

**PERTH AND KINROSS COUNCIL****11 February 2016****RESERVES STRATEGY****Report by the Head of Finance****PURPOSE OF REPORT:**

This report recommends a strategy for managing the Council's Reserves (with the exception of the Housing Revenue Account balance) in the context of setting the Council's Final Revenue Budget for 2016/17 and Provisional Revenue Budgets for 2017/18 and 2018/19.

**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 27 January 2016 (Report No. 16/28 refers).
- 1.2 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.
- 1.3 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.
- 1.4 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

1.5 The audited 2014/15 Annual Accounts which were presented to the Council on 7 October 2015 (Report No. 15/414 refers), gives an overview of the Reserves position as at 31 March 2015 which is summarised in the table below.

<b><u>Summary of Council Reserves as at 31 March 2015</u></b>	
	<b>£'000</b>
General Fund	52,670
Housing Revenue Account	800
Capital Fund	19,316
Renewal and Repair Fund	1,426
Insurance Fund	3,802
Capital Receipts Reserve	1,832
Capital Grants Unapplied	102
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	79,948

1.6 The above summary excludes the Revaluation Reserve; Capital Adjustments Account; the Financial Instruments Adjustment Account; the Pensions Reserve and the Employee Statutory 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.

1.7 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 2015 totalled £53,470,000, once HRA balances (£800,000) and commitments (£39,360,000) are excluded there was an uncommitted General Fund balance of £13,310,000. This represented approximately 3.99% of the budgeted net expenditure for 2015/16 (per Revenue

Monitoring Report No.3 – considered by the Strategic Policy and Resources Committee on 10 February 2016 (Report No. 16/45 refers)).

- 1.8 The projected position as at 31 March 2016 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 10 February 2016 (Report No. 16/45 refers), detailed the projected outturn for the Council's 2015/16 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 2015/16 Annual 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 £48,395,000 at 31 March 2016.
  - 2.3 It should be understood that some areas of uncertainty remain about the projected level of balances at 31 March 2016. Significant issues which might impact on balances include expenditure in relation to recent flooding events and any further weather related events that occur during the remainder of the financial year.
  - 2.4 Based on work undertaken to date in updating the Provisional Revenue Budgets for 2016/17 it is predicted that there will be significant amounts earmarked against the projected General Fund balance as follows:

<b>Projected Uncommitted General Fund Balance at 31 March 2016 (Excluding HRA)</b>		
	<b>£,000</b>	<b>£,000</b>
Projected General Fund Balance at 31 March 2016 (Per Appendix 2)		48,395
<u>Less Proposed Amounts Earmarked Against Balances:</u>		
Transformation Programme (including Workforce Management)	(13,348)	
Revenue Budget Flexibility	(5,283)	
Affordable Housing	(3,506)	
Developer Contributions: Commuted Sums and Infrastructure	(3,422)	
Car Parking	(1,654)	
Developer Contributions: Affordable Housing	(1,597)	
Perth City Centre Regeneration	(1,200)	
Secondary Schools	(1,149)	
Devolved School Management Balances	(985)	
Essential Maintenance & Compliance Works	(715)	
Evidence to Success	(624)	
Planning Appeals and Public Inquiries	(418)	
Crematorium Abatement Levy	(400)	
Public Service Network	(355)	
Revenue Grants	(290)	
Environmental Initiatives	(220)	
Investment in Improvement Funds	(210)	
UK City of Culture	(210)	
Energy and Water Management	(200)	
Modern Apprentices / Graduate Trainees	(179)	
Local Government Elections	(159)	
Central Energy Efficiency Fund	(109)	
Investment in Learning Programme	(100)	
Contaminated Land	(94)	
Financial Assistance	(80)	
Events	(50)	
Rural Warden	(20)	
	_____	(36,577)
<b>Revised Projected Uncommitted Balance at 31 March 2016</b>		<b>11,818</b>

- 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) - £13,348,000**

- 2.6 As outlined in the Medium Term Financial Plan, which was approved by the Council on 1 July 2015 (Report No. 15/276 refers), the Council faces a number of risks over the medium term in relation to future levels of funding and demand for Council services.

