre-agreed)	836	1,744	0
8	Potential future service pressures	0	0	2,000
	Changes and Variations Total	6,343	17,163	13,450

Haringey Council

Reserves policy

Background

- 1 Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to consider the level of reserves when setting a budget requirement. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Section 151 Officer) to report formally on the adequacy of proposed reserves when setting a budget requirement. The accounting treatment for reserves is set out in the Code of Practice on Local Authority Accounting.
- 2 CIPFA has issued Local Authority Accounting Panel (LAAP) Bulletin No.55, Guidance Note on Local Authority Reserves and Balances. Compliance with the guidance is recommended in CIPFA's Statement on the Role of the Chief Financial Officer in Local Government.
- 3 This note sets out the Council's policy for compliance with the statutory regime and relevant non-statutory guidance.

Overview

- 4 The Council's overall approach to reserves will be defined by the system of internal control. The system of internal control is set out, and its effectiveness reviewed, in the annual Statement of Internal Control and in the future incorporated within the Annual Governance Statement. Key elements of the internal control environment are objective setting and monitoring, policy and decision-making, compliance with statute and procedure rules, risk management, achieving value for money, financial management, and performance management.
- 5 The Council will maintain:
 - a general fund general reserve;
 - a housing revenue account (HRA) general reserve; and
 - a number of earmarked reserves.

General fund general reserve

- 6 The purpose of the general reserve is to manage the impact of emergencies or unexpected events. Without such a reserve, the financial impact of such events could cause a potential financial deficit in the general fund, which would be severely disruptive to the effective operation of the authority. The reserve should mitigate against immediate service reductions if there were any unforeseen financial impacts.

- 7 The level of the general reserve is a matter for the Council to determine having had regard to the advice of the S151 Officer. The level of the reserve will be a matter of judgement which will take account of the specific risks identified through the various corporate processes. The level will be expressed as a target cash sum over the period of the general fund medium-term financial strategy. The level will also be expressed as a percentage of general fund requirement (to provide an indication of financial context).

HRA general reserve

- 8 The purpose of the HRA general reserve is similar to the general fund general reserve above except applied to the HRA.

Earmarked reserves

- 9 The purpose of earmarked reserves is to enable sums to be set aside for specific purposes or in respect of potential or contingent liabilities where the creation of a provision is not required.
- 10 The Council will maintain the following earmarked reserves:
1. services reserve: the net unspent balance of service budgets where the Cabinet has agreed that such sums should be carried-forward for use in subsequent years;
 2. insurance reserve: funds set aside to meet internally-insured liabilities where the creation of a provision is not required;
 3. PFI reserve: funds set aside from specific PFI grant from the government to meet payments to be made to the Council's secondary schools PFI provider; this will be required to manage lifecycle funds during the suspended services period;
 4. infrastructure reserve: specific funds set aside for the planned maintenance and renewal of infrastructure assets for IT and Property including the transfer of revenue and capital underspends from year to year;
 5. transition reserve: funds set aside in respect of key financial risks identified through the risk management process relating to the restructuring of the Council and the savings required as part of the Medium Term Financial Plan;
 6. financing reserve: a reserve to enable multiple-year medium-term financial strategies in the context of the annual budgeting and accounting cycle;

7. debt repayment / capital reserve: this reserve has previously been used to set aside money that the Council has for repaying outstanding debt in the future and/or for the purposes of setting aside money earmarked for capital investment. This reserve will now be utilised for redundancy costs;
8. major repairs reserve (HRA): the balance on this reserve represents the amount unspent of the major repairs allocation (MRA) and will be used to meet housing capital expenditure in future years
9. schools reserve: the net unspent balance of delegated funds managed by schools;

Management and control

- 11 The schools reserve, the insurance reserve, and the PFI reserve are clearly defined and require no further authority for the financing of relevant expenditure.
- 12 The use of all other reserves requires budgetary approval in the normal way.
- 13 All reserves are reviewed as part of the budget preparation, financial management and closing processes.

Reporting and review

- 14 The Council will consider a report from the S151 Officer on the adequacy of the reserves in the annual budget-setting process. The report will contain estimates of reserves where necessary. The General Purposes Committee will consider actual reserves when approving the statement of accounts each year.
- 15 The Council will review the reserves policy on an annual basis.

