

**PERTH AND KINROSS COUNCIL****14 February 2013****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 2013/14 and the Council's Provisional Revenue Budget for 2014/15.

**1. RECOMMENDATIONS**

It is recommended that the Council approves:

1. The proposals to earmark General Fund balances set out in Section 3 below.
2. The proposed approach to managing uncommitted General Fund balances set out in Section 4 below.
3. The proposed approaches to managing the Capital Receipts Reserve; Renewal and Repair Fund; Insurance Fund and Capital Fund set out in Sections 5 to 8 below.

**2. BACKGROUND**

- 2.1 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 6 February 2013 (Report No. 13/56 refers). CIPFA Local Authority Advisory Panel Bulletin 77 published in November 2008 provides guidance on the establishment and maintenance of Reserves and Balances and has informed the preparation of this report.
- 2.2 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.

2.3 The Audited Statement of Accounts for 2011/12, which was presented to the Council on 3 October 2012 (Report No. 12/437 refers), gives an overview of the Reserves position as at 31 March 2012 which is summarised in the table below.

| <b>Summary of Council Reserves at 31 March 2012</b> | £'000         |
|---|---------------|
| General Fund Balance                                | 36,702        |
| Housing Revenue Account Balance                     | 800           |
| Capital Fund  | 10,372        |
| Renewal and Repair Fund                             | 517           |
| Insurance Fund                                      | 1,083         |
| Capital Receipts Reserve                            | 2,905         |
| Capital Grants Unapplied                            | 1,015         |
| <b>Total</b>  | <b>53,394</b> |

2.4 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.

2.5 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 2012 totalled £37,502,000, once HRA balances (£800,000) and commitments (£22,739,000) are excluded there was an uncommitted General Fund balance of £13,963,000 million. This represents approximately 4.1% of the budgeted total net expenditure for 2012/13.

2.6 The projected outturn position as at 31 March 2013 for each of the relevant Reserves will now be considered in turn and recommendations made regarding future strategy.

### **3. GENERAL FUND (Excluding HRA): Proposals to earmark General Fund balances.**

3.1 Revenue Monitoring Report Number 3, as presented to the meeting of the Strategic Policy and Resources Committee on 13 February 2013 (Report No. 13/51 refers), detailed the projected outturn for the Council's 2012/13 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.

- 3.2 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 £39,002,000 at 31 March 2013.
- 3.3 It should be understood that there remain some areas of uncertainty about the level of balances at 31 March 2013. Significant issues, which might impact on balances include weather conditions for the remainder of the financial year; the operation of the Business Rates Incentivisation Scheme in the current financial year (Report No. 12/585 refers) and the possibility of a contribution from the Scottish Government under the Bellwin Scheme towards costs incurred in the current financial year as a result of severe weather.
- 3.4 It should also be noted that the projections at Appendix 2 include an assumption that the Council will receive £610,000 in respect of its share of Tayside Joint Police Board and Tayside Fire and Rescue Joint Board Reserves, anticipated to be held at 31 March 2013.
- 3.5 The projections at Appendix 2 also include some amendments to the approach recommended in the 2012/13 Reserves Strategy (Report No. 12/54 refers). The most significant of these relates to the amount previously earmarked for the Department of Work and Pensions in relation to potential benefit clawback. This no longer requires earmarked funding. This was reported in Revenue Monitoring Report No. 3 to the Strategic Policy and Resources Committee on 13 February 2013 (Report No. 13/51 refers).
- 3.6 Based on work undertaken to date in preparing the Provisional Revenue Budgets for 2013/14 and 2014/15 it is, however, 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 2013<br/>(Excluding HRA)</b> | <b>£,000</b> | <b>£,000</b>                |
|--|--------------|-----------------------------|
| Projected General Fund Balance at 31 March 2013 (Per Appendix 2)                       |              | 39,002                      |
| <u>Less Amounts Earmarked Against Balances:</u>  |              |                             |
| Devolved School Management Balances  | (1,100)      |                             |
| Car Parking  | (1,960)      |                             |
| Revenue Budget Flexibility   | (5,307)      |                             |
| Investment in Improvement Funds  | (1,015)      |                             |
| Provision for Further Equal Pay Costs  | (1,000)      |                             |
| Affordable Housing   | (1,900)      |                             |
| Developer Contributions: Affordable Housing  | (812)        |                             |
| Developer Contributions: Commuted Sums and Infrastructure                              | (1,795)      |                             |
| Financial Assistance   | (140)        |                             |
| Central Energy Efficiency Fund   | (220)        |                             |
| Zero Waste Fund Resources - Contribution to Loan Charges                               | (93)         |                             |
| Perth City Centre Regeneration   | (1,800)      |                             |
| Insurance Fund   | (1,000)      |                             |
| Planning Appeals and Public Inquiries  | (76)         |                             |
| Investment in Learning Programme   | (135)        |                             |
| Contaminated Land  | (70)         |                             |
| Community Safety / Community Well Being Initiatives                                    | (353)        |                             |
| Minibus Replacement Strategy   | (283)        |                             |
| Microsoft Migration Project  | (190)        |                             |
| Essential Maintenance & Compliance Works 2 High St. & Carpenter Ho.                    | (860)        |                             |
| Funding of Additional Capital Expenditure  | (3,000)      |                             |
| Crematorium Abatement Levy   | (100)        |                             |
| Workforce Management - Future Years  | (4,000)      |                             |
| Revenue Grants   | (227)        |                             |
|  |              | <u>(27,436)</u>             |
| <b>Projected Uncommitted Balance at 31 March 2013</b>                                  |              | <b><u><u>11,566</u></u></b> |

