

PERTH AND KINROSS COUNCIL**12 February 2015****RESERVES STRATEGY****Report by the Head of Finance****ABSTRACT**

This report recommends a strategy for managing the Council's Reserves (with the exception of the Housing Revenue Account balances) in the context of setting the Council's Final Revenue Budget for 2015/16.

1. BACKGROUND

- 1.1 In accordance with the existing statutory and regulatory framework, the Head of Finance as Responsible Financial Officer (or "Proper Officer") is responsible for advising the Council on the level of Reserves it should hold. This report is intended to fulfil that remit except with regard to Housing Revenue Account (HRA) balances, which were considered in a separate report to the Housing and Health Committee on 28 January 2015 (Report No. 15/50 refers). CIPFA Local Authority Advisory Panel Bulletin (LAAP) 99 published in July 2014 provides guidance on the establishment and maintenance of Reserves and Balances and has informed the preparation of this report.
- 1.2 In determining medium term financial plans and preparing budgets the Council needs to consider the establishment and maintenance of Reserves in accordance with its statutory powers. Reserves can be held for three main purposes:
- Working balances to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of General Reserves.
 - A contingency to cushion the impact of unexpected events or emergencies – this also forms part of General Reserves.
 - A means of building up funds often referred to as Earmarked Reserves, to meet known or predicted liabilities.
- 1.3 LAAP Bulletin 99 also provided guidance on the various categories of Earmarked Reserve that the Council is permitted to hold:
- Sums set aside for major schemes, such as capital developments or asset purchases, or to fund major reorganisations

- Insurance reserves
- Reserves for trading and business units
- Reserves retained for service use
- Reserves for unspent revenue grants
- School balances

1.4 The Audited Statement of Accounts for 2013/14, which were presented to the Council on 8 October 2014 (Report No. 14/434 refers), gives an overview of the Reserves position as at 31 March 2014 which is summarised in the table below.

Summary of Council Reserves as at 31 March 2014	
	£'000
General Fund	48,041
Housing Revenue Account	907
Capital Fund	15,832
Renewal and Repair Fund	412
Insurance Fund	3,410
Capital Receipts Reserve	1,833
Capital Grants Unapplied	102
	70,537

- 1.5 The above summary excludes the Revaluation Reserve; Capital Adjustments Account; the Financial Instruments Adjustment Account; the Pensions Reserve and the Accumulating Compensated Absences Adjustment Account. These Reserves reflect proper accounting practice, but they are not resource-backed and are, therefore, of limited relevance in determining the Council's Reserves and budget strategies.
- 1.6 The General Fund figure included above merits further consideration and is analysed in detail at Appendix 1 to this report. To assist in effective financial management, Housing Revenue Account balances are considered separately from the rest of the General Fund although for accounting purposes they are part of the General Fund. With regard to Appendix 1 it is important to note that although the General Fund balance as at 31 March 2014 totalled £48,948,000, once HRA balances (£907,000) and commitments (£34,801,000) are excluded there was an uncommitted General Fund balance of £13,240,000. This represented approximately 3.98% of the budgeted net expenditure for 2014/15 (per Revenue Monitoring Report No.3 – considered by the Strategic Policy and Resources Committee on 11 February 2015 (Report No. 15/34 refers)).

- 1.7 The projected position as at 31 March 2015 for each of the relevant Reserves will now be considered in turn and recommendations made regarding future strategy.
2. **GENERAL FUND (Excluding HRA): Proposals to earmark General Fund balances.**
 - 2.1 Revenue Monitoring Report Number 3, as presented to the meeting of the Strategic Policy and Resources Committee on 11 February 2015 (Report No. 15/34 refers), detailed the projected outturn for the Council's 2014/15 General Fund Revenue Budget. The projections included in Revenue Monitoring Report Number 3 have been further refined to recognise a number of adjustments that are required in closing the Council's final accounts.
 - 2.2 The impact of these projections on the level of balances is summarised at Appendix 2 to this report, which indicates a projected General Fund (excluding HRA) balance of £46,735,000 at 31 March 2015.
 - 2.3 It should be understood that some areas of uncertainty remain about the projected level of balances at 31 March 2015. Significant issues which might impact on balances include weather conditions for the remainder of the financial year.
 - 2.4 Based on work undertaken to date in updating the Provisional Revenue Budgets for 2015/16 it is predicted that there will be significant amounts earmarked against the projected General Fund balance as follows:

