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THE EXECUTIVE (BUDGET)

Monday, 16 December 2013 (10.00 am)

Please find the attached report marked "TO FOLLOW" on the Executive agenda which was not received by the agreed cut-off time.

3 **REVIEW OF FINANCIAL RESERVES AND BALANCES** (Pages 1 - 10)

To submit the report of the Head of Function (Resources). – **TO FOLLOW**

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ISLE OF ANGLESEY COUNTY COUNCIL		
REPORT TO	EXECUTIVE COMMITTEE	
DATE	16 DECEMBER 2013	
SUBJECT	REVIEW OF FINANCIAL RESERVES AND BALANCES	
PORTFOLIO HOLDER(S)	COUNCILLOR HYWEL EIFION JONES	
LEAD OFFICER(S)	HEAD OF FUNCTION (RESOURCES)	
CONTACT OFFICER	CLARE WILLIAMS	(EXT. 2601)
Nature and reason for reporting		
To consider the level of Financial Reserves and Balances and demands on them, and advise on the potential release of reserves.		
A – Introduction / Background / Issues		
This report updates previous assessments of financial reserves. The purpose of the review is to ensure that the reserves are still required, adequate for the purpose intended and not excessive. We base the review on CIPFA’s Bulletin on Local Authority Reserves and Balances. The financial reserves are reviewed on an ongoing basis but this formal review is conducted each year in advance of considering the budget.		
B – Considerations		
See attached		
C – Implications and Impacts		
1	Finance / Section 151	Author of report
2	Legal / Monitoring Officer	
3	Human Resources	
4	Property Services (see notes – separate document)	
5	Information and Communications Technology (ICT)	
6	Equality (see notes – separate document)	
7	Anti-poverty and Social (see notes – separate document)	
8	Communication (see notes – separate document)	
9	Consultation (see notes – separate document)	
10	Economic	
11	Environmental (see notes – separate document)	
12	Crime and Disorder (see notes – separate document)	
13	Outcome Agreements	

CH – Summary
As part of the budget setting process, I can advise The Executive on the likely level of earmarked and restricted reserves that will be available to protect general balances going forward. The forecast level of balances takes account of the projected year-end position, which is currently broadly neutral and which therefore means that there will be no requirement in 2014/15 to make a contribution to balances. As always these figures have to be kept under review in the light of changing circumstances and which I will formally report on again as the Council sets the budget.
D – Recommendation
None required – report for information at this stage.

Name of author of report – Clare Williams
Job Title – Head of Function (Resources) & Section 151 Officer
Date – 29 November 2013

Appendices:
Appendix A – Earmarked Reserves. Appendix B – Restricted Service Reserves.
Background papers
CIPFA LAAP Bulletin on Local Authority Reserves and Balances.

Most years the aim is to balance the budget without drawing on reserves. This is what we did with general balances in the last four years:

YEAR	Original Budget	Revised Position in Adequacy of Reserves Assessment	Out-turn
2010/11	Minimal use of balances in main budget but with an approved contribution from balances of up to £0.6m to cover severance costs.	As a result of foreseen savings of £2.2m at the end of the third quarter boosting general balances above the required level, it was decided that up to £2.5m could be used in 2011/12 to cover severance costs.	£6.7m [£7.7m comparing like with like] Savings of £2.5m set against 2010/11 severance costs of £0.6m. Net effect was increase of £1.9m in balances before applying a provision (a form of technical adjustment) of £1m to reflect projected severance costs. Those costs were defrayed in 2011/12.
2011/12	The projected improvement in 2010/11 lead to the general balances being above the level judged “adequate” and enabled the Executive to release up to £2.5 million to finance severance costs. While this strategy was expected to leave the authority with adequate reserves by the end of 2011/12, there was danger of deterioration after that if other risks manifested themselves.	Only about £1m of the £2.5m was required for severance in the main cuts programmes. However the severance programme put additional pressure on the key corporate services identified for capacity building. The Board of Commissioners on 14 November approved release of part of the surplus to correct this.	£5.8m By the end of the year, the call on general balances had deteriorated by £0.2m, mainly as a result of further costs from redundancies. However, the contribution from balances was £0.6m less than originally budgeted. The final out-turn for the year is a reduction of £0.9m in General Balances to £5.8m [reduction of £1.9m on like for like basis.]