3.7 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.

### 3.8 Devolved School Management (DSM)

The earmarked amount shown above is an estimate of the accumulated sum available to be carried forward at 31 March 2013 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.

### **3.9 Car Parking**

The car parking balance is an estimate of the accumulated surpluses at 31 March 2013. 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.

### **3.10 Revenue Budget Flexibility**

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 Revenue Budget report on the agenda for this special meeting of the Council (Report No. 13/53 refers). The assumption underlying this report is that all of the budget flexibility proposals contained within the Revenue Budget report are approved.

### **3.11 Investment in Improvement Funds**

The amount shown as earmarked for the Investment in Improvement Funds reflects the projected amount of resources remaining in the "Funds" at 31 March 2013. This amount is earmarked for specific projects in accordance with reports approved by the Strategic Policy & Resources Committee on 21 June 2006 and 19 December 2007 and the meeting of the Council on 14 December 2011 (Report No's. 06/465, 07/849 and 11/654 refer). 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, with additional reports on progress in utilising the resources to be submitted to that Committee if necessary.

### **3.12 Provision for Further Equal Pay Costs**

The Council has sought to address issues of pay equality through the implementation of the Single Status Agreement from 1 August 2007 and has previously made equal pay compensation payments totalling £1,744,000 where it had acknowledged historical liabilities in respect of its employees.

The Council has identified a contingent liability in respect of equal pay claims currently being pursued through the Employment Tribunal (Scotland) by approximately 200 Council employees either through independently appointed solicitors or through solicitors acting for their trade union.

The Council's liability arises from three main areas. Firstly, there are a small number of employees who did not accept equal pay compensation payments and have chosen to pursue claims. Secondly, there are a significant number of staff who have an independent firm of solicitors pursuing equal pay claims which could be successful if a suitable comparator were identified. Finally, there are also a large number of equal pay claims which are being taken forward by the Trade Unions. The Council may have a liability for some of these claims.

The Council anticipates that a substantial number of the current claims can be defended either because no valid comparators have been identified or because there are genuine material factors other than gender which resulted in historical pay differences. The exact extent of any ultimate liability arising from these claims cannot be quantified at present given the number of factors which are still unknown.

Progress with Perth and Kinross Council equal pay claims has also been directly affected which is to say, delayed, by the North versus Dumfries and Galloway Council case. An appeal is to be heard by the Supreme Court in May. It is a very significant case for Perth & Kinross Council and the claims against the Council have been sisted by the Employment Tribunal pending the outcome of this appeal. The outcome of this decision is expected around August 2013. The Inner House in Scotland also issued a judgement concerning Edinburgh City Council which supported the claimants' position but the outcome of the Supreme Court case is awaited with interest.

The 2012/13 Reserves Strategy (Report No. 12/54 refers) approved by Council on 14 February 2012 earmarked £1,507,000 towards the potential cost of the Council's equal pay liability. With knowledge of the cases that the Council is aware of and given that another year has elapsed, it is considered prudent to reduce the amount earmarked to £1,000,000 which will be updated as more information becomes available. Inevitably there is a considerable degree of uncertainty in estimating the cost of any successful equal pay claims.