Projected Uncommitted General Fund Balance at 31 March 2015 (Excluding HRA)		
	£,000	£,000
Projected General Fund Balance at 31 March 2015 (Per Appendix 2)		46,735
Less Proposed Amounts Earmarked Against Balances:		
Transformation Programme (including Workforce Management)	(9,159)	
Revenue Budget Flexibility	(5,273)	
Funding of Capital Expenditure at Perth Theatre	(3,202)	
Affordable Housing	(3,125)	
Developer Contributions: Commuted Sums and Infrastructure	(2,594)	
Car Parking	(1,861)	
Perth City Centre Regeneration	(1,200)	
Developer Contributions: Affordable Housing	(1,141)	
Devolved School Management Balances	(935)	
Essential Maintenance & Compliance Works	(860)	
Perth Office Programme	(610)	
Local Integration Reserve Fund	(500)	
Public Service Network	(390)	
Planning Appeals and Public Inquiries	(377)	
Crematorium Abatement Levy	(300)	
Modern Apprentices/Graduate Trainees	(300)	
Investment in Improvement Funds	(258)	
Flood Fund	(220)	
Energy and Water Management	(200)	
Financial Assistance	(180)	
Central Energy Efficiency Fund	(165)	
Investment in Learning Programme	(135)	
Revenue Grants	(131)	
Local Government Elections	(106)	
Events	(100)	
Contaminated Land	(87)	
Community Safety / Community Well Being Initiatives	(67)	
	<u>(33,476)</u>	(33,476)
Revised Projected Uncommitted Balance at 31 March 2015		<u>13,259</u>

- 2.5 The Council is asked to endorse each of the proposals to earmark Reserves prior to agreeing an appropriate approach to determining the level of uncommitted Reserves held on the General Fund. Each of these proposals is, therefore, dealt with in more detail below.

Transformation Programme (including Workforce Management) - £9,159,000

- 2.6 The Annual Statement of Accounts for 2013/14, which was approved by the Council on 8 October 2014 (Report No. 14/434 refers) included £8,893,000 towards potential employee severance costs over the medium term recognising the predicted financial challenges ahead.

- 2.7 As outlined in the Medium Term Financial Plan, which was approved by the Council on 8 October 2014 (Report No. 14/433 refers), the Council faces a number of risks over the medium term in relation to future levels of funding and demand for Council services.
- 2.8 Given the potential level of financial challenge ahead it is likely that the Council will have to put in place a significant and ambitious transformation programme. With this in mind it is proposed that the reserves previously earmarked for Workforce Management are redesignated as funding to support the transformation programme (including workforce management). It is intended that a more detailed report on the next transformation programme is considered by the Council on 1 July 2015.
- 2.9 In line with the Reserves Strategy approved by Council on 13 February 2013(Report No. 14/46 refers), to the extent that the Council's level of uncommitted Reserves exceed 4% then the excess over 4% would be added to the earmarked Reserves to support the transformation programme. To that end the amount earmarked projected has increased by £266,000 in the current year.
- 2.10 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

Revenue Budget Flexibility - £5,273,000

- 2.11 The Council has an approved Revenue Budget Flexibility Scheme (Report No. 01/306 refers) which allows certain Service under and over spends from one financial year to be carried forward to future financial years. Revenue Budget flexibility proposals are reviewed annually. The earmarked amount can be utilised for the purposes approved by Council and this will be monitored and controlled through the revenue monitoring process and reported to the Strategic Policy and Resources Committee. The amounts shown are in line with the proposals to utilise budget flexibility contained within the 2015/16 Provisional Revenue Budget report on the agenda for this special meeting of the Council (Report No. 15/36 refers). The assumption underlying this report is that all of the budget flexibility proposals contained within the Revenue Budget report are approved.

Funding of Capital Expenditure at Perth Theatre - £3,202,000

- 2.12 The Council has previously earmarked £3,600,000 towards the Perth Theatre Redevelopment Project. There is a current balance of £3,202,000 which will continue to be earmarked.
- 2.13 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

Affordable Housing (Resources accrued from reduced Council Tax Discounts) - £3,125,000

- 2.14 It is anticipated that by the end of the current financial year there will be a balance of approximately £3,125,000 in Reserves which has been generated as a result of the Council's policy of reducing the level of Council Tax discounts on long term empty properties and second homes. This money can only be used for the provision of affordable housing through Registered Social Landlords including the Council, and is, therefore, shown as an Earmarked Reserve. The application of these resources will be monitored as part of the revenue monitoring process, reported to the Strategic Policy and Resources Committee.
- 2.15 The projected balance on this earmarked reserve at 31 March 2015 assumes the application of £800,000 of resources in 2014/15 to support the Council's new build programme and Registered Social Landlord projects.

Developer Contributions: Affordable Housing; Commuted Sums; and Infrastructure - £1,141,000 & £2,594,000

- 2.16 The Enterprise & Infrastructure Committee approved the Transport Infrastructure Developer Contributions policy on 7 November 2012 (Report No. 12/506 refers). The policy obtained Scottish Ministerial approval in November 2014. As a consequence, commuted sums are received from some developers in lieu of the provision of affordable housing.
- 2.17 These sums are held in the Council's Reserves until they are applied to schemes for the provision of affordable housing. It is projected that approximately £1,141,000 of unapplied resources will be held by the Council on 31 March 2015 and it is proposed to earmark the unapplied amount within General Fund Balances for the provision of affordable housing.
- 2.18 Additionally, contributions are provided by developers towards the cost of maintaining other infrastructure. These contributions are used to fund relevant expenditure over ten years. It is projected that approximately £575,000 of unapplied resources for tree planting, play areas, community allotments and sports grounds will be held by the Council on 31 March 2015 and it is proposed to earmark the unapplied amount within General Fund Balances for these purposes. It is also proposed to earmark balances of £1,843,000 for the provision of Education infrastructure and £176,000 for Transport infrastructure.
- 2.19 The application of these resources will be monitored as part of the revenue monitoring process, reported to the Strategic Policy and Resources Committee and reviewed annually as part of the budget setting process.