2.7 In response to this financial challenge the Council has put in place a significant and ambitious Transformation Programme which requires initial non-recurring contributions from this Earmarked Reserve in order to generate significant recurring savings. This Earmarked Reserve is also in place to fund further workforce management costs that the Council may incur as it prepares for the challenges ahead.

2.8 The audited 2014/15 Annual Accounts, which were approved by the Council on 7 October 2015 (Report No. 15/414 refers) included £12,963,000 for this Earmarked Reserve. It is projected that the balance at 31 March 2016 will reduce to £11,980,000 based on approved and anticipated movements in the current financial year which can be summarised as follows.

	£'000
Balance as at 31 March 2015	12,963
2015/16 Adjustments (approved at SP&R)	2,420
Sub Total	15,383
Voluntary Severance Scheme (Revenue Budget 2016/17 to 2018/19 – Report No. 2)	(3,403)
Projected Balance as at 31 March 2016	11,980

2.9 Beyond the current financial year there are likely to be significant calls on this funding:

- Transformation Programme Phase 1 - £2,821,000 – on 1 July 2015 the Council has approved Building Ambition: The Council's Transformation Strategy 2015 – 2020 and Organisational Development Framework (Report No. 15/292 refers). This committed expenditure on a significant number of transformation projects. This is the amount of funding to be incurred beyond 2015/16.
- Transformation Programme Phase 2 - £1,277,000 – on 10 February 2016 the Strategic Policy and Resources Committee committed funding towards the second phase of transformation (Report No. 16/50 refers).
- Further workforce management measures for all groups of staff (which includes voluntary severance schemes) - £8,250,000. The 2016/17, 2017/18 and 2018/19 Provisional Revenue Budgets assume significant workforce reductions in each year and this sum makes provision for around 250 voluntary departures during this period and beyond.
- Further Transformation costs - £1,000,000 – this is provision for future transformation costs which, although difficult to quantify at this point, may be required to deliver further savings.

2.10 The total estimated cost of these further initiatives is £13,348,000 which is £1,368,000 in excess of the amount identified at 2.8 above. To that end it is

proposed to earmark an additional £1,368,000 from the Uncommitted Balance as at 31 March 2016 which will reduce the level of Uncommitted Balances to less than 4% (see paragraph 3.17).

- 2.11 To the extent that any further under spends in addition to the current projected under spends are delivered by 31 March 2016 it is proposed that these will be used to augment the Uncommitted Balance to a level equivalent to 4% of the 2016/17 Net Revenue Budget. It is proposed that any excess over 4% would be added to the earmarked Reserves to augment the Transformation Programme (including Workforce Management).
- 2.12 Detailed monitoring information on the Transformation Programme will be presented to future meetings of the Strategic Policy and Resources Committee.
- 2.13 These resources will also be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

#### **Revenue Budget Flexibility - £5,283,000**

- 2.14 The Council has an approved Revenue Budget Flexibility Scheme which, subject to approval, allows certain Service under and over spends from one financial year to be carried forward to future financial years (Report No. 01/306 refers). Revenue Budget flexibility proposals are reviewed annually. The earmarked amount can be utilised for the purposes approved by Council. The amounts shown are in line with the proposals to utilise budget flexibility contained within Revenue Budget 2016/17 to 2018/19 – Report Number 2 on the agenda for this special meeting of the Council (Report No. 16/51 refers). The assumption underlying this report is that all of the budget flexibility proposals contained within the Revenue Budget report are approved. The Revenue Budget Flexibility Proposals in the Revenue Budget Report include a further contribution of £500,000 towards providing fixtures, furnishings and materials for the new secondary school at Bertha Park (Report No. 15/395 refers) – which is included in the separate Earmarked Reserves described at paragraph 2.25.
- 2.15 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) - £3,506,000**

- 2.16 It is anticipated that by the end of the current financial year there will be a balance of approximately £3,506,000 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.

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

**Developer Contributions: Commuted Sums & Infrastructure and Affordable Housing - £3,422,000 & £1,597,000**

- 2.18 The Enterprise and Infrastructure Committee approved supplementary guidance on 3 September 2014 for developer contributions covering community greenspace, primary education, Auchterarder A9 junction improvements, Affordable Housing and Transport Infrastructure. (Report No. 14/370 refers).

