

## PERTH AND KINROSS COUNCIL

13 February 2014

## 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 2014/15 and Provisional Revenue Budget for 2015/16.

**1. BACKGROUND**

- 1.1 In accordance with the existing statutory and regulatory framework, the Head of Finance as Responsible Financial Officer (or "Proper Officer") is responsible for advising the Council on the level of Reserves it should hold. This report is intended to fulfil that remit except with regard to Housing Revenue Account (HRA) balances, which were considered in a separate report to the Housing and Health Committee on 29 January 2014 (Report No. 14/18 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.
- 1.2 In determining medium term financial plans and preparing budgets the Council needs to consider the establishment and maintenance of Reserves in accordance with its statutory powers. Reserves can be held for three main purposes:
- Working balances to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of General Reserves.
  - A contingency to cushion the impact of unexpected events or emergencies – this also forms part of General Reserves.
  - A means of building up funds often referred to as Earmarked Reserves, to meet known or predicted liabilities.
- 1.3 The Audited Statement of Accounts for 2012/13, which were presented to the Council on 2 October 2013 (Report No. 13/474 refers), gives an overview of the Reserves position as at 31 March 2013 which is summarised in the table below.

**Summary of Council Reserves as at 31 March 2013**

	<b>£'000</b>
General Fund	41,719
Housing Revenue Account	800
Capital Fund	12,799
Renewal and Repair Fund	483
Insurance Fund	2,034
Capital Receipts Reserve	2,132
Capital Grants Unapplied	685
	<hr/> <hr/> <b>60,652</b>

- 1.4 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.
- 1.5 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 2013 totalled £42,519,000, once HRA balances (£800,000) and commitments (£29,487,000) are excluded there was an uncommitted General Fund balance of £12,232,000. This represents approximately 3.7% of the budgeted total net expenditure for 2013/14 (per Revenue Monitoring Report No.3 – considered by the Strategic Policy and Resources Committee on 12 February 2014 (Report No. 14/47 refers)).
- 1.6 The projected position as at 31 March 2014 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 12 February 2014 (Report No. 14/47 refers), detailed the projected outturn for the Council's 2013/14 General Fund Revenue Budget. The projections included in Revenue Monitoring Report Number 3 have been further refined to recognise a number of adjustments that are required in closing the Council's final accounts.

- 2.2 The impact of these projections on the level of balances is summarised at Appendix 2 to this report, which indicates a projected General Fund (excluding HRA) balance of £42,917,000 at 31 March 2014.
- 2.3 It should be understood that there remain some areas of uncertainty about the projected level of balances at 31 March 2014. Significant issues which might impact on balances include weather conditions for the remainder of the financial year.
- 2.4 Based on work undertaken to date in updating the Provisional Revenue Budgets for 2014/15 and developing the Provisional Revenue Budget for 2015/16 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 2014 (Excluding HRA)</b>	<b>£,000</b>	<b>£,000</b>
Projected General Fund Balance at 31 March 2014 (Per Appendix 2)		42,917
<u>Less Proposed Amounts Earmarked Against Balances:</u>		
Devolved School Management Balances	(1,170)	
Car Parking	(1,797)	
Revenue Budget Flexibility	(4,413)	
Investment in Improvement Funds	(1,053)	
Provision for Further Equal Pay Costs	(500)	
Affordable Housing	(2,706)	
Developer Contributions: Affordable Housing	(995)	
Developer Contributions: Commuted Sums and Infrastructure	(2,391)	
Financial Assistance	(160)	
Central Energy Efficiency Fund	(179)	
Zero Waste Fund Resources - Contribution to Loan Charges	(39)	
Perth City Centre Regeneration	(1,200)	
Planning Appeals and Public Inquiries	(157)	
Investment in Learning Programme	(135)	
Contaminated Land	(123)	
Community Safety / Community Well Being Initiatives	(219)	
Minibus Replacement Strategy	(283)	
Essential Maintenance & Compliance Works 2 High St. & Carpenter House	(860)	
Funding of Capital Expenditure at Perth Theatre	(3,400)	
Crematorium Abatement Levy	(122)	
Workforce Management - Future Years	(6,451)	
Revenue Grants	(230)	
Ryder Cup	(500)	
Kinross Curling Trust	(125)	
Perth Office Programme	(710)	
Public Service Network	(700)	
Local Government Elections	(53)	
Flood Fund	(220)	
Letham Community Sports Club	(85)	
		(30,976)
<b>Revised Projected Uncommitted Balance at 31 March 2014</b>		<b>11,941</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.