RESERVES AND THEIR ADEQUACY

1. General Fund General Reserve

The judgement on the adequacy of the general fund general reserve needs to reflect the risk management and financial control processes that are in place, and the residual risk of emergencies or unexpected events. For this purpose identification of the key risks is done in three ways:

- identification of risks during the financial planning and budget setting process as set out in the main report;
- risk assessment of the agreed investment and savings proposals in the agreed budget package, and;
- key risks identified, monitored and managed through the Council's risk management strategy and framework.

The calculation of the potential financial impact of these assessed risks has been done and in the light of this, it is regarded that £10.5m is an appropriate target level for the general fund general reserve over the three-year financial planning period. The risks set out in Appendix 4b assess a potential financial impact at £10.2m; the Director of Corporate Resources therefore regards the £10.5m figure as a prudent level to set aside.

The £10.5m target for general balances represents 4% of the Council's net budget requirement for 2012-13.

2. Services Reserve

It is Council policy that service under and over spends are retained by the relevant service subject to approval by the Cabinet in the year end financial outturn report. This reserve earmarks those funds to be carried forward to the following financial year.

3. Insurance Reserve

The insurance reserve is kept under review by the Head of Audit and Risk Management with the assistance of the Council's insurance adviser. A key variable is the split between this reserve and the level of insurance provision held elsewhere in the balance sheet. The last actuarial review concluded that this reserve was at an appropriate level. The Director of Corporate Resources is satisfied that the reserve constitutes adequate protection in respect of the self-insured risk. This self-insurance reserve is in addition to the separately procured insurance with a consortium of other London boroughs.

4. PFI Reserve

The PFI reserve reflects the new arrangements following the suspension of services within the PFI contract. The opening figure reflects the remaining element after taking into account the pre-payment previously included elsewhere in the balance sheet. The reserve will be used to manage the lifecycle fund requirements for

schools in the suspended services period during the Building Schools for the Future investment programme.

5. Infrastructure Reserve

The infrastructure reserve is a key financing resource for the programmes of renewal of assets for IT and property. This assists in spreading the costs of core replacement of assets as well as managing asset improvement programmes. It is current policy that revenue and capital underspends in these services are transferred to this reserve for future use.

The infrastructure reserve will remain in place to spread the cost of future infrastructure renewal programmes.

6. Transition Reserve

The Transition Reserve is specifically earmarked for the costs associated with the Council's restructuring and savings programme.

This Reserve is to fund the associated transition costs of redundancies, decommissioning, and investment necessary to deliver longer term efficiencies and change. Given the scale of the transition programme within the period of the medium term financial plan there is still an estimated cost of some £14m relating to the redundancies as a result of the savings proposals still to be implemented. The Council is continuing to seek government approval to capitalise this cost and to date has received confirmation for £5.0m. The Director of Corporate Resources considers that all of this reserve should be earmarked for redundancy costs.

7. Financing Reserve

The financing reserve is a key tool for managing the impact of financial plans from one year to another. This reserve requires balances to be at different levels year to year depending on the demand as identified through previous and current budget plans. This includes an amount set aside for the Sustainable Investment Fund (SIF) which supports invest-to-save projects designed to reduce the Council's CO2 emissions and reduce energy costs. The overall balance on the financing reserve at 31st March 2012 is estimated to be £8.0m.

8. Debt Repayment / Capital Reserve

This reserve has previously been used to set aside money that the Council has for repaying outstanding debt in the future and / or for the purposes of setting aside money earmarked for future capital investment. It had been considered to be used to fund the impairment from the non-recovery of deposits in Icelandic banks, however, central government have allowed this to be capitalised over twenty years so this amount remains uncommitted. It has also been available to support the capital programme. However, given the scale of the redundancy costs the Council is to incur, this reserve will now be utilised and applied to these costs.

9. HRA reserve

The judgement on the adequacy of the HRA general reserve needs to reflect the risk management and financial control processes that are in place, and the residual risk of emergencies or unexpected events. This risk evaluation also needs to take into account the change in the financing of the HRA from 1st April 2012 and the account moving to be self-financing.

In the light of this, £7.5m is regarded as an appropriate target level for the HRA general reserve over the three-year financial planning period which the Director of Corporate Resources considers to be a prudent level. This represents approximately 9% of the HRA turnover for 2012-13.

10. HRA Major Repairs Reserve

The balance on this reserve represents the amount unspent of the major repairs allocation (MRA) and will be used for future housing capital spend. This has been inflated in recent years as the government has allowed Decent Homes funding to be brought forward. However due to changes in the HRA financing from 1st April 2012 this will be changing and currently it is not anticipated there will be any extra resources to go into this reserve after the 2012-13 capital programme has been financed.