- 2.19 Developer Contributions are held in the Council's Reserves until they are applied to relevant schemes. It is projected that approximately £1,597,000 of unapplied resources in relation to affordable housing will be held by the Council at 31 March 2016 and it is proposed to earmark the unapplied amount within General Fund Balances. Additionally it is proposed to earmark accumulated balances of £2,490,000 for the provision of Education infrastructure and £366,000 for Transport infrastructure. Additionally, contributions are provided by developers towards the cost of maintaining areas of ground. These contributions are used to fund relevant expenditure over ten years. It is projected that approximately £566,000 of unapplied resources for tree planting, play areas, community allotments and sports grounds will be held by the Council at 31 March 2016 and it is proposed to earmark the unapplied amount within General Fund Balances for these purposes.

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

**Car Parking - £1,654,000**

- 2.21 The car parking balance is an estimate of the accumulated surpluses at 31 March 2016. 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.

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

**Perth City Centre Regeneration - £1,200,000**

- 2.23 It is proposed that the Council continues to earmark £1,200,000 for future projects in Perth City centre.

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

### **Secondary Schools - £1,149,000**

- 2.25 These resources were earmarked as part of 2015/16 Revenue Monitoring Report No. 1 to the Strategic Policy and Resources Committee (Report No. 15/395 refers) which approved the proposal to earmark resources to equip the new school at Bertha Park. It is proposed that £1,149,000 is earmarked and this may be increased by further resources from Education and Children's Services in the future. These resources will be utilised in future years once the school is built. The balance at 31 March 2016 includes the proposed use of £500,000 of Revenue Budget flexibility resources carried forward from 2015/16.
- 2.26 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) - £985,000**

- 2.27 The earmarked amount shown above is an estimate of the accumulated sum available to be carried forward at 31 March 2016 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. 15/507 refers).
- 2.28 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

### **Essential Maintenance and Compliance Works – £715,000**

- 2.29 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 was proposed that the funding was earmarked within Reserves and drawn down as required. A balance of £715,000 remains.
- 2.30 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

### **Evidence to Success - £624,000**

- 2.31 These resources were earmarked as part of the setting of the 2015/16 Final Revenue Budget in February 2014. These resources are planned to be utilised by Education and Children's Services in 2016/17.
- 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 - £418,000**

- 2.33 The Council has previously made 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 - £400,000**

- 2.35 The Council has previously made 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.

### **Public Service Network - £355,000**

- 2.37 The Council achieved Public Service Network (PSN) accreditation in November 2015. Ongoing works are being undertaken and £355,000 of resources are projected to remain from the amount originally earmarked by 31 March 2016. These will be drawn down from reserves as required in future years.
- 2.38 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

### **Revenue Grants - £290,000**

- 2.39 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.
- 2.40 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

### **Environmental Initiatives - £220,000**

- 2.41 These resources were originally earmarked in Reserves as part of the closure of the Council's Statement of Accounts for 2012/13 and were re-designated during the 2015/16 budget process for Environmental Initiatives.
- 2.42 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 - £210,000**

- 2.43 The amount shown as earmarked for the Investment in Improvement Funds reflects the projected amount of resources remaining in the “Funds” at 31 March 2016. This amount is earmarked for specific projects in accordance with reports approved in previous years.
- 2.44 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

### **UK City of Culture - £210,000**

- 2.45 The earmarking of funding towards the UK City of Culture bid was approved by Council on 7 October 2015 (Report No. 15/417 refers). There is a projected balance of £210,000 of resources remaining from the £250,000 originally earmarked. These resources will be utilised over future years.
- 2.46 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**

- 2.47 The Council approved the transfer of £200,000 to an Energy and Water Management Reserve as part of the 2014/15 Revenue Budget approved in February 2014 (Report No. 14/44 refers). This funding is to deal with any potential over spends on energy and water management associated with severe weather.
- 2.48 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 - £179,000**

- 2.49 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 which increased the amount to £329,000. The projected balance at 31 March 2016 is £179,000.
- 2.50 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

### **Local Government Elections - £159,000**

- 2.51 The Council’s 2015/16 Revenue Budget contains a recurring contribution of £53,000 to fund local government elections. The projected balance at 31 March 2016 will be £159,000.
- 2.52 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

### **Central Energy Efficiency Fund - £109,000**

- 2.53 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.
- 2.54 It is projected that the balance on the Fund at 31 March 2016 will be approximately £109,000 and this amount is shown as being earmarked within General Fund Reserves.
- 2.55 These resources will be monitored as part of the revenue monitoring process, reported to the Strategic Policy and Resources Committee.