#### 2.6 **Devolved School Management (DSM) - £1,170,000**

The earmarked amount shown above is an estimate of the accumulated sum available to be carried forward at 31 March 2014 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.

#### **2.7 Car Parking - £1,797,000**

The car parking balance is an estimate of the accumulated surpluses at 31 March 2014. 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.

#### **2.8 Revenue Budget Flexibility - £4,413,000**

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. 14/44 refers). The assumption underlying this report is that all of the budget flexibility proposals contained within the Revenue Budget report are approved.

#### **2.9 Investment in Improvement Funds - £1,053,000**

The amount shown as earmarked for the Investment in Improvement Funds reflects the projected amount of resources remaining in the "Funds" at 31 March 2014. This amount is earmarked for specific projects in accordance with reports approved in previous years. The application of the earmarked balance will be monitored and controlled through the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

#### **2.10 Provision for Further Equal Pay Costs - £500,000**

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 also identified a liability in respect of other historical pre-Single Status equal pay claims currently being pursued through the Employment Tribunal (Scotland) by approximately 166 Council employees,

either through independently appointed solicitors or through solicitors acting for their trade union. The Council now accepts liability for the vast majority of these claims and is pursuing settlement negotiations to conclude all valid claims. The Council has separately set aside funds in excess of the estimated required for this purpose and therefore these costs should have no impact on the level of Reserves at 31 March 2104.

However it is still considered prudent to earmark a sum towards the cost of the Council's potential outstanding equal pay liability. Based on an understanding of current cases it is proposed to earmark £500,000. This is a reduction from the amount earmarked in last year's Reserves Strategy (£1,000,000) in recognition that with a further year passing the risks are reduced. There is still significant uncertainty around the potential cost of settling equal pay claims.

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.

**2.11 Affordable Housing (Resources accrued from reduced Council Tax Discounts) - £2,706,000**

It is anticipated that by the end of the current financial year there will be a balance of approximately £2,706,000 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.

The projected balance on this earmarked reserve at 31 March 2014 assumes the application of £480,000 of resources in 2013/14 to support the Council's new build programme and Registered Social Landlord projects (Report No. 13/445 refers).

**2.12 Developer Contributions: Affordable Housing; Commuted Sums; and Infrastructure - £995,000 & £2,391,000**

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 £995,000 of unapplied resources will be held by the Council on 31 March 2014 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 £563,000 of unapplied resources for tree planting, play areas, community allotments and sports grounds will be held by the Council on 31 March 2014 and it is proposed to earmark the unapplied amount within General Fund Balances for these purposes. It is also proposed to earmark balances of £1,673,000 for the provision of Education infrastructure and £155,000 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.

#### **2.13 Financial Assistance - £160,000**

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 2014 is £160,000.

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.

#### **2.14 Central Energy Efficiency Fund - £179,000**

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 2014 will be approximately £179,000 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.

#### **2.15 Zero Waste Fund Resources - Contribution to Loan charges - £39,000**

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 £39,000 be earmarked for this purpose in 2014/15.

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.

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

It is proposed that the Council continues to earmark £1,200,000 for future 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.

**2.17 Planning Appeals and Public Inquiries - £157,000**

The Council continues to make a recurring annual budgetary provision of £100,000 towards future planning appeals and public inquiries as they arise. As expenditure within this area is unpredictable these Reserves will be drawn down 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.

**2.18 Investment in Learning Programme - £135,000**

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.

**2.19 Contaminated Land - £123,000**

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 £123,000 earmarked for this purpose.