As any equal pay liability materialises it will be appropriate to use the earmarked Reserve for making payments. This will be reported through the revenue monitoring process and reported to the Strategic Policy and Resources Committee with the overall level of Reserves being reviewed annually as part of the Revenue Budget process.

In relation to Tayside Contracts, the Council understands that all claims have been resolved. In addition it is not anticipated that there will be any material equal pay costs in respect of any of the Tayside Joint Boards (Police, Fire, Assessors) and their Treasurers have developed budget strategies based upon each of the Boards funding any equal pay issues without recourse to additional financial contributions from the constituent authorities.

In respect of the Council's own activities it is also currently anticipated that the financial impact of any equal pay claims on the HRA will not be material and that any costs will be contained by the HRA.

### **3.13 Affordable Housing (Resources accrued from reduced Council Tax Discounts)**

It is anticipated that by the end of the current financial year there will be a balance of approximately £1,900,000 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 and reviewed annually as part of the budget setting process.

The projected balance on this earmarked reserve at 31 March 2013 assumes the application of £1,618,000 of resources in 2012/13 to support the Council's new build programme and Registered Social Landlord projects (Report No. 12/338 refers).

### **3.14 Developer Contributions: Affordable Housing; Commuted Sums; and Infrastructure**

The Enterprise & Infrastructure Committee approved a comprehensive affordable housing policy on 29 August 2007 (Report No. 07/551 refers). As a consequence, commuted sums are received from some developers in lieu of the provision of affordable housing.

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 £812,000 of unapplied resources will be held by the Council on 31 March 2013 and it is proposed to earmark the unapplied amount within General Fund Balances for the provision of affordable housing.

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 £636,000 of unapplied resources for tree planting, play areas, community allotments and sports grounds will be held by the Council on 31 March 2013 and it is proposed to earmark the unapplied amount within General Fund Balances. It is also proposed to earmark balances of £976,000 for the provision of Education infrastructure and £183,000 for A9 (Auchterarder) Transport infrastructure.

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.

### **3.15 Financial Assistance**

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 2013 is £140,000.

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.

### **3.16 Central Energy Efficiency Fund**

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.

It is projected that the balance on the Fund at 31 March 2013 will be approximately £220,000 and this amount is shown as being earmarked within General Fund Reserves.

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.

### **3.17 Zero Waste Fund Resources - Contribution to Loan charges**

The Council approved the transfer to Reserves of Zero Waste Fund resources in 2008/09 (Report No. 08/94 refers) and 2009/10 (Report No. 09/88 refers). These resources are being utilised to support loan charges in respect of the additional waste strategy projects which were accelerated by The Environment Service. It is proposed that the remaining balance of £93,000 be earmarked for this purpose in future years.

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.

### **3.18 Perth City Centre Regeneration**

It is proposed that the Council continues to earmark £1,800,000 for future projects - £600,000 for the future development of Perth Theatre which was approved by the Strategic Policy and Resources Committee on 16 June 2010 (Report No. 10/341 refers) with the balance of £1,200,000 being available for other projects in Perth city centre.

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

### **3.19 Insurance Fund**

The Insurance Fund is currently experiencing pressure from claims in recent years. To allow a greater degree of comfort in relation to self-insured risks and to allow flexibility in the management of the Council's insurance arrangements, it is recommended that a further £1,000,000 is earmarked as a possible contribution in 2013/14 to the Insurance Fund and utilised if required.

A full review of the strategy for managing the Fund will be undertaken following the next actuarial review, which will cover the period to 31 March 2014.

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

### **3.20 Planning Appeals and Public Inquiries**

The Strategic Policy and Resources Committee approved a transfer to Reserves of the projected under spend on planning appeal and public inquiry expenses in 2011/12 (Report No. 11/458 refers). This is a recurring contribution to fund future appeals and inquiries as they arise. As expenditure within this area is unpredictable these Reserves will be drawn down when and if they are required.

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

### **3.21 Investment in Learning Programme**

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 Crieff monument of £35,000.

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

### **3.22 Contaminated Land**

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 £70,000 earmarked for this purpose.

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

### **3.23 Community Safety / Community Well Being Initiatives**

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 well being 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 child exploitation and women at risk of offending (Report No. 12/526 refers). The balance of £353,000 will be utilised in 2013/14 and 2014/15.