### **Investment in Learning Programme - £100,000**

- 2.56 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).
- 2.57 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

### **Contaminated Land - £94,000**

- 2.58 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 a projected balance of £94,000 earmarked for this purpose.
- 2.59 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

### **Financial Assistance - £80,000**

- 2.60 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 2016 is £80,000. In the 2015/16 Revenue Budget £120,000 of this Reserve was applied to support the events programme across Perth and Kinross.
- 2.61 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

### **Events - £50,000**

- 2.62 These resources were earmarked as part of the Revenue Budget approved in February 2013 for investment in outdoor and cultural events. The balance of these resources will be utilised in 2016/17.
- 2.63 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

### **Rural Warden - £20,000**

- 2.64 These resources were earmarked as part of the 2015/16 Revenue Budget to provide pilot funding for a partnership approach to community safety in Highland Perthshire. This will be utilised in 2016/17.
- 2.65 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 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 under spends.
- 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, Social and Other Risks Facing the Council**

- 3.5 The Council faces significant challenges over the medium term. A more comprehensive list of the many risks facing the Council in the next few years which may impact on the budget is set out in the Revenue Budget 2016/17 to 2018/19 – Report Number 2 which is on the agenda for this special meeting of the Council (Report No. 16/51 refers). These include –

- Reliance on transformation across the Council to achieve significant budget reductions
- Assumptions in relation to the continued growth in the number of Band D equivalent properties
- Uncertainty on Scottish Government funding levels beyond 2016/17
- Assumed increases in Council Tax from 2017/18
- Savings based on reducing teacher numbers
- Voluntary Severance Schemes
- Implementation of Welfare Reform
- Removal of recurring budgeted contributions to Reserves
- Pay award assumptions
- Apprenticeship Levy – from 1 April 2017
- Inflation
- Current Economic Climate

### **Severe Weather**

- 3.6 The Provisional Revenue Budget for 2016/17 for winter maintenance includes provision for the cost of an average winter. However a worse than average winter may have a significant adverse impact on the Reserves position.
- 3.7 The variable costs of service provision can 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.
- 3.8 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.
- 3.9 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.

<b><u>Winter Maintenance Final Over / Under Spend</u></b>				
2010/11	2011/12	2012/13	2013/14	2014/15
Over spend £3,160,000	Over spend £785,000	Over spend £1,411,000	Under spend £531,000	Over spend £260,000

### **Bellwin Scheme**

- 3.10 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.
- 3.11 Currently local authorities are expected to include 0.2% (approximately £650,000) of their annual Net Revenue Budget to deal with unforeseen emergencies.

### **Comparison with other authorities**

- 3.12 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 at a national level relates to 31 March 2014.
- 3.13 Audit Scotland's overview report publishes summarised data in terms of the level of Reserves held by individual Councils. The latest information relates to 31 March 2014 and made comment that Councils had a total of £1.8 billion of useable reserves at 31 March 2014 which was a reduction of 2% on the previous year. Twenty councils reduced their level of useable reserves in 2013/14, 11 Councils increased their level and one Council's level remained the same.
- 3.14 The report also makes reference to the pressures faced by Councils for demand for services and reductions in Government funding and that Reserves cannot help Councils deal with budget cuts in the longer term.
- 3.15 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**

- 3.16 Taking account of all of the above factors and historical experience in Perth and Kinross since 1996 it is recommended that the targeted level of uncommitted non-HRA General Fund Reserves continues to 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 2016/17 of £325,739,000 (adjusted on the assumption that all surplus resources of £2,651,000 are used to fund expenditure) this would imply a level of uncommitted Reserves of between approximately £6,515,000 and £13,030,000 for 2016/17.
- 3.17 It has been recommended that the targeted level of uncommitted Reserves be maintained in the 2% to 4% range for a number of years. Whilst this

range is still considered to be appropriate it should be understood that the level of risk involved in managing the Council's Revenue Budget will increase significantly over the short to medium term. This reflects the fact that the settlement for 2016/17 includes the biggest reductions in resources in the Council's history; that there is no information from the Scottish Government on the level of settlement, sanctions or the policy in relation to the Council Tax freeze, teacher numbers or social care beyond 2016/17; that many of the savings options included in the Revenue Budget Executive Summaries will be challenging to deliver and the fact that the options included in 2017/18 and 2018/19 include specific proposals in relation to increasing the Council Tax and reducing teacher numbers and social care spend. In these circumstances it would be prudent to maintain the level of uncommitted Reserves towards the upper end of the range if this is at all possible. Inevitably determining the exact level of uncommitted Reserves within the recommended range will involve judgement in relation to the profile of risks faced by the Council and the options available in managing the Revenue Budget. 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.