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

## **2.20 Community Safety / Community Well Being Initiatives - £219,000**

The meetings of Tayside Fire and Rescue Joint Board and Tayside Joint Police Board which took place on 21 December 2011 approved a reduction in the requisitions from constituent authorities. This adjustment was reported to the Strategic Policy and Resources Committee on 8 February 2012 (Report No. 12/51 refers) with the resultant underspend on Board requisitions to be utilised to support preventative initiatives linked to community wellbeing and community safety. On 21 November 2012 the Strategic Policy and Resources Committee approved the allocation of this funding for a number of projects including prevention of child exploitation and women at risk of offending (Report No. 12/526 refers). The balance of £219,000 will be utilised in 2014/15 and 2015/16.

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

## **2.21 Minibus Replacement Strategy - £283,000**

Funding for the Council's minibus replacement programme of £283,000 was not required in 2011/12 following a rephrasing of the programme. This funding is now required to support the budget for replacing minibuses over the medium term.

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

## **2.22 Essential Maintenance and Compliance Works – 2 High St and Carpenter House - £860,000**

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 associated with the Perth Office Programme up to a maximum of £860,000. It is proposed that this funding is earmarked within Reserves and drawn down as required.

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

## **2.23 Funding of Capital Expenditure at Perth Theatre - £3,400,000**

The Council has previously earmarked £3,600,000 towards the Perth Theatre Redevelopment Project. In the current financial year £200,000 of costs have been incurred resulting in a balance of £3,400,000 which will continue to be earmarked.

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

#### **2.24 Crematorium Abatement Levy - £122,000**

The Council continues to make a recurring annual budgetary provision of £100,000 towards future investment at Perth Crematorium to comply with mercury abatement legislation. It is proposed that this funding is earmarked within Reserves and drawn down as required.

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

#### **2.25 Workforce Management – Future Years - £6,451,000**

As outlined in section 3 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.

The Reserves Strategy that was considered by Council on 14 February 2013 (Report No. 13/55 refers) approved the earmarking of £4,000,000 to fund potential employee severance costs in 2015/16 and beyond recognising the predicted financial challenges ahead over the medium term.

The Final Revenue Budget for 2013/14 that was also approved on 14 February 2013 (Report No. 13/53 refers) included a further £4,000,000 to meet anticipated employee severance costs committed prior to 31 March 2014. However the update of the 2014/15 Provisional Revenue Budget that is considered at today's special meeting of the Council indicates that £1,549,000 is required to fund 112 voluntary severance packages for staff who will leave between 31 March 2014 and 30 September 2015.

It is proposed that the balance of the funding from 2013/14 (£2,451,000) is applied to the earmarked reserve for Workforce Management measures that it is anticipated will be required for future years.

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

#### **2.26 Revenue Grants - £230,000**

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.

#### **2.27 Ryder Cup - £500,000**

Revenue Monitoring Report No 1 that was considered by the Strategic Policy and Resources Committee on 18 September 2013 (Report No. 13/445 refers) approved the earmarking of £500,000 from Reserves to fund expenditure on Ryder Cup promotion and infrastructure.

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

**2.28 Kinross Curling Trust - £125,000**

A report to the Strategic Policy and Resources Committee on 18 September 2013 (Report No. 13/451 refers) approved the earmarking of £125,000 of Reserves for the refurbishment of Kinross Curling Rink to be utilised in 2014/15.

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

**2.29 Perth Office Programme - £710,000**

Revenue Monitoring Report No. 2 that was considered by the Strategic Policy and Resources Committee on 27 November 2013 (Report No. 13/557 refers) approved the transfer of £760,000 from the Environment Service to Reserves to fund future expenditure on Perth Office programme. It is anticipated that the balance at 31 March 2014 will be £710,000. 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.

**2.30 Public Service Network - £700,000**

The Council achieved Public Service Network (PSN) compliance in December 2013 and is required to be accredited again in September 2014. It is proposed that £700,000 be earmarked within Reserves should any additional work beyond initial accreditation be required.

It must be recognised that all of these cost estimates are based on the PSN requirements as they are currently known and understood. Any or all of them could be subject to clarification or guidance from the Cabinet Office before the next submission date which would require a change to current plans and expected costs. It is anticipated that this level of uncertainty will continue past the next submission date. Further updates will be provided to future meetings of the Strategic Policy and Resources Committee to take decisions on the options available to the Council.