Car Parking - £1,861,000

- 2.20 The car parking balance is an estimate of the accumulated surpluses at 31 March 2015. These surpluses are restricted in their application under the

Road Traffic Regulation Act 1984 and any proposals to utilise these resources will require to be approved by the Strategic Policy and Resources Committee. The earmarked amount will be monitored and reviewed as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

Perth City Centre Regeneration - £1,200,000

- 2.21 It is proposed that the Council continues to earmark £1,200,000 for future projects in Perth city centre.
- 2.22 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

Devolved School Management (DSM) - £935,000

- 2.23 The earmarked amount shown above is an estimate of the accumulated sum available to be carried forward at 31 March 2015 under the approved scheme for managing these budgets. The purposes for which the earmarked amount can be used and the procedures for its management and control are detailed in the Council's approved DSM scheme (Report No. 07/690 refers). The earmarked amount will be monitored and reviewed as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

Essential Maintenance and Compliance Works – £860,000

- 2.24 On 19 December 2012, the Council considered a report on Essential Maintenance and Compliance Works (Report No. 12/597 refers). This approved the funding of dilapidation works associated with the Perth Office Programme up to a maximum of £860,000. It is proposed that this funding is earmarked within Reserves and drawn down as required.
- 2.25 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

Perth Office Programme - £610,000

- 2.26 Revenue Monitoring Report No. 2 that was considered by the Strategic Policy and Resources Committee on 27 November 2013 (Report No. 13/557 refers) approved the transfer of £760,000 from the Environment Service to Reserves to fund future expenditure on Perth Office programme. It is anticipated that the balance at 31 March 2015 will be £610,000. It is proposed that this funding is earmarked within Reserves and drawn down as required.
- 2.27 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

Local Integration Reserve Fund - £500,000

- 2.28 The Strategic Policy and Resources Committee approved the transfer of £500,000 during 2014/15 to a Local Integration Reserve Fund (Report No. 14/407 refers). These resources will be released in 2015/16 to assist the new Integrated Joint Health and Social Care Partnership Board to assess its priorities for service redesign and continued investment across all Board activities during the first year of operation.
- 2.29 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

Public Service Network - £390,000

- 2.30 The Council achieved Public Service Network (PSN) compliance in December 2013 and was required to be accredited again in September 2014. Going forward it is estimated that £390,000 is required for work in this area and it is proposed that this be earmarked within Reserves.
- 2.31 It must be recognised that all of these cost estimates are based on the PSN requirements as they are currently known and understood. Any or all of them could be subject to clarification or guidance from the Cabinet Office before the next submission date which would require a change to current plans and expected costs. It is anticipated that this level of uncertainty will continue past the next submission date. Further updates will be provided to future meetings of the Strategic Policy and Resources Committee to take decisions on the options available to the Council.
- 2.32 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

Planning Appeals and Public Inquiries - £377,000

- 2.33 The Council continues to make a recurring annual budgetary provision of £100,000 towards future planning appeals and public inquiries as they arise. As expenditure within this area is unpredictable these Reserves will be drawn down if and when they are required.
- 2.34 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

Crematorium Abatement Levy - £300,000

- 2.35 The Council continues to make a recurring annual budgetary provision of £100,000 towards future investment at Perth Crematorium to comply with mercury abatement legislation. It is proposed that this funding is earmarked within Reserves and drawn down as required.
- 2.36 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

Modern Apprentices/Graduate Trainees - £300,000

- 2.37 The Strategic Policy and Resources Committee approved the transfer of £150,000 during 2014/15 to fund future expenditure on modern apprentices and graduate trainees. The Committee also approved the eventual under spend be earmarked so the final position may change at the end of the financial year. The latest projected under spend in this area is £300,000.
- 2.38 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

Investment in Improvement Funds - £258,000

- 2.39 The amount shown as earmarked for the Investment in Improvement Funds reflects the projected amount of resources remaining in the "Funds" at 31 March 2015. This amount is earmarked for specific projects in accordance with reports approved in previous years. The application of the earmarked balance will be monitored and controlled through the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

Flood Fund (Insurance Losses) - £220,000

- 2.40 These resources were originally earmarked in Reserves as part of the closure of the Council's Statement of Accounts for 2012/13. These resources are available to fund residents of Perth & Kinross's uninsured losses from future flooding events.
- 2.41 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

Energy and Water Management - £200,000

- 2.42 Council approved the transfer of £200,000 to an Energy and Water Management Reserve as part of the Revenue Budget process approved in February 2014 (Report No. 14/44 refers). This is to deal with any potential over spends on energy and water management associated with severe weather.
- 2.43 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

Financial Assistance - £180,000

- 2.44 At its meeting on 9 February 2006 the Council approved the creation of a recurring budget of £20,000 to fund its contribution to the Mod (Report No. 06/79 refers). The projected accumulated balance available for this purpose at 31 March 2015 is £180,000. It is proposed that £120,000 of this Reserve be applied in 2015/16 to support the events programme across Perth and Kinross – this proposal is included in the Provisional Revenue Budget for 2015/16 (Report No. 15/36 refers).