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

### **3.24 Minibus Replacement Strategy**

Funding for the Council's minibus replacement programme of £283,000 was not required in 2011/12 following a rephrasing of the programme and further consideration of the most effective method of procurement. It is proposed that these resources be earmarked within Reserves and drawn down as required.

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

### **3.25 Microsoft Migration Project**

This funding of £190,000 for the Microsoft Migration Project, which will result in all schools migrating to a Microsoft Infrastructure and joining the Council network, will not be required until 2013/14. It is proposed that the funding is earmarked within Reserves and included within the 2013/14 Provisional Revenue Budget.

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

### **3.26 Essential Maintenance and Compliance Works – 2 High St and Carpenter House**

On 19 December 2012, the Council considered a report on Essential Maintenance and Compliance Works at 2 High Street and Carpenter House, Perth (Report No 12/597 refers). This approved the funding of dilapidation works up to a maximum of £860,000. It is proposed that this funding is earmarked within Reserves and drawn down as required.

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

### **3.27 Funding of Additional Capital Expenditure**

The Council considered a report on the Composite Capital Budget - Additional Capital Expenditure on 19 December 2012 (Report No 12/586 refers) which approved a contribution of £3 million from a combination of headroom and Reserves. It is now proposed that this element of the significant investment in local infrastructure is funded from Reserves and that this amount is earmarked and drawn down as required.

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

### **3.28 Crematorium Abatement Levy**

Revenue Monitoring Report No 3 that was considered by the Strategic Policy and Resources Committee on 13 February 2013 (Report No. 13/51 refers) approved the transfer 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.

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

### **3.29 Workforce Management – Future Years**

As outlined in the section 4 of this report, the Council faces a number of risks over the medium term in relation to future levels of funding and demand for Council services.

As reported to Council on 19 December 2012 in the Update of the Medium Term Financial Plan (Report No. 12/585 refers) it is projected that financial years 2015/16 and 2016/17 may prove to be extremely challenging. With this in mind it is proposed to earmark £4,000,000 to fund potential employee severance costs in 2015/16 and beyond. This is in addition to the £4,000,000 included in the Provisional Revenue Budget for 2013/14. Based on current forecasts this amount would represent the absolute minimum that is likely to be required to fund workforce management measures in these years.

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

### **3.30 Revenue Grants**

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.

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

## **4. GENERAL FUND: Proposed Approach to Managing Uncommitted General Fund Balances**

4.1 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.

### **4.2 Equal Pay Risks**

As highlighted above there are significant risks in respect of potential equal pay liabilities. Although Reserves have been earmarked to deal with this issue there are continuing uncertainties relating to the total potential liability.

### **4.3 Capacity to Raise Balances**

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.

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.

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.

### **4.4 Political, Economic and Social Risks**

The present situation within the UK economy continues to have an impact upon a number of Services within the Council. Examples of this include pressures on the budget for supporting homeless people, and reductions in income generated from planning fees, building warrants, commercial waste and commercial rent. These issues are anticipated to continue into 2013/14 and where their impact is quantifiable, they are reflected within the Revenue Budget 2013/14 and 2014/15 Report being considered at this special meeting of the Council (Report No 13/53 refers). There are also on-going implications from reductions in capital receipts due to the economic environment.

Members will also be aware that inflation indices have 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 2013/14 and beyond.

Additionally, while interest rates have been held at a very low level for some time there is the possibility of increases in borrowing costs in the future.

The Provisional Revenue Budgets for 2013/14 and 2014/15 include some provision for the financial impact of welfare reform. However there is still significant uncertainty in relation to the overall impact to Council Services and budgets. It is, however, anticipated that there may be further budget pressures and it may not be realistic or possible for individual services to identify and realise compensating savings.

Where possible, forecasts of cost increases and loss of income have been incorporated in the Provisional Revenue Budgets for 2013/14 and 2014/15. 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.

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 Budget for 2013/14 and 2014/15 makes allowance 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; the possibility of unbudgeted staff severance costs 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.

#### **4.5 Pay Award**

In setting the 2013/14 Updated Provisional Revenue Budget a pay award of 1% has been assumed for all employees. This assumption reflects the negotiating position adopted by COSLA in relation to discussions with trade unions. The 2014/15 Provisional Revenue Budget includes an assumption of a pay award of 2% for all staff groups.