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

**2.31 Local Government Elections - £53,000**

The Council's 2014/15 Provisional Revenue Budget contains a recurring contribution to local elections.

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

### 2.32 **Flood Fund (Insurance Losses) - £220,000**

These resources were earmarked in Reserves as part of the closure of the Council's Statement of Accounts for 2012/13. These resources are available to fund residents of Perth & Kinross's uninsured losses from future flooding events.

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

### 2.33 **Letham Community Sports Club - £85,000**

At its meeting of 27 January 2014, the Executive Sub-Committee of the Strategic Policy and Resources Committee considered a report in relation to Letham Community Sports Club (Report No. 14/31 refers). The Sub-Committee agreed to provide funding of £85,000 from Reserves to support the project at Seven Acres Park subject to applications for further funding. To the extent that the funding is not required in the current financial year then the funding would be earmarked in Reserves and utilised in the future.

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.

### 3.2 **Equal Pay Risks**

As highlighted above there are residual 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.

### 3.3 **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.

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

The Scottish Government have advised that local authorities will receive a “flat cash” settlement for 2015/16. There remains uncertainty as to the meaning of “flat cash” to the Council. The Provisional Revenue Budget for 2015/16 includes an assumption that the Council will receive an additional £750,000 as a result of updates to the distribution methodology.

The Council also faces significant challenges over the medium term. External financial commentators (the Improvement Service) suggest that Scottish Departmental Limits (DEL) may reduce on a cash basis by 0.9%, 2% and 0.9% in 2016/17, 2017/18 and 2018/19 respectively. When inflation is factored the figures represent significant real terms reductions in funding for the Council. In addition these projected reductions in funding are speculative and cover the whole of the public sector with the possibility that the impact on local government could be significantly worse. In addition the Council continues to face increasing demand for many of its services.

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 2014/15 and beyond.

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

Where possible, forecasts of cost increases and loss of income have been incorporated in the Provisional Revenue Budgets for 2014/15 and 2015/16. Inevitably, however, there remains uncertainty in respect of the spectrum of activity undertaken by the Council and the wide ranging impact of the current economic climate. These issues require consideration and factoring into the Reserves Strategy.

In addition to the risks arising from the uncertainties over external influences such as inflation and interest rates, the Reserves Strategy needs to take account of risks inherent in managing other influences on service delivery. Although the Provisional Revenue Budgets for 2014/15 and 2015/16 make allowances for the anticipated costs of service delivery there are inevitably uncertainties inherent in budget preparation. These include unanticipated increases in demand for services; legislative and national policy influences; the ability to deliver on proposed savings and efficiencies; 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.

### 3.5 **Pay Award**

In updating the 2014/15 Provisional Revenue Budget a pay award of 1% has been assumed for all employees. The 2015/16 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 may have a significant financial impact upon the Council.

### 3.6 **Severe Weather**

The Provisional Revenue Budgets for 2014/15 and 2015/16 for winter maintenance include provision for the cost of an average winter. However worse than average winters 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 recent 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.

### 3.7 **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% (approximately £650,000) of their annual Net Revenue Budget to deal with unforeseen emergencies.

### **3.8 Employee Severance Costs**

As outlined within this Reserves Strategy at section 3.4, the Council is facing significant financial challenges over the medium term both in terms of reduced income levels and increased demand for Council services.

With staff costs making up approximately 53% 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 £6,451,000 is earmarked to contribute towards these potential costs (see 2.25 above) but there is the potential for severance costs over the medium term to vary significantly from this amount.

The balance of £6,451,000 is derived from the originally approved £8,000,000 (£4,000,000 included in the 2013/14 Final Revenue Budget and a further £4,000,000 earmarked in last year's Reserves Strategy) less the anticipated costs of £1,549,000 in 2013/14.

### **3.9 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 2013.

Audit Scotland publishes an annual report which summarises the level of Reserves held by individual Councils. The latest draft information relates to 31 March 2013. This information showed that the level of uncommitted General Fund reserves held by individual Councils (excluding Orkney and Shetland) ranged from 0.5% to around 8.2% of net revenue expenditure with Perth and Kinross Council at that time holding uncommitted reserves of around 3.9% and being placed ninth out of the thirty Councils included. The average across Scotland is 2.6%.