- 2.45 These resources will be monitored as part of the revenue monitoring process, reported to the Strategic Policy and Resources Committee and reviewed annually as part of the budget setting process.

Central Energy Efficiency Fund - £165,000

- 2.46 The Central Energy Efficiency Fund is a means of pooling grant received from the former Scottish Executive together with savings achieved from the implementation of energy conservation and efficiency schemes to fund expenditure on further schemes of the same type.

- 2.47 It is projected that the balance on the Fund at 31 March 2015 will be approximately £165,000 and this amount is shown as being earmarked within General Fund Reserves.

- 2.48 These resources will be monitored as part of the revenue monitoring process, reported to the Strategic Policy and Resources Committee and reviewed annually as part of the budget setting process.

Investment in Learning Programme - £135,000

- 2.49 The Strategic Policy and Resources Committee approved the transfer of £100,000 to support future infrastructure works at Moyness Road, Blairgowrie subject to works being undertaken on the nearby housing development (Report No. 12/51 refers). This earmarked Reserve also includes funding towards the Crieff Stones of £35,000.

- 2.50 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

Revenue Grants - £131,000

- 2.51 These grants are being carried forward in Reserves in accordance with proper accounting practice as the grant conditions have been met but the relevant expenditure has not yet been fully incurred.

- 2.52 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

Local Government Elections - £106,000

- 2.53 The Council's 2015/16 Provisional Revenue Budget contains a recurring contribution of £53,000 to local government elections.

- 2.54 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

Events - £100,000

- 2.55 These resources were earmarked as part of the revenue budget approved in February 2013 for investment in outdoor and cultural events. These resources will be utilised in 2015/16 and 2016/17.
- 2.56 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

Contaminated Land - £87,000

- 2.57 The Council has a statutory duty in relation to contaminated land to protect public health. In general terms, the Council has a duty to investigate the land in its area to determine whether any meets the statutory definition of contaminated land and, if so, to arrange for any necessary remediation work to be carried out. This remediation is done at the expense of the liable party or parties (under certain criteria). Where the source of the contamination cannot be traced, the Council may be required to fund the remediation work. There is £87,000 earmarked for this purpose.
- 2.58 These resources will be monitored as part of the revenue monitoring process to the Strategic Policy and Resources Committee.

Community Safety / Community Well Being Initiatives - £67,000

- 2.59 The meetings of Tayside Fire and Rescue Joint Board and Tayside Joint Police Board which took place on 21 December 2011 approved a reduction in the requisitions from constituent authorities. This adjustment was reported to the Strategic Policy and Resources Committee on 8 February 2012 (Report No. 12/51 refers) with the resultant underspend on Board requisitions to be utilised to support preventative initiatives linked to community wellbeing and community safety. On 21 November 2012 the Strategic Policy and Resources Committee approved the allocation of this funding for a number of projects including prevention of child exploitation and women at risk of offending (Report No. 12/526 refers). The balance of £67,000 will be utilised in 2015/16.
- 2.60 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

3. GENERAL FUND: Proposed Approach to Managing Uncommitted General Fund Balances

- 3.1 In order to assess the adequacy of unallocated General Reserves it is necessary to take account of the strategic, operational and financial risks facing the authority. The most significant risks are summarised below.

Capacity to Raise Balances

- 3.2 In determining the Council's Reserves Strategy it should be noted that there may be constraints on the Council's capacity to raise balances in future.
- 3.3 These constraints arise firstly from the generally tight budgetary environment anticipated over the medium term, which means that there will be limited opportunities to raise balances through taxation or savings. Secondly the successful operation of the Council's approved Revenue Budget Flexibility Scheme means that there is a limited prospect of uncommitted balances being built up through Service underspends.
- 3.4 It will, therefore, be necessary to maintain balances at a level that reflects the difficulty likely to be experienced in reinstating them if and when they are applied.

Political, Economic and Social Risks

- 3.5 The Council faces significant challenges over the medium term. Under the "mid-range" scenario reported to Council on 8 October 2014 (Report No. 14/433 refers) the Council may require to achieve savings of c£53m over the next five financial years.
- 3.6 The Improvement Service suggest that Scottish Departmental Limits (DEL) may reduce on a cash basis by 0.9%, 2% and 0.9% in 2016/17, 2017/18 and 2018/19 respectively. When inflation is factored in, the figures represent significant real terms reductions in funding for the Council. In addition these projected reductions in funding are speculative and cover the whole of the public sector with the possibility that the impact on local government could be significantly worse. The Council also continues to face increasing demand for many of its services.
- 3.7 Elected Members will also be aware that inflation has been reducing for a number of months. Whilst this is welcome, there is inevitably uncertainty about future levels of inflation which present risks in terms of the management of the General Fund Revenue Budget in 2015/16 and beyond.
- 3.8 Additionally, while interest rates have been held at a very low level for some time there is a continuing possibility of increases in borrowing costs in the future.
- 3.9 Where possible, forecasts of cost increases and loss of income have been incorporated in the Provisional Revenue Budgets for 2015/16. Inevitably, however, there remains uncertainty in respect of the spectrum of activity undertaken by the Council and the wide ranging impact of the current economic climate. These issues require consideration and factoring into the Reserves Strategy.
- 3.10 In addition to the risks arising from the uncertainties over external influences such as inflation and interest rates, the Reserves Strategy needs to take

account of risks inherent in managing other influences on service delivery. Although the Provisional Revenue Budgets for 2015/16 make allowances for the anticipated costs of service delivery there are inevitably uncertainties inherent in budget preparation. These include unanticipated increases in demand for services; legislative and national policy influences; the ability to deliver on proposed savings and efficiencies and many others. It is anticipated that Services will be asked to contain these types of unbudgeted cost pressures wherever possible, but there may be occasions where this is not possible and Council Reserves have to be utilised.