There is, however, a risk that the outcome of national pay negotiations differs from these assumptions which would have a significant financial impact upon the Council.

#### **4.6 Severe Weather**

The 2013/14 Updated Provisional Revenue Budget for winter maintenance has been revised to reflect the increased cost of an average winter. Despite this increase, any 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.

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. For example, in each of the last three financial years there have been significant over spends on this activity which were funded from Reserves.

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.

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.

#### **4.7 Bellwin Scheme**

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.

Currently local authorities are expected to include 0.2% of their annual Net Revenue Budget to deal with unforeseen emergencies.

The Council most recently activated the Bellwin Scheme in November 2012 following the flooding in Comrie.

#### **4.8 Employee Severance Costs**

As outlined within the Reserves Strategy, the Council is facing significant financial challenges over the medium term both in terms of reduced income levels and increased demand for Council services.

The most recent estimates of Scottish Government grant funding for 2015/16, taking into account external financial commentary suggest cash

reductions in the region of £5 million. With staff costs making up approximately 56% of the net revenue budget it is inevitable that, if these estimates are accurate, the financial pressures facing the Council will have an impact on the workforce.

In the context of managing the impact on the workforce the Council faces a significant financial risk in the medium term of redundancy payments, and payments to the Tayside Superannuation Fund arising from employee early retirements. This risk includes the potential costs faced by the Council in respect of any employee made redundant when they are 50 years or over who can request access to their pension. In these circumstances the Council is liable for non-recurring upfront payments to the Pension fund which can be substantial. Ordinarily any severance costs are met by the employing Service over the long term, but initially costs are normally funded from Reserves, which are subsequently reimbursed.

It is proposed that funding of £4,000,000 is earmarked to contribute towards these potential costs (see 3.29 above) but there is the potential for severance costs over the medium term to be significantly in excess of this amount.

#### **4.9 Comparison with other authorities**

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 2012.

Audit Scotland publish an annual report which summarises the level of Reserves held by individual Councils. The latest draft information relates to 31 March 2012. This information showed that the level of uncommitted General Fund reserves held by individual Councils (excluding Orkney and Shetland) ranged from 0.8% to around 9.4% of net revenue expenditure with Perth and Kinross Council at that time holding uncommitted reserves of around 3.8% and being placed ninth out of the thirty Councils included.

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.

#### **4.10 Proposed Level of Uncommitted General Fund Reserves**

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 5% of the Council's net revenue expenditure in the medium term. Based on the Net

Provisional Revenue Budget for 2013/14 of £319,489,000 (adjusted on the assumption that all surplus resources of £4,354,000 are used to fund expenditure) this would imply a level of uncommitted Reserves of between approximately £6,390,000 and £15,974,000 for 2013/14. However due to the continuing uncertainties and risks beyond 2013/14 it may not be imprudent to maintain uncommitted Reserves above 5% in the short term.

It should be noted that the reported level of uncommitted reserves, expressed as a percentage, has increased relative to equivalent figures for previous years partly. This is partly a consequence of the Council having a reduced budget following the transfer of Police and Fire responsibilities. However historically Tayside Joint Police Board and Tayside Fire and Rescue Joint Board have retained their own Reserves and managed their own risks. The level of risk faced by the Council has therefore not been reduced significantly although the Net Revenue Budget has reduced significantly.

A comparison with the forecast position set out above indicates that the Council's projected uncommitted reserves will be approximately £11,566,000 (prior to any budget decisions which have an effect on the Reserves position). This equates to 3.62% of the Net Provisional Revenue Budget for 2013/14.

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 £6,390,000 in determining the Final Revenue Budget for 2013/14. In the event that any use of General Fund Reserves is made in determining the 2013/14 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.

It is also recommended that should the Council's uncommitted Reserves exceed 5% then the excess over 5% would be added to the amount proposed to be earmarked for future year's employee severance costs of £4,000,000 (see section 3.29 above).

Appendix 3 illustrates the contributions to and from balances recommended in setting the Provisional Revenue Budgets for 2013/14 and 2014/15 and anticipated for 2015/16.

## **5. CAPITAL RECEIPTS RESERVE**

- 5.1 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 £2,232,000 of capital receipts carried forward to 2013/14. The forecasts for unapplied capital receipts all relate to the Commercial Property Investment Programme and recommendations for utilising these resources

will be developed and reported to a future meeting of the Strategic Policy and Resources Committee.