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.

### **3.10 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 4% of the Council's net revenue expenditure in the medium term. Based on the Net Provisional Revenue Budget for 2014/15 of £328,737,000 (adjusted on the assumption that all surplus resources of £4,126,000 are used to fund expenditure) this would imply a level of uncommitted Reserves of between approximately £6,575,000 and £13,150,000 for 2014/15. However due to the continuing uncertainties and risks beyond 2015/16 it may not be imprudent to maintain uncommitted Reserves above 4% in the medium term.

A comparison with the forecast position set out above indicates that the Council's projected uncommitted reserves will be approximately £11,941,000 (prior to any budget decisions which have an effect on the Reserves position). This equates to 3.63% of the Net Provisional Revenue Budget for 2014/15.

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 £6,575,000 in determining the Final Revenue Budget for 2014/15. In the event that any use of General Fund Reserves is made in determining the 2014/15 and 2015/16 Revenue Budget this should only be done on the basis of a sustainable strategy, which ensures that future years' Revenue Budgets are not dependent on the continuing use of Reserves.

It is also recommended that should the Council's uncommitted Reserves exceed 4% then the excess over 4% would be added to the amount proposed to be earmarked for future year's workforce management (see section 2.25 above).

Appendix 3 illustrates the contributions to and from balances recommended in setting the Revenue Budgets 2014/15, 2015/16 and anticipated for 2016/17.

## **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 £553,000 of capital receipts carried forward to 2014/15. The forecasts for unapplied capital receipts all relate to the Commercial Property Investment Programme and recommendations for utilising these resources have been developed and reported to the Strategic Policy and Resources Committee.

## **5. RENEWAL AND REPAIR FUND**

- 5.1 The Council operates a Renewal and Repair Fund in accordance with the Local Government (Scotland) Act 1975. The financial position of the Fund is monitored in the regular capital monitoring reports submitted to the Strategic Policy and Resources Committee. The projected balance on the Fund at 31 March 2014 is £373,000. The Strategic Policy and Resources Committee have previously approved proposals to meet expenditure in future years of £135,000 on the Integrated Human Resources and Payroll System. The uncommitted balance on the Fund is, therefore, currently projected to be £238,000 at 31 March 2014.
- 5.2 It is recommended that no further transfers to or from the Fund are provided for in preparing the 2014/15 Revenue Budget.

## **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 2011 and concluded in summary that the balance of £933,000 on the Fund was adequate but at the lower end of the desirable range.
- 6.2 The balance on the Fund at 31 March, 2013 was £2,034,000 (excluding provisions for outstanding liabilities) and it is anticipated that the balance may increase to approximately £2,925,000 by 31 March 2014 assuming no significant change in claims experience. The projected balance on the Fund at 31 March 2014 reflects contributions of £1,250,000 from the General Fund and Housing Revenue Account during 2013/14.
- 6.3 The Provisional Revenue Budget for 2014/15 includes a proposal for a recurring contribution of £200,000 from the General Fund. This, along with the additional recurring contribution from the Housing Revenue Account of £50,000, should provide both a greater degree of comfort in relation to self-insured risks and provide some capacity for flexibility in the future management of the Council's insurance arrangements. The most significant of these self-insured risks are in relation to property claims for which the excess per claim is £100,000; the aggregate annual stop-loss is £800,000 and flooding claims for which the excess is £1,000,000.
- 6.4 The 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. The Council is currently tendering its insurance contract from October 2014 which may impact on future premium levels.

## **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 2014 will be £15,836,000. Recommendations for utilising these resources are included as part of the Composite Capital Budget Report for 2014/15 to 2020/21 being considered at today's special meeting of the Council (Report No. 14/45 refers).