Pay Award

- 3.11 The 2015/16 Provisional Revenue Budget includes an assumption of a pay award of 2% for all staff groups.
- 3.12 There is, however, a risk that the outcome of national pay negotiations differs from these assumptions which may have a significant financial impact upon the Council. Both the teachers' unions and the single status unions have submitted pay claims that are significantly in excess of the Council's assumptions.

Severe Weather

- 3.13 The Provisional Revenue Budget for 2015/16 for winter maintenance includes provision for the cost of an average winter. However a worse than average winter may have an adverse impact on the Reserves position. A significant element of the budget for winter maintenance is in relation to the fixed costs of providing plant, stand-by labour and infrastructure.
- 3.14 The variable costs of service provision can, however, increase substantially as a result of prolonged spells of colder than average weather or particularly severe winter weather. In the past there have been significant over spends on this activity, which were funded from Reserves.
- 3.15 The Council also has extensive experience of flood events in recent years and the potential for incurring unbudgeted costs as a result of these is significant. Once again, scenarios in which the Council could incur costs of several million pounds from one or more major events can be envisaged.
- 3.16 The Council's practice in respect of unbudgeted severe weather costs in recent years has been to fund them through savings against other (particularly maintenance) budgets as well as Reserves. It is anticipated that alternative savings would be sought where possible in the event of severe weather. Notwithstanding this, the probability and potential financial impact of severe weather is such that this risk must be a major consideration in developing the Reserves Strategy. The following table sets out final outturns on Winter Maintenance over the last five years.

Winter Maintenance Final Over / Under Spend				
2009/10	2010/11	2011/12	2012/13	2013/14
Over spend - £2,197,000	Over spend - £3,160,000	Over spend - £785,000	Over spend - £1,411,00	Under spend - £531,000

Bellwin Scheme

- 3.17 The Bellwin Scheme operates under Section 155(2) of the Local Government and Housing Act 1989. It allows Scottish Ministers to make additional revenue support available to local authorities to assist with the immediate and unforeseen costs of dealing with the aftermath of emergency incidents.
- 3.18 Currently local authorities are expected to include 0.2% (approximately £660,000) of their annual Net Revenue Budget to deal with unforeseen emergencies.

Comparison with other authorities

- 3.19 There is limited current data on the Reserves position of local authorities in Scotland as a whole. Although individual Councils do include information in their published annual accounts, the most recent published information relates to 31 March 2013.
- 3.20 Audit Scotland publishes an annual report which summarises the level of Reserves held by individual Councils. The latest information relates to 31 March 2013. This information showed that the level of uncommitted General Fund reserves held by individual Councils (excluding Orkney and Shetland) ranged from 0.5% to around 8.2% of net revenue expenditure with Perth and Kinross Council at that time holding uncommitted reserves of around 3.9% and being placed ninth out of the thirty Councils included. The average across Scotland is 2.6%.
- 3.21 The 2013/14 information has not yet been published but at 31 March 2014, general fund reserves accounted for just over half of councils' total usable reserves. Councils had earmarked most of their general fund reserves (69%) for predicted expenditure (Perth and Kinross Council – 71%). Just under a third (31%) of councils' general fund reserves were unallocated, that is, held for general contingency (Perth and Kinross Council 29%). Twenty-eight councils had a policy on the minimum level of unallocated general reserves they would hold. Most councils had a policy to maintain unallocated reserves at around two to four per cent of their net spending on services, and 18 councils had this level of unallocated reserves at the end of 2013/14; four councils held over five per cent and one held less than one per cent. Seven councils had a policy to maintain these reserves at a

specific amount, ranging from £2 million to £10 million (0.5% and 2.9% of net service spending, respectively).

- 3.22 The range of values shown in the Audit Scotland report reflects the diversity of local circumstances facing individual authorities. It is highly probable that a number of authorities are holding levels of uncommitted reserves significantly below the levels that would normally be considered desirable as a result of pressures on their expenditure. Additionally, for reasons of geography many authorities do not face the same risks in relation to severe weather as Perth and Kinross Council.