11. Schools Reserve

The amount in the schools reserve is a consequence of the funding and spending of individual schools. A proportion of it reflects earmarked funding for future schools projects. The current expected level of the reserve at £1m represents 0.5% of the schools core funding. The projection for 2012-13 will not be finalised until individual schools budgets are calculated, which is subject to the pupil count data. A loan scheme has been introduced with the agreement of the school's forum, which acts like the Council's own Sustainable Investment Fund (SIF) and allows schools to borrow to invest in energy and carbon reducing improvements that can be repaid back to the general schools balances.

12. Overall

The estimates of the reserves position, including earmarked and un-earmarked reserves for the General Fund, schools and the HRA are detailed in the table below.

Reserve	Actuals 31.03.11 £m	Forecast to 31.03.12 £m	Forecast to 31.03.13 £m
Non-earmarked			
General Fund Balance	10.6	10.5	10.5
Total Non-earmarked Reserves	10.6	10.5	10.5
Earmarked			
Services Reserve	4.8	4.7	1.6
Insurance Reserve	8.9	8.0	8.0
PFI Reserve	7.2	5.0	4.8
Infrastructure Reserve	2.4	1.9	0.4
Transition Reserve	1.8	1.8	1.8
Financing Reserve	8.5	8.0	5.0
Debt Repayment/Capital Reserve	13.3	12.5	8.2
Total Earmarked Reserves	46.9	41.9	29.8
Other Reserves			
HRA	8.0	7.5	7.5
Major Repairs (HRA)	0.0	0.0	0.0
Schools	2.6	1.0	1.0
Total Other Reserves	10.6	8.5	8.5
Total	68.1	60.9	48.8

Adequacy of Reserves - Risk Assessment

Three key assessment areas:

1. Identification of risks during the financial planning and budget setting process as set out in the main report;
2. risk assessment of the agreed investment and savings proposals in the proposed budget package, and;
3. key risks identified, monitored and managed through the Council's risk management strategy in the corporate risk register.

	Gross Budget Exposure £m	Risk %	Residual Impact £m
1. Budget Process			
Adult Social Care	50		
Childrens Services	24	A medium level risk	
Housing	10	assessment has been	
Capital Financing	40	applied to the budget	
Revenue streams	50	amount potentially at risk	20.0
2. Savings Proposals			
- Delivery Programme	20	Medium risk on savings proposals for 2012-13	3.0
- Transition costs (e.g. redundnacies)	14	Very high risk of significant financial impact	14.0
3. Corporate Risk Register			
	28	Low risk assessment on variety of risks within the corporate risk register	2.0
4. Unidentified Risks			
Less earmarked reserves and contingencies for the above			1.0
Grand Total			- <u><u>29.8</u></u> <u><u>10.2</u></u>

**Treasury Management Strategy Statement
and Investment Strategy 2012-13 to 2014-15**

1. Background
2. CIPFA Treasury Management Code of Practice
3. Self financing of Housing
4. Balance Sheet and Treasury Position
5. Borrowing Strategy
6. Investment Policy and Strategy
7. Use of Financial Instruments for the Management of Risks
8. Outlook for Interest Rates
9. Balanced Budget Requirement
10. MRP Statement
11. Other Issues

Annexes

1. Treasury Policy Statement
2. Detail of Treasury Position
 - A: General Fund Pool
 - B: HRA Pool
3. Summary of Prudential Indicators
4. Arlingclose's Economic and Interest Rate Forecast
5. Specified Investments
6. Lending List of counterparties for investments

1. Background

- 1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the Communities and Local Government (CLG) Department's Investment Guidance.
- 1.2 CIPFA has defined Treasury Management as:
"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 1.3 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are integral elements of treasury management activities and include Credit and Counterparty Risk, Liquidity Risk, Market or Interest Rate Risk, Refinancing Risk and Legal and Regulatory Risk.
- 1.4 The strategy takes into account the impact of the Council's proposed Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators and the outlook for interest rates.
- 1.5 The purpose of this report is to propose:
 - An updated Treasury Policy Statement – discussed in Section 2 and set out in Annex 1
 - Treasury Management Strategy - Borrowing in Section 5, Investments in Section 6
 - Prudential Indicators – these are detailed throughout the report and summarised in Annex 3
 - MRP Statement – Section 10