## **8. CONCLUSIONS AND RECOMMENDATIONS**

- 8.1 This report sets out the proposed strategy for managing the Council's Reserves and Balances with the exception of the Housing Revenue Account Balances.
- 8.2 A number of proposals for earmarking General Fund Balances are outlined in section 2 above. In financial terms the most significant of these relate to the proposed use of the Council's Budget Flexibility scheme, Affordable Housing, Workforce Planning Measures, Car Parking, Perth City Centre Regeneration and funding for additional capital expenditure.
- 8.3 After taking account of the proposals for earmarking balances and based on an assessment of financial risks over the medium term, it is recommended that the Council retain a level of uncommitted General Fund reserves in the range of 2% to 4% of the Net Revenue Budget in the medium term. However, in the current environment it may not be inappropriate to exceed the upper figure in the short term. It is recommended that any amount of uncommitted reserves in excess of 4% of the Net Revenue Budget is earmarked for future costs in relation to workforce planning measures. In view of this it is recommended that the Council's uncommitted General Fund reserves be maintained at a level of at least 2% of the Net Provisional Revenue Budget or approximately £6,575,000 in determining the Final Revenue Budget for 2014/15. In the event that any use of General Fund Reserves is made in determining the 2014/15 or 2015/16 Revenue Budget this should only be done on the basis of a sustainable strategy, which ensures that future years' Revenue Budgets are not dependent on the continuing use of Reserves.
- 8.4 Recommendations for managing the Capital Receipts Reserve; the Renewal & Repair Fund; the Insurance Fund; and the Capital Fund are also outlined. In essence these Reserves are either committed or require to be maintained at broadly current levels in view of the proposed budget strategies and the risks facing the Council.

8.5 It is recommended that the Council approves:

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

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

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

**Author(s)**

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**Approved**

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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 Executive Directors have been consulted in the preparation of this report.

#### **2. BACKGROUND PAPERS**

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

#### **3. APPENDICES**

Appendix 1 – Summary of General Fund Balances at 31 March 2013

Appendix 2 – Projected General Fund Balance as at 31 March 2014 (excl. HRA)

Appendix 3 – Summary of the Projected Use of General Fund Revenue Balances 2014/15 to 2016/17

## APPENDIX 1

<b>Summary of General Fund Balances at 31 March 2013</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 2013</b>	800	41,719	42,519
<u>Less Commitments Against Balances</u>			
Devolved School Management Balances		(1,230)	(1,230)
Car Parking		(1,997)	(1,997)
Approved Budget Flexibility		(5,307)	(5,307)
Equal Pay Strategy		(1,000)	(1,000)
Council Tax on Second Homes/Long Term Empty Properties		(1,992)	(1,992)
Developer Contributions: Commuted Sums & Infrastructure		(1,701)	(1,701)
Developer Contributions: Affordable Housing		(794)	(794)
Energy Efficiency Fund		(227)	(227)
Financial Assistance (Mod)		(140)	(140)
Zero Waste Fund Resources		(93)	(93)
Investment in Improvement Funds		(1,022)	(1,022)
Investment in Learning Programme		(135)	(135)
Contaminated Land		(123)	(123)
Perth Theatre & City Centre Projects		(1,800)	(1,800)
Insurance Fund		(1,000)	(1,000)
Revenue Grants		(630)	(630)
Microsoft Migration Project		(190)	(190)
Minibus Replacement Strategy		(283)	(283)
Workforce Management Strategy		(4,000)	(4,000)
Community Safety/ Wellbeing Initiatives		(353)	(353)
Planning Appeals & Public Inquiries		(177)	(177)
Crematorium Abatement Levy		(100)	(100)
Essential Maintenance & Compliance Works		(860)	(860)
Funding of Additional Capital Expenditure		(3,000)	(3,000)
Flood Fund		(220)	(220)
Scottish Government Funding		(1,113)	(1,113)
<b>Uncommitted Balance at 31 March 2013</b>	<b>800</b>	<b>12,232</b>	<b>13,032</b>