Proposed Level of Uncommitted General Fund Reserves

- 3.23 Taking account of all of the above factors and historical experience in Perth & Kinross since 1996 it is recommended that the target level of uncommitted non-HRA General Fund Reserves be in the range of 2% to 4% of the Council's net revenue expenditure in the medium term. Based on the Net Provisional Revenue Budget for 2015/16 of £331,466,000 (adjusted on the assumption that all surplus resources of £226,000 are used to fund expenditure) this would imply a level of uncommitted Reserves of between approximately £6,629,000 and £13,259,000 for 2015/16. However due to the continuing uncertainties and risks beyond 2015/16 it would not be imprudent to maintain uncommitted Reserves above 4% in the medium term.
- 3.24 A comparison with the forecast position set out above indicates that the Council's projected uncommitted reserves will be approximately £13,259,000 (prior to any budget decisions which have an effect on the Reserves position). This equates to 4% of the Net Provisional Revenue Budget for 2015/16.
- 3.25 In view of the above I would, therefore, recommend that the uncommitted General Fund reserves be maintained at a level of at least 2% of the Net Provisional Revenue Budget or approximately £6,629,000 in determining the Final Revenue Budget for 2015/16. In the event that any use of General Fund Reserves is made in determining the 2015/16 Revenue Budget this should only be done on the basis of a sustainable strategy, which ensures that future years' Revenue Budgets are not dependent on the continuing use of Reserves.
- 3.26 It is also recommended that should the Council's uncommitted Reserves exceed 4% then the excess over 4% would continue to be added to the amount proposed to be earmarked for transformation.
- 3.27 Appendix 3 illustrates the contributions to and from balances recommended in setting the Revenue Budgets 2015/16 and anticipated for 2016/17 and 2017/18. The position for 2015/16 includes the reinstatement of £1.373million to Reserves from previous years' Revenue Budgets which is included within the 2015/16 Provisional Revenue Budget that is on the agenda for this special meeting of the Council (Report No. 15/36 refers).

4. CAPITAL RECEIPTS RESERVE

- 4.1 The Capital Receipts Reserve holds capital receipts from the disposal of assets, which have not yet been used to finance replacement assets or to redeem debt. At the end of the financial year it is anticipated that there will be £1,827,000 of capital receipts carried forward to 2015/16. The forecasts for unapplied capital receipts all relate to the Commercial Property Investment Programme and recommendations for utilising these resources have been developed and reported to the Strategic Policy and Resources Committee.

5. RENEWAL AND REPAIR FUND

- 5.1 The Council operates a Renewal and Repair Fund in accordance with the Local Government (Scotland) Act 1975. The financial position of the Fund is monitored in the regular capital monitoring reports submitted to the Strategic Policy and Resources Committee. The projected balance on the Fund at 31 March 2015 is £1,428,000. The Strategic Policy and Resources Committee have previously approved proposals to meet expenditure in future years of £135,000 on the Integrated Human Resources and Payroll System. The balance at 31 March 2015 also includes £555,000 towards landslips and £500,000 towards property maintenance, agreed in Revenue Monitoring Report Number 3 approved by the Strategic Policy & Resources Committee on 11 February 2014 (Report No. 15/34 refers). The uncommitted balance on the Fund is, therefore, currently projected to be £238,000 at 31 March 2015.
- 5.2 It is recommended that no further transfers to the Fund are provided for in preparing the 2015/16 Revenue Budget and that any transfers from the Fund will be reported to future meetings of the Strategic Policy & Resources Committee.

6. INSURANCE FUND

- 6.1 The Council operates an Insurance Fund in accordance with the provisions of the Local Government (Scotland) Act 1994. The Council's actuaries, HJC Actuarial Consulting Limited, undertook the triennial review of the Fund as at 31 March 2014 and concluded in summary that the balance of £3,410,000 on the Fund was adequate but provides flexibility should the Council look to increase excess levels. Any increase in excess levels would be balanced by premium savings relative to the additional risk.
- 6.2 The balance on the Fund at 31 March, 2014 was £3,410,000 (excluding provisions for outstanding liabilities) and it is anticipated that the balance may increase to approximately £3,465,000 by 31 March 2015 assuming no significant change in claims experience. The projected balance on the Fund at 31 March 2015 reflects contributions of £250,000 from the General Fund and Housing Revenue Account during 2014/15.

- 6.3 The Provisional Revenue Budget for 2015/16 includes a proposal for a recurring contribution of £200,000 from the General Fund. This, along with the additional recurring contribution from the Housing Revenue Account of £50,000, should provide both a greater degree of comfort in relation to self-insured risks and provide some capacity for flexibility in the future management of the Council's insurance arrangements. The most significant of these self-insured risks are in relation to property claims for which the excess per claim is £100,000; the aggregate annual stop-loss is £800,000 and flooding claims for which the excess is £1,000,000.
- 6.4 The Council undertook a tender exercise for the Insurance Fund which concluded in October 2014. The outcome of this exercise was an increase in premium levels of 11% from the previous year (2013/14 £733,000). This increase is predominately market driven as the Council's claims experience has been relatively consistent over a long period of time.

7. CAPITAL FUND

- 7.1 The Council operates a Capital Fund in accordance with the Local Government (Scotland) Act 1975. The Fund can be used to meet the principal element of loan repayments or to defray capital expenditure. It is anticipated that the balance on the Fund at 31 March 2015 will be £19,160,000. Recommendations for utilising these resources are outlined in the Composite Capital Budget 2015-2023 (Report No. 15/37 refers) on this agenda for this special meeting of the Council.