2. CIPFA Treasury Management Code of Practice

- 2.1 Adoption of the CIPFA Treasury Management Code of Practice is one of the Prudential Indicators. The Council originally adopted the Code of Practice in May 2002. Revisions to the Code in 2009 were reflected in updated versions of all policies and procedures in early 2010.
- 2.2 In November 2011 a further revised version of the Code of Practice was published. There are a number of minor amendments which have been incorporated into this draft Treasury Management Strategy. The main change is a requirement to update the Council's Treasury Policy

Statement to make reference to the Council's high level approach to borrowing and investment. A proposed revised version of this Statement based on CIPFA's recommended form of words is attached at Annex 1.

3. Self financing of Housing

- 3.1 The removal of the housing subsidy system is being implemented through a one-off reallocation of debt. The settlement of the reallocation is expected to take place on 28th March 2012 and will result in the Council having a reduction in PWLB debt of £233.85m achieved by a proportional repayment of each PWLB loan outstanding.
- 3.2 In line with guidance from CIPFA and in order to ensure transparency, it is proposed that the Council's debt portfolio is split into two pools – one for HRA and one for General Fund. The CIPFA guidance states that in separating the debt Councils must ensure that there is no detriment to the General Fund and that the separation is a solution which is broadly equitable between the HRA and the General Fund.
- 3.3 The proposed split of the debt is shown in Table 1 below. This has been done by first allocating the internal borrowing according to relative levels of cash balances and then allocating the external borrowing according to relative Capital Financing Requirements (CFRs). As discussed later in this report, the CFR represents past capital expenditure to be funded through borrowing which has not been repaid yet. The information which follows in this report reflects the proposed method of splitting the debt.

Table 1: Splitting of Debt – General Fund and HRA

	General Fund £000	HRA £000	Total £000
PWLB	70,212	149,244	219,456
Market Loans	39,992	85,008	125,000
Local Authorities	14,398	30,602	45,000
Internal Borrowing	94,405	8,000	102,405
Total	219,007	272,854	491,861

- 3.4 Although it is proposed that there will be two debt pools going forward, all the loans remain a debt of the overall Council and therefore the responsibility of the Section 151 officer. This strategy statement covers the management of both pools of debt. In the management of the two pools of debt, internal transfers between the pools will take place when it is beneficial to both pools to do this to avoid the Council incurring additional cost.
- 3.5 HRA cash balances will continue to be managed in one pool with the General Fund balances. Interest will be allocated to the HRA on the basis of the monthly cash balance and the average rate of interest earned across the combined pool.

4. Balance Sheet and Treasury Position

- 4.1 The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), together with Balances and Reserves, are the core drivers of Treasury Management activity. The estimates for each pool, based on the current proposed Revenue Budget and Capital Programmes, are:

Table 2a: Treasury Position – General Fund

	31/03/2012	31/03/2013	31/03/2014	31/03/2015
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
General Fund CFR	307,087	298,901	287,402	276,236
Less: Share of Existing External Borrowing & Other Long Term Liabilities	212,682	187,012	174,906	166,350
Internal Borrowing	94,405	82,305	77,305	72,305
Cumulative Net Borrowing Requirement	0	29,584	35,191	37,581

Table 2b: Treasury Position – HRA

	31/03/2012	31/03/2013	31/03/2014	31/03/2015
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
HRA CFR	272,854	272,854	272,854	272,854
Less: Share of Existing External Borrowing & Other Long Term Liabilities	264,854	219,066	202,334	193,388
Internal Borrowing	8,000	7,500	7,500	7,500
Cumulative Net Borrowing Requirement	0	46,288	63,020	71,966

- 4.2 The tables above show how the Council's capital requirement is funded currently and how it is expected to be funded in the coming years. Due to the differential between short and long term interest rates (discussed in more detail in section 5), the Council has maximised the amount of internal borrowing that can be done. As interest rates are not expected to rise over the next three years, it is anticipated that a significant level of internal borrowing will continue, with the only reduction expected reflecting the planned movement in reserves. The borrowing requirement at the bottom of each of the tables shows how much external borrowing will be required to fund maturing external borrowing.
- 4.3 Ensuring that net physical borrowing (i.e. net of investments) does not exceed the CFR is a key indicator of prudence. There was no difficulty meeting this requirement in 2011-12, nor are there any difficulties envisaged for future years, as the levels of internal borrowing in tables 2a and 2b above demonstrate.