- 3.18 A comparison with the forecast position set out above indicates that the Council's projected uncommitted reserves will be approximately £11,818,000 (prior to any budget decisions which have an effect on the Reserves position). This equates to 3.6% of the Net Provisional Revenue Budget for 2016/17.
- 3.19 In view of the above it is recommended that the uncommitted General Fund Reserves be maintained at a level of at least 2% of the Net Provisional Revenue Budget or approximately £6,515,000 in determining the Final Revenue Budget for 2016/17. In the event that any use of General Fund Reserves is made in determining the 2016/17 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.
- 3.20 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 (including Workforce Management measures).
- 3.21 Appendix 3 illustrates the contributions to and from Reserves recommended in setting the Provisional Revenue Budgets for 2016/17 and 2017/18 and anticipated for 2018/19.

#### **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 £2,176,000 of capital receipts carried forward to 2016/17. The forecasts

for unapplied capital receipts all relate to the Commercial Property Investment Programme and recommendations for utilising these resources will be 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 capital monitoring reports submitted to the Strategic Policy and Resources Committee. The projected balance on the Fund at 31 March 2016 is £1,172,000. The Strategic Policy and Resources Committee have previously approved proposals to meet expenditure in future years of £125,000 on the Integrated Human Resources and Payroll System. The balance at 31 March 2016 also includes a balance of £450,000 towards property maintenance, agreed in Revenue Monitoring Report Number 3 approved by the Strategic Policy and Resources Committee on 11 February 2015 (Report No. 15/34 refers) and £360,000 for the Perth Office Project subject to agreement by the Strategic Policy and Resources Committee on 10 February 2016 (Report No. 16/45 refers). The uncommitted balance on the Fund is, therefore, currently projected to be £237,000 at 31 March 2016.
- 5.2 It is recommended that no further transfers to the Fund are provided for in preparing the 2016/17 Revenue Budget and that any proposed transfers from the Fund are reported to future meetings of the Strategic Policy and 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 and 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. This has allowed the Council to review its Fleet "excess level" and increase it from £10,000 to £100,000 which generated a recurring reduction in the Fleet insurance premium of £88,000.
- 6.2 The balance on the Fund at 31 March, 2015 was £3,802,000 (excluding provisions for outstanding liabilities) and it is anticipated that the balance may increase to approximately £3,902,000 by 31 March 2016 assuming no significant change in claims experience. The projected balance on the Fund at 31 March 2016 reflects contributions of £250,000 from the General Fund and Housing Revenue Account during 2015/16 and a further contribution of £400,000 for costs incurred by the Insurance Fund in relation to the flooding in Alyth of July 2015.
- 6.3 The 2016/17 Provisional Revenue Budget also assumes that the budgeted contribution of £200,000 from the General Fund and £50,000 from the



Housing Revenue Account is not made for 2016/17 for one year only. It is anticipated that, based on the current position of the Fund, this reduced income does not present a significant risk.

- 6.4 The current level of the Fund 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.

## **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 2016 will be £23,375,000. Recommendations for utilising these resources will be outlined as part of the Capital Budget which will be considered by the Council on 22 June 2016.

## **8. CAPITAL GRANTS UNAPPLIED**

- 8.1 The Capital Grants Unapplied Reserve holds capital grants which have received by the Council for which the capital works have not yet been undertaken or completed. There are no conditions attached to the funding and the income has been reported in full in the year received and included within the Capital Monitoring Reports presented to the Strategic Policy and Resources Committee. The current balance is £102,000 and this will be applied to the relevant projects as the works are completed.