8. CONCLUSIONS AND RECOMMENDATIONS

- 8.1 This report sets out the proposed strategy for managing the Council's Reserves and Balances with the exception of the Housing Revenue Account Balances.
- 8.2 A number of proposals for earmarking General Fund Balances are outlined in section 2 above. In financial terms the most significant of these relate to the proposed use towards the Transformation Programme, the Council's Budget Flexibility scheme, capital expenditure, Affordable Housing, Developer Contributions, Car Parking and Perth City Centre Regeneration.
- 8.3 After taking account of the proposals for earmarking balances and based on an assessment of financial risks over the medium term, it is recommended that the Council retain a level of uncommitted General Fund reserves in the range of 2% to 4% of the Net Revenue Budget in the medium term. However, in the current environment it may not be inappropriate to exceed the upper figure in the short term. It is recommended that any amount of uncommitted reserves in excess of 4% of the Net Revenue Budget is earmarked for future costs in relation to workforce planning measures. In view of this it is recommended that the Council's uncommitted General Fund reserves be maintained at a level of at least 2% of the Net Provisional Revenue Budget or approximately £6,629,000 in determining the Final

Revenue Budget for 2015/16. In the event that any use of General Fund Reserves is made in determining the 2015/16 Revenue Budget this should only be done on the basis of a sustainable strategy, which ensures that future years' Revenue Budgets are not dependent on the continuing use of Reserves.

8.4 Recommendations for managing the Capital Receipts Reserve; the Renewal & Repair Fund; the Insurance Fund; and the Capital Fund are also outlined. In essence these Reserves are either committed or require to be maintained at broadly current levels in view of the proposed budget strategies and the risks facing the Council.

8.5 It is recommended that the Council approves:

8.5.1 The proposals to earmark General Fund balances as set out in Section 2.

8.5.2 The proposed approach to managing uncommitted General Fund balances as set out in Section 3.

8.5.3 The proposed approaches to managing the Capital Receipts Reserve; Renewal and Repair Fund; Insurance Fund and Capital Fund as set out in Sections 4 to 7.

Author(s)

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Approved

John Symon	Head of Finance	5 February 2015
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If you or someone you know would like a copy of this document in another language or format, (on occasion only, a summary of the document will be provided in translation), this can be arranged by contacting (Scott Walker – 01738 475515)



Council Text Phone Number 01738 442573

ANNEX

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	None
Corporate Plan	Yes
Resource Implications	
Financial	Yes
Workforce	Yes
Asset Management (land, property, IST)	Yes
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	Yes
Sustainability (community, economic, environmental)	Yes
Legal and Governance	None
Risk	None
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

1.1. Corporate Plan

1.1.1. The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

1.1.2 The Reserves Strategy supports the Council in managing the delivery of all of the Corporate Plan objectives and is consistent with the Council's principles of accountability and transparency; ensuring that we are accountable and transparent to the community; the Community Planning Partners and the Scottish Government in our decision making, planning and delivery of services.

2. Resource Implications

2.1. Financial

2.1.1. There are no direct financial implications arising from this report other than those reported within the body of the main report.

2.2. Workforce

2.2.1. There are no direct workforce implications arising from this report other than those reported within the body of the main report.

2.3. Asset Management (land, property, IT)

2.3.1. There are no direct asset management implications arising from this report other than those reported within the body of the main report.

3. Assessments

3.1. Equality Impact Assessment

3.1.1. Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

3.1.2. The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

3.2. Strategic Environmental Assessment

3.2.1 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.

3.2.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

3.3. Sustainability

3.3.1 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.

3.3.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

4. Consultation

4.1 Internal

4.1.1 The Chief Executive and all Executive Directors have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

2.1 No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. APPENDICES

Appendix 1 – Summary of General Fund Balances at 31 March 2014

Appendix 2 – Projected General Fund Balance as at 31 March 2015
(excluding the Housing Revenue Account)

Appendix 3 – Summary of the Projected Use of General Fund Revenue
Balances 2015/16, 2016/17 and 2017/18

APPENDIX 1

	HRA Balances £'000	Other General Fund Balances £'000	Total General Fund Balances £'000
Summary of General Fund Balances at 31 March 2014			
General Fund Balance at 31 March 2014	907	48,041	48,948
<u>Less Commitments Against Balances</u>			
Devolved School Management Balances		(1,261)	(1,261)
Car Parking		(2,101)	(2,101)
Approved Budget Flexibility		(4,413)	(4,413)
Equal Pay Strategy		(500)	(500)
Council Tax on Second Homes/Long Term Empty Properties		(2,625)	(2,625)
Developer Contributions: Commuted Sums & Infrastructure		(2,196)	(2,196)
Developer Contributions: Affordable Housing		(943)	(943)
Energy Efficiency Fund		(231)	(231)
Financial Assistance (Mod)		(160)	(160)
Zero Waste Fund Resources		(39)	(39)
Investment in Improvement Funds		(1,076)	(1,076)
Investment in Learning Programme		(135)	(135)
Contaminated Land		(162)	(162)
City Centre Projects		(1,200)	(1,200)
Revenue Grants		(944)	(944)
Minibus Replacement Strategy		(283)	(283)
Workforce Management Strategy		(8,893)	(8,893)
Community Safety/ Wellbeing Initiatives		(219)	(219)
Planning Appeals & Public Inquiries		(277)	(277)
Crematorium Abatement Levy		(200)	(200)
Essential Maintenance & Compliance Works		(860)	(860)
Funding of Additional Capital Expenditure		(3,400)	(3,400)
Flood Fund		(220)	(220)
Ryder Cup		(500)	(500)
Kinross Curling Trust		(125)	(125)
Perth Office Programme		(710)	(710)
Public Service Network		(700)	(700)
Local Government Elections		(53)	(53)
Letham Community Sports Club		(85)	(85)
Tayside Contracts		(290)	(290)
Uncommitted Balance at 31 March 2014	907	13,240	14,147