## APPENDIX 2

<b>Projected General Fund Balance at 31 March 2014 (excl HRA)</b>	<b>£'000</b>	<b>£'000</b>
<b>Balance on General Fund at 1 April 2013 (Appendix 1)</b>		41,719
<b>Budgeted Contributions to/(from) Balances (Approved February 2013)</b>		
Budget Flexibility	(5,307)	
Contaminated Land	100	
Financial Assistance	20	
Elections	53	
Reinstatement of Reserves: Workforce Management	496	
Planning Inquiries	100	
Waste Fund Loan Charges	(54)	
Devolved School Management	(1,100)	
Investment in Improvement Fund	(674)	
Community Safety/Community Well Being Initiatives	(135)	
Capital funding	(101)	
Funding of Environment Services Care Revenue Budget for 2013/14	(35)	
Microsoft Licenses	(190)	
		(6,827)
<b>Approved Contributions to/(from) Balances since February 2013</b>		
Devolved School Management	(130)	
Revenue Grants	(630)	
Council Tax Second Home Discounts / Long Term Empty Property	620	
Contribution to Insurance Fund	(1,000)	
IIL Mothballing	(131)	
Other final accounts adjustments	(202)	
Theatre Capital Funding	101	
Scottish Government Funding	(1,113)	
Modern Apprentices	(32)	
Theatre Capital Funding	(200)	
Horsecross	(525)	
Perth Office Project	710	
Community Safety/Community Well Being Initiatives	17	
Investment in Improvement Fund	338	
		(2,177)
<b>Projected Underspends</b>		
Service Budgets	5,467	
Corporate Budgets	125	
	5,592	
Workforce Planning	2,451	
Contingency Budget	250	
		8,293
<b>Year End Accounting Adjustments:</b>		
Devolved School Management: Projected Under spend	1,170	
Developer Contributions: Affordable Housing Net Application	201	
Developer Contributions: Commuted Sums Net Income	690	
Planning Inquiries Projected Net Expenditure	(120)	
Central Energy Efficiency Fund	(48)	
Council Tax Second Home Discounts / Long Term Empty Property	94	
Crematorium	(78)	
		1,909
<b>Projected Balance on General Fund at 31 March 2014</b>		<b>42,917</b>

## APPENDIX 3 (i)

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 2014/15 - 2016/17</b>		
<b>(Based on 2014/15 &amp; 2015/16 Provisional Revenue Budget)</b>		
	<b>£'000</b>	<b>£'000</b>
<b>Projected General Fund Balance at 1 April 2014</b>		<b>42,917</b>
<b><u>Additions to Balances during year</u></b>		
Workforce Management	509	
Financial Assistance	20	
Elections	53	
Planning Inquiries	100	
Contaminated Land	100	
Events	100	
Energy	200	
<b><u>Use of Balances</u></b>		
Budget Flexibility	(4,413)	
DSM	(1,170)	
Zero Waste Fund Loan Charges	(39)	
TES - Funding from Reserves	(31)	
Investment in Improvement Fund 3	(406)	
Investment in Improvement Fund 4	(571)	
Capital Funding	(590)	
Ryder Cup	(500)	
Letham Community Sports Club	(85)	
Kinross Curling Trust	(125)	
Education Minibuses	(283)	
Community Safety / Wellbeing Initiatives	(152)	
		(7,283)
<b>Projected General Fund Balance at 31 March 2015</b>		<b>35,634</b>
<b><u>Additions to Balances during year</u></b>		
Workforce Management	509	
Financial Assistance	20	
Elections	53	
Planning Inquiries	100	
Contaminated Land	100	
<b><u>Use of Balances</u></b>		
POAR - Dilapidations	(145)	
Capital Funding	(2,810)	
Community Safety / Wellbeing Initiatives	(67)	
Investment in Improvement Fund 3	(40)	
Events	(50)	
		(2,330)
<b>Projected General Fund Balance at 31 March 2016</b>		<b>33,304</b>

## APPENDIX 3 (ii)

	£'000	£'000
<b>Projected General Fund Balance at 1 April 2016</b>		<b>33,304</b>
<b><u>Additions to Balances during year</u></b>		
Workforce Management	509	
Financial Assistance	20	
Elections	53	
Planning Inquiries	100	
Contaminated Land	100	
<b><u>Use of Balances</u></b>		
Events	(50)	
		732
<b>Projected General Fund Balance at 31 March 2017</b>		<b>34,036</b>