## **6. RENEWAL AND REPAIR FUND**

- 6.1 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 2013 is £330,000. The Strategic Policy and Resources Committee has previously approved proposals to meet further estimated expenditure in future years of £93,000 for Electronic Records and Data Management. The uncommitted balance on the Fund is, therefore, currently projected to be £237,000 at 31 March 2013.
- 6.2 It is recommended that no further transfers to or from the fund are provided for in preparing the 2013/14 Revenue Budget.

## **7. INSURANCE FUND**

- 7.1 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 2011 and concluded in summary that the balance on the Fund was adequate but at the lower end of the desirable range.
- 7.2 The balance on the Fund at 31 March, 2012 was £1,083,000 (excluding provisions for outstanding liabilities) and it is anticipated that the balance may increase to approximately £1,914,000 by 31 March 2013 assuming no significant change in claims experience. The projected balance on the Fund at 31 March 2013 reflects contributions of £1,250,000 from the General Fund and Housing Revenue Account during 2012/13. The impact of flooding claims is currently being assessed and consequently there is some uncertainty about the probable balance on the Fund at 31 March 2013.
- 7.3 As set out in Section 3.19 it is proposed that a further £1,000,000 of General Fund Reserves is earmarked to augment the Fund in 2013/14 should this be required. It is also anticipated that the Housing Revenue Account will also make a contribution of £250,000 towards the Insurance Fund.
- 7.4 This level of funding would 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.
- 7.5 The Insurance Strategy was approved by the Strategic Policy and Resources Committee on 30 November 2011 (Report No. 11/599 refers)

with the next actuarial review being based on the position of the Insurance Fund at 31 March 2014.

## **8. CAPITAL FUND**

- 8.1 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 2013 will be £12,800,000. Recommendations for utilising these resources are included as part of the Composite Capital Budget Report for 2017/18 to 2019/20 being considered at today's special meeting of the Council (Report No 13/54 refers).

## **9. CONSULTATION**

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

## **10. RESOURCE IMPLICATIONS**

- 10.1 There are no resource implications arising directly from the proposals in this report.

## **11. COUNCIL CORPORATE PLAN OBJECTIVES 2009 - 2012**

- 11.1 The Council's Corporate Plan 2009-2012 "Securing the Future" lays out five Objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:-

1. A Safe, Secure and Welcoming Environment
2. Healthy, Caring Communities
3. A Prosperous, Sustainable and Inclusive Economy
4. Educated, Responsible and Informed Citizens
5. Confident, Active and Inclusive Communities

- 11.2 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.

## **12. EQUALITIES IMPACT ASSESSMENT**

- 12.1 The Council's Corporate Equalities Assessment Framework requires an assessment of functions, policies, procedures or strategies in relation to race, gender and disability and other relevant equality categories. This supports the Council's legal requirement to comply with the duty to assess

and consult on relevant new policies to ensure there is no adverse impact on any community group or employees.

- 12.2 The information presented in this report was considered under the Corporate Equalities Assessment Framework and the determination was made that the items included in this report do not require further assessment as they do not have a direct impact on people's wellbeing.

### **13. STRATEGIC ENVIRONMENTAL ASSESSMENT**

- 13.1 Strategic Environmental Assessment (SEA) is a legal requirement under the Environmental Assessment (Scotland) Act 2005 that applies to all plans, programmes and strategies, including policies.

- 13.2 The plan, programme or strategy presented in this report was considered under the Environmental Assessment (Scotland) Act 2005 and the determination was made that the items summarised in this report do not require further action as they do not qualify as a plan, programme or strategy as defined by the Act.

### **14. CONCLUSION**

- 14.1 This report makes recommendations in respect of managing the Council's Reserves and Balances with the exception of the Housing Revenue Account Balances.

- 14.2 A number of proposals for earmarking General Fund Balances are outlined in section 3 above. In financial terms the most significant of these relate to the proposed use of the Council's Budget Flexibility scheme, Affordable Housing, Workforce Planning Measures, Car Parking, Perth City Centre Regeneration and funding for additional capital expenditure.

- 14.3 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 5% 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 5% 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 £6,390,000 in determining the Revenue Budget for 2013/14. In the event that any use of General Fund Reserves is made in determining the 2013/14 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.

- 14.4 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.

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Background Papers:

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.