		At the third quarter budget review an overall overspend of £0.7m was envisaged on net budgets, mitigated by a projected reduction in the cost of redundancies, reducing the call on general balances by £0.7m.	
2012/13	Release of £0.9m (together with £0.3m from earmarked reserves) to finance severance costs and other related one off costs. Given the scale of the budget savings and cuts, it was unlikely that £1.2m would be sufficient for this purpose and in order to avoid the situation where the one off cost of termination might be a barrier to achieving ongoing savings. As an exception to normal arrangements the Chief Executive as Head of Paid Services and in consultation with the s151 Officer authorised to release up to another £1m from balances for this purpose. Use of this £1m would bring the projected level of general balances down to a level of £4m by the end of 2012/13. This level is low in the context of the continuing economic pressures	Likely that the £1.2m released from reserves and balance will be required for severance. The second quarter budget monitoring report indicates an overspend of £2.6m unless mitigating action is taken.	£5.9m The Council's Executive Committee received a provisional out-turn report at its meeting of 10 June 2013, which showed a net underspend of £1.1m, against the Council's approved budget. The overall improvement shown in the provisional out-turn position for 2012/13 meant that the forecasted use of earmarked reserves and general balances for the year of £1.2m would not be required and that a contribution of £114k could be made to the general balance.
2013-14	In March 2013 the Council set a net budget with net service expenditure of £128.8m and a contribution to general balances of £500k, giving a total of £129.3m to be funded from Council Tax Income and general grants. The budget also included a severance contingency of £1m and a cost of change contingency of £500k.	The latest budget monitoring report (quarter 2) indicates that a small overspend of £265k is forecast. The contribution to general balances of £500k will be made but the net position will be an increase in general balances of £235k if the forecast overspend cannot be reduced by the year-end. Remaining contingency balances that may arise by year-end will be retained to meet potential commitments in later years.	N/A

The second quarter monitoring statement indicated a potential deficit of up to £265k on the year. This overspend will be met from general balances if it proves impractical to reduce spending to budget levels by the year-end. There are also some risks attached to the forecast for 2013/14 which may result in further movements by the year-end and the forecast out-turn position will be updated at quarter 3 and which will potentially change the level of general balances available at the year-end.

The approach outlined here follows that adopted in recent years as part of the budget round, updated to take account of this year's projections.

As before, it is important to recognise that:-

- all reserves are in the ownership of the Council as a body corporate (except for schools reserves);
- some reserves are statutory and may only be spent as prescribed - e.g. school reserves, housing revenue account;
- some reserves represent commitments already made - e.g. capital expenditure reserve;
- some reserves represent funds already earmarked for a particular purpose by a decision of the Council;
- some reserves have been created by past decisions of the Council but are not earmarked to any particular purpose;
- the remainder of reserves can be a mixture of the above.

I begin by reviewing the financial reserves and provisions which were stated in the Council's balance sheet as at 31 March 2013. The latest position can be projected and compared with the liabilities or spending which have been, or may be, met from such reserves.

1. Schools' Balances

At 31 March 2013 the total of schools' balances were £1.184m, a reduction of £68k during the year

The level of reserves continues to fall and at 31 March 2013 represented 2.8% of schools budgets, down from 3.4% in 2011/12 but this conceals considerable variations with ten schools being in deficit and five being in considerable difficulty with deficits over 5%. The highest balances at individual schools are, by value, £541k and, as a percentage of budget, 11%; six schools had balances of 10% or more.

Actions have been agreed in the Estyn PIAP in relation to the financial management of schools to ensure that budgets are sustainable and work is being done by Education and Finance to review those schools with negative balances. However, the sums are generally available only to the individual schools to support their budgets, not to the Council as a whole. Recent guidance allows clawback from schools balances in restricted circumstances. Any reductions to the schools' quantum would also hit the schools in deficit.

2. Housing Revenue Account

The Housing Revenue