

Officer Response 2 – Resources Directorate - to questions raised at Extraordinary Budget OSC 2 on 22nd January 2013

- 1. With reference to Page 30 of the 2013/14 budget pack a more detailed analysis of the General Fund Reserves and movement therein was requested. What did it comprise of, where was it funded from and what options for spend were there?**

Response

General Reserves are held as a contingency to cushion the Council against unexpected events and as a 'working balance' to manage the financing of uneven cashflows. Further details are set out in the budget pack at Appendix 6.1 (pages 100-102).

Officers have assessed that in order adequately to protect the Council against unforeseen emergencies, a minimum of £20m needs to be maintained in General Reserves. (This assessment is shown at Appendix 6.2 of the report)

The MTFP is built around two imperatives;

- The need to deliver savings to balance the budget in the forthcoming year and over the period of the MTFP to produce a sustainable budget position
- The need to retain at least £20m in General Reserves as described above.

Government funding cuts are feeding through in accordance with the Spending Review of 2010 (which covers the period to the end of 2014/15) and the detailed decisions subsequently taken by Ministers. However, inevitably the delivery of savings does not follow the same profile by which funding is being removed. The plan is therefore that sufficient savings will be delivered up to the end of 2013/14 to build up General Reserves to a much higher level than is required (£47m). The Council does not need to maintain this level of reserves and can therefore apply up to £27m to manage the impact of the further funding cuts expected in 2014/15 and 2015/16. Financial officers advise that this is perfectly acceptable and sensible financial planning to manage the impact of budget savings over the period of funding reductions.

The bottom part of the table on Page 30 shows this happening.

Officers advice is that to be prudent the Council should not apply the surplus General Reserves to additional expenditure, because this would mean that savings in the period beyond 2015/16 would need to be delivered sooner.

2. Further information requested on movements in earmarked reserves

What comprised the £5.6m for Corporate Reserves?

Response

Earmarked reserves are those that are set aside for certain specific future expenditure or risks. Sometimes this is a matter of Council policy and sometimes they are ringfenced for particular purposes.

The figures at Appendix 6.3 show the actual balances on earmarked reserves as at 31st March 2012 and these are set out in more detail at the Appendix.

Balances for later years are forecasts incorporating an estimate of expenditure from these reserves during the financial year. Since reserves often cover expenditure which occurs unpredictably between financial years this can be a hazardous process and forecasts are likely to change.

The £5.6m listed as 'Other' breaks down as follows;

Balance as at 31 st March 2012	£1.9m
Transfers from other reserves – now identified as surplus to requirements	£4.1m
Anticipated spend during the year	(£0.5m)
Estimated balance as at 31 st March 2013	£5.6m

3. Whether consideration, similar to that of Councils in the north of England, has been given to not outsourcing services, particularly vital ones, and formulating a business plan accordingly to mitigate any budgetary risk.

Response

As Members will be aware, Tower Hamlets Council does not have a policy to outsource services and only takes this route where there are clear benefits to be gained for the Borough. The private sector or third sector can sometimes provide capacity that local authorities are unable to provide for themselves and acumen and expertise that brings efficiency benefits to services, but unless such benefits can be identified and their delivery is built into contracts, the benefits from outsourcing can be limited or temporary in nature. Decisions to outsource therefore need to be based on a clear business case.

Officers are aware that Members take different views of the efficacy of using private sector or third sector suppliers and sometimes the issue of trust is a powerful factor. These issues can be mitigated by good procurement and contract management practice, ensuring that the authority secures a contractual commitment to the benefits it requires and that the partnership with the contractor is managed to ensure these are delivered, although this is not always easy to do.

In relation to the process of the Council taking back services that have previously been outsourced (a process known as 'insourcing'), again officers' advice is that this also needs to be subject to circumstances. The authority is under an overall duty to secure best value in the delivery of services and any decision, whether to outsource or to insource, needs to be led primarily by these considerations.