APPENDIX 2**Projected General Fund Balance at 31 March 2015 (excl HRA)**

	£'000	£'000
Balance on General Fund at 1 April 2014 (Appendix 1)		48,041
Budgeted Contributions to/(from) Balances (Approved February 2014)		
Budget Flexibility	(4,413)	
Strategic Waste Fund	(39)	
Contaminated Land	100	
Financial Assistance	20	
Elections	53	
Reinstatement of Reserves: Workforce Management	509	
Planning Inquiries	100	
Minibus replacement programme	(283)	
Letham Community Sports Club	(85)	
Devolved School Management	(1,170)	
Investment in Improvement Fund	(977)	
Community Safety/Community Well Being Initiatives	(152)	
Capital funding	(590)	
Funding of Environment Services Revenue Budget for 2014/15	(31)	
Ryder Cup	(500)	
Kinross Curling Trust	(125)	
Energy fund	200	
Events	100	
Budgeted Contribution from Reserves	(1,423)	
	<hr/>	(8,706)
Approved Contributions to/(from) Balances since February 2014		
Devolved School Management	(91)	
Revenue Grants	(813)	
Tayside Contracts	(290)	
Contaminated Land	(75)	
Local Integration Reserve Fund	500	
Tactran	(396)	
Modern Apprentices/Graduates	150	
Council Tax Second Home Discounts / Long Term Empty Property	500	
Perth Theatre capital funding	392	
Grant funding Police and Fire	75	
Investment in Improvement Fund	13	
Welfare Reform	(308)	
Perth Office Project	(100)	
Additional Revenue Support Grant	104	
Vat Refund	120	
	<hr/>	(219)
Projected Underspends		
Service Budgets	5,346	
Corporate Budgets	898	
	<hr/>	6,244

APPENDIX 2**Projected General Fund Balance at 31 March 2015 (excl HRA)**

	£'000	£'000
Year End Accounting Adjustments:		
Devolved School Management: Projected Under spend	935	
Developer Contributions: Affordable Housing Net Application	198	
Developer Contributions: Commuted Sums Net Income	398	
Modern Apprentices/Graduates	150	
Central Energy Efficiency Fund	(66)	
Car Park	<u>(240)</u>	
		1,375
Projected Balance on General Fund at 31 March 2015		<u><u>46,735</u></u>

APPENDIX 3

The following table only takes account of the use of Reserves where there are known commitments over the next three years. Where the timing of expenditure is unknown budgets will be updated as appropriate.

Summary of the Projected Use of General Fund Balances 2015/16 - 2017/18
(Based on 2015/16 Provisional Revenue Budget)

	£'000	£'000
Projected General Fund Balance at 1 April 2015		46,735
<u>Financial Year 2015/16</u>		
<u>Additions to Balances during year</u>		
Workforce Management	557	
Financial Assistance	20	
Elections	53	
Planning Inquiries	100	
Reinstatements	1,373	
Evidence to Success	624	
Crematorium Works	100	
<u>Use of Balances</u>		
Devolved School Management	(935)	
Budget Flexibility	(5,273)	
Investment in Learning	(35)	
Revenue Grants	(131)	
Perth Office Programme	(610)	
Public Sector Network	(390)	
POAR - Dilapidations	(145)	
Capital Funding	(2,848)	
Community Safety / Wellbeing Initiatives	(67)	
Investment in Improvement Fund	(201)	
Local Integration Reserve Fund	(500)	
Events	(170)	
		<u>(8,478)</u>
Projected General Fund Balance at 31 March 2016		38,257

	£'000	£'000
<u>Financial Year 2016/17</u>		
<u>Additions to Balances during year</u>		
Workforce Management	557	
Financial Assistance	20	
Elections	53	
Planning Inquiries	100	
Crematorium Works	100	
<u>Use of Balances</u>		
Capital Funding	(354)	
POAR - Dilapidations	(715)	
Evidence to Success	(624)	
Events	(50)	
	<u> </u>	(913)
Projected General Fund Balance at 31 March 2017		<u>37,344</u>
 <u>Financial Year 2017/18</u>		
<u>Additions to Balances during year</u>		
Workforce Management	557	
Financial Assistance	20	
Elections	53	
Planning Inquiries	100	
Crematorium Works	100	
<u>Use of Balances</u>		
Elections	(265)	
	<u> </u>	565
Projected General Fund Balance at 31 March 2018		<u><u>37,909</u></u>