## **9. CONCLUSIONS AND RECOMMENDATIONS**

- 9.1 This report sets out the proposed strategy for managing the Council's Reserves and Balances with the exception of the Housing Revenue Account Balance.
- 9.2 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 Transformation Programme (including Workforce Management), the Council's Budget Flexibility scheme, Affordable Housing, Developer Contributions, Car Parking and Perth City Centre Regeneration.
- 9.3 After taking account of the proposals for earmarking Reserves 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 Transformation (including Workforce Management). 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 £6,515,000 in determining the Final Revenue Budget for 2016/17. In the event that any use of General Fund Reserves is made in determining the 2016/17 Final Revenue Budget and 2017/18 and 2018/19 Provisional Revenue Budgets 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.

9.4 Recommendations for managing the Capital Receipts Reserve; the Renewal and Repair Fund; the Insurance Fund; the Capital Fund and Capital Grants Unapplied 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.

9.5 It is recommended that the Council approves:

9.5.1 The proposals to earmark General Fund Reserves as set out in Section 2.

9.5.2 The proposed approach to managing uncommitted General Fund Reserves as set out in Section 3.

9.5.3 The proposed approaches to managing the Capital Receipts Reserve; Renewal and Repair Fund; Insurance Fund, Capital Fund and Capital Grants Unapplied Reserve as set out in Sections 4 to 8.

**Author(s)**

<b>Name</b>	<b>Designation</b>	<b>Contact Details</b>
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**Approved**

John Symon	Head of Finance	4 February 2016
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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

<b>Strategic Implications</b>	<b>Yes / None</b>
Community Plan / Single Outcome Agreement	None
Corporate Plan	Yes
<b>Resource Implications</b>	
Financial	Yes
Workforce	Yes
Asset Management (land, property, IST)	Yes
<b>Assessments</b>	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	Yes
Sustainability (community, economic, environmental)	Yes
Legal and Governance	None
Risk	None
<b>Consultation</b>	
Internal	Yes
External	None
<b>Communication</b>	
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 Depute Chief Executives 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 2015

Appendix 2 – Projected General Fund Balance at 31 March 2016 (excluding the Housing Revenue Account)

Appendix 3 – Summary of the Projected Use of General Fund Revenue Balances 2016/17, 2017/18 and 2018/19

**APPENDIX 1**

<b>Summary of General Fund Balances at 31 March 2015</b>	<b>HRA Balances £'000</b>	<b>Other General Fund Balances £'000</b>	<b>Total General Fund Balances £'000</b>
<b>General Fund Balance at 31 March 2015</b>	800	52,670	53,470
<u>Less Commitments Against Balances</u>			
Transformation programme (including Workforce Management)		(12,963)	(12,963)
Revenue Budget Flexibility		(5,143)	(5,143)
Funding of Capital Expenditure at Perth Theatre Affordable Housing		(3,202)	(3,202)
Developer Contributions: Commuted Sums & Infrastructure Car Parking		(3,168)	(3,168)
Devolved School Management		(2,732)	(2,732)
Perth City Centre Regeneration		(2,204)	(2,204)
Developer Contributions: Affordable Housing		(1,284)	(1,284)
Revenue Grants		(1,200)	(1,200)
Essential Maintenance & Compliance Works		(1,097)	(1,097)
Investment in Improvement Funds		(1,054)	(1,054)
Perth Office Programme		(860)	(860)
Local Integration Reserve Fund		(684)	(684)
Public Service Network		(610)	(610)
Planning Appeals & Public Inquiries		(500)	(500)
Modern Apprentices/Graduate Trainees		(390)	(390)
Crematorium Abatement Levy		(344)	(344)
Environmental Initiatives		(329)	(329)
Energy and Water Management		(300)	(300)
Financial Assistance		(220)	(220)
Central Energy Efficiency Fund		(200)	(200)
Investment in Learning Programme		(180)	(180)
Contaminated Land		(179)	(179)
Local Government Elections		(135)	(135)
Events		(109)	(109)
Community Safety / Community Wellbeing Initiatives		(106)	(106)
<b>Uncommitted Balance at 31 March 2015</b>	<b>800</b>	<b>13,310</b>	<b>14,110</b>