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

## APPENDIX 1

| <b>Summary of General Fund Balances at 31 March 2012</b> | <b>HRA<br/>Balances<br/>£'000</b> | <b>Other<br/>General<br/>Fund<br/>Balances<br/>£'000</b> | <b>Total<br/>General<br/>Fund<br/>Balance<br/>£'000</b> |
|--|-----------------------------------|--|---|
| <b>General Fund Balance at 31 March 2012</b>             | 800                               | 36,702   | 37,502  |
| <u>Less Commitments Against Balances</u>                 |                                   |  |   |
| Devolved School Management Balances                      |                                   | (1,281)  | (1,281)   |
| Car Parking  |                                   | (1,947)  | (1,947)   |
| Approved Budget Flexibility                              |                                   | (3,552)  | (3,552)   |
| Equal Pay Strategy                                       |                                   | (1,507)  | (1,507)   |
| Single Status Provision                                  |                                   | (419)  | (419)   |
| Council Tax on Second Homes/Long Term Empty Properties   |                                   | (2,418)  | (2,418)   |
| Developer Contributions: Commuted Sums & Infrastructure  |                                   | (1,443)  | (1,443)   |
| Developer Contributions: Affordable Housing              |                                   | (1,186)  | (1,186)   |
| Energy Efficiency Fund                                   |                                   | (250)  | (250)   |
| Financial Assistance (Mod)                               |                                   | (120)  | (120)   |
| Zero Waste Fund Resources                                |                                   | (220)  | (220)   |
| Investment in Improvement Funds                          |                                   | (1,449)  | (1,449)   |
| Investment in Learning Programme                         |                                   | (529)  | (529)   |
| Contaminated Land  |                                   | (70)   | (70)  |
| Perth City Status/ Diamond Jubilee                       |                                   | (70)   | (70)  |
| Perth Theatre & City Centre Projects                     |                                   | (1,800)  | (1,800)   |
| Elections  |                                   | (206)  | (206)   |
| Potential DWP Subsidy Clawback                           |                                   | (1,500)  | (1,500)   |
| Insurance Fund   |                                   | (1,000)  | (1,000)   |
| Revenue Grants   |                                   | (377)  | (377)   |
| Microsoft Migration Project                              |                                   | (190)  | (190)   |
| Minibus Replacement Strategy                             |                                   | (283)  | (283)   |
| Workforce Management Strategy                            |                                   | (259)  | (259)   |
| Community Safety/ Wellbeing Initiatives                  |                                   | (586)  | (586)   |
| Planning Appeals & Public Inquiries                      |                                   | (77)   | (77)  |
| <b>Uncommitted Balance at 31 March 2012</b>              | <b>800</b>                        | <b>13,963</b>  | <b>14,763</b>   |

## APPENDIX 2

| <b>Projected General Fund Balance at 31 March 2013 (excl HRA)</b>         | <b>£'000</b> | <b>£'000</b>  |
|---|--------------|---------------|
| <b>Balance on General Fund at 1 April 2012 (Appendix 1)</b>               |              | 36,702        |
| <b>Budgeted Contributions to/(from) Balances (Approved February 2012)</b> |              |               |
| Budget Flexibility  | (3,552)      |               |
| Contribution to single status costs                                       | (419)        |               |
| Financial Assistance  | 20           |               |
| Elections   | (206)        |               |
| Reinstatement of Reserves: Early Retirement                               | 496          |               |
| Planning Inquiries  | 100          |               |
| Waste Loan Charges  | (127)        |               |
| Devolved School Management  | (950)        |               |
| Investment in Improvement Fund  | (53)         |               |
| City Status   | (70)         |               |
| Investment In Learning Programme  | (28)         |               |
| Funding of Housing & Community Care Revenue Budget for 2012/13            | (389)        |               |
| Funding of Environment Services Care Revenue Budget for 2012/13           | (242)        |               |
| Additional Contribution to Reserves (Headroom) per Budget Motion          | 3,584        |               |
|   |              | (1,836)       |
| <b>Approved Contributions to/(from) Balances since February 2012</b>      |              |               |
| Devolved School Management  | (331)        |               |
| Revenue Grants  | (377)        |               |
| Council Tax Second Home Discounts / Long Term Empty Property              | (518)        |               |
| Community Safety/Community Well Being Initiatives                         | (43)         |               |
| Scottish Government Funding for Elections                                 | 141          |               |
| DWP Clawback of Housing Benefit Subsidy                                   | (281)        |               |
| Comrie Flood Alleviation Works  | (1,032)      |               |
| Crematorium Abatement Levy  | 100          |               |
| Contribution to Insurance Fund  | (1,000)      |               |
| Reimbursement of Funding of HCC Revenue Budget for 2012/13                | 389          |               |
| Reimbursement of Funding of TES Revenue Budget for 2012/13                | 242          |               |
|   |              | (2,710)       |
| <b>Projected Underspends</b>  |              |               |
| Service Budgets   | 4,945        |               |
| Corporate Budgets   | 712          |               |
|   |              | 5,657         |
| <b>Year End Accounting Adjustments:</b>                                   |              |               |
| Devolved School Management: Projected Under spend                         | 1,100        |               |
| Car Park Surplus  | 13           |               |
| Developer Contributions: Affordable Housing Net Application               | (374)        |               |
| Developer Contributions: Commuted Sums Net Income                         | 352          |               |
| Planning Inquiries Projected Net Expenditure                              | (101)        |               |
| Central Energy Efficiency Fund  | (30)         |               |
| Possible Contribution from Police & Fire Reserves                         | 610          |               |
| Projected Investment in Improvement Fund Expenditure                      | (381)        |               |
|   |              | 1,189         |
| <b>Projected Balance on General Fund at 31 March 2013</b>                 |              | <b>39,002</b> |