**APPENDIX 2**

**Projected General Fund Balance at 31 March 2016 (excl HRA)**

	<b>£'000</b>	<b>£'000</b>
<b>Balance on General Fund at 1 April 2015 (Appendix 1)</b>		52,670
<b>Budgeted Contributions to/(from) Balances (Approved February 2015)</b>		
Budget Flexibility	(5,273)	
Crematorium Abatement Levy	100	
Financial Assistance	(100)	
Elections	53	
Reinstatement of Reserves: workforce management	557	
Planning Inquiries	100	
Capital Funding (Theatre)	(2,848)	
Devolved School Management	(935)	
Investment in Improvement Fund	(201)	
Investment in Learning	(35)	
Community Safety & Wellbeing Initiatives	(67)	
Public Services Network	(390)	
Evidence to Success	624	
Local Integration Reserve Fund	(500)	
Essential Maintenance & Compliance works	(145)	
Perth Office Programme	(610)	
Rural Wardens	20	
Events	(50)	
Revenue Grants	<u>(131)</u>	
		(9,831)
<b>Approved Contributions to/(from) Balances since February 2015</b>		
Devolved School Management	(349)	
Budget Flexibility	138	
Modern Apprentices/Graduates	(150)	
Revenue Grants	(1,096)	
Pay award in 2016-17 below budgeted level	842	
Organisational Development	(15)	
Council Tax Second Home Discounts / Long Term Empty Property	480	
Transformation	(462)	
Investment in Improvement Fund	(273)	
Second Homes - staffing	(142)	
Building Ambition	(60)	
UK City of Culture	(40)	
Settlement	335	
Perth Theatre	(354)	
Backdated Holiday Pay	(75)	
Public Services Network	<u>355</u>	
		(866)
<b>Projected Underspends</b>		
Service Budgets	6,995	
Corporate Budgets	<u>1,275</u>	
		8,270

**APPENDIX 2****Projected General Fund Balance at 31 March 2016 (excl HRA)****£'000      £'000****Year End Accounting Adjustments:**

Voluntary Severance Scheme	(3,403)	
Devolved School Management: Projected Under spend	985	
Developer Contributions: Affordable Housing Net Income	500	
Developer Contributions: Commuted Sums Net Income	690	
Central Energy Efficiency Fund	(70)	
Car Park	<u>(550)</u>	
		(1,848)

**Projected Balance on General Fund at 31 March 2016****48,395**

**Summary of the Projected Use of General Fund Revenue Balances**  
**2016/17, 2017/18 and 2018/19**

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 2016/17 - 2018/19  
 (Based on 2016/17 Provisional Revenue Budget)

	£'000	£'000
<b>Projected General Fund Balance at 1 April 2016</b>		<b>48,395</b>
<b><u>Financial Year 2016/17</u></b>		
<b><u>Additions to Balances during year</u></b>		
Workforce Management	57	
Financial Assistance	20	
Elections	53	
<b><u>Use of Balances</u></b>		
Transformation Programme	(232)	
Revenue Budget Flexibility	(5,283)	
Affordable Housing	(750)	
Council tax 2nd homes - funding staff	(243)	
Devolved School Management	(985)	
Essential Maintenance & Compliance Works	(715)	
Evidence to Success	(624)	
Public Service Network	(164)	
Revenue Grants	(290)	
Investment in Improvement Fund	(210)	
UK City of Culture	(120)	
Modern Apprentices	(179)	
Events	(50)	
Rural Wardens	(20)	
	<hr/>	(9,735)
<b>Projected General Fund Balance at 31 March 2017</b>		<b><hr/>38,660</b>

**Summary of the Projected Use of General Fund Revenue Balances**  
**2016/17, 2017/18 and 2018/19**

**Financial Year 2017/18**

**Additions to Balances during year**

Medium Term Financial Plan	88
Workforce Management	57
Financial Assistance	20
Elections	53

**Use of Balances**

Council tax 2nd homes - funding staff	(243)
Public Service Network	(126)
UK City of Culture	(90)
Elections	<u>(265)</u>

(506)

**Projected General Fund Balance at 31 March 2018**

**38,154**

**Financial Year 2018/19**

**Additions to Balances during year**

Medium Term Financial Plan	88
Workforce Management	57
Financial Assistance	20
Elections	53

**Use of Balances**

Council tax 2nd homes - funding staff	<u>(243)</u>
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(25)

**Projected General Fund Balance at 31 March 2019**

**38,129**