### 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 for example: Equal Pay, Affordable Housing, Workforce Planning, Car Parking Reserve etc. budgets will be updated as appropriate.

| <b>Summary of the Projected Use of General Fund Balances 2013/14 - 2015/16</b> |              |                |
|--|--------------|----------------|
| <b>(Based on 2013/14 &amp; 2014/15 Provisional Revenue Budget)</b>             |              |                |
|  | <b>£'000</b> | <b>£'000</b>   |
| <b>Projected General Fund Balance at 1 April 2013</b>                          |              | <b>39,002</b>  |
| <b><u>Additions to Balances during year</u></b>                                |              |                |
| Workforce Management   | 496          |                |
| Financial Assistance   | 20           |                |
| Elections  | 53           |                |
| Planning Inquiries   | 100          |                |
| Contaminated Land  | 100          |                |
| <b><u>Use of Balances</u></b>  |              |                |
| Budget Flexibility   | (5,307)      |                |
| Zero Waste Fund Loan Charges   | (54)         |                |
| TES - Funding from Reserves  | (35)         |                |
| Devolved School Management   | (1,100)      |                |
| Investment in Improvement Fund   | (674)        |                |
| Community Safety / Wellbeing Initiatives                                       | (135)        |                |
| Capital Funding  | (101)        |                |
| Microsoft Migration  | (190)        |                |
|  |              | <u>(6,827)</u> |
| <b>Projected General Fund Balance at 31 March 2014</b>                         |              | <b>32,175</b>  |
| <b><u>Additions to Balances during year</u></b>                                |              |                |
| Workforce Management   | 496          |                |
| Financial Assistance   | 20           |                |
| Elections  | 53           |                |
| Planning Inquiries   | 100          |                |
| Contaminated Land  | 100          |                |
| <b><u>Use of Balances</u></b>  |              |                |
| Zero Waste Fund Loan Charges   | (39)         |                |
| TES - Funding from Reserves  | (31)         |                |
| Investment in Improvement Fund 3   | (170)        |                |
| Capital Funding  | (2,899)      |                |
| Community Safety / Wellbeing Initiatives                                       | (135)        |                |
|  |              | <u>(2,505)</u> |
| <b>Projected General Fund Balance at 31 March 2015</b>                         |              | <b>29,670</b>  |
| <b><u>Additions to Balances during year</u></b>                                |              |                |
| Workforce Management   | 496          |                |
| Financial Assistance   | 20           |                |
| Elections  | 53           |                |
| Planning Inquiries   | 100          |                |
| TES - Contribution to Reserves   | 66           |                |
| Contaminated Land  | 100          |                |
| <b><u>Use of Balances</u></b>  |              |                |
| POAR - Dilapidations   | (145)        |                |
| Community Safety / Wellbeing Initiatives                                       | (67)         |                |
| Investment in Improvement Fund 3   | (40)         |                |
|  |              | <u>583</u>     |
| <b>Projected General Fund Balance at 31 March 2016</b>                         |              | <b>30,253</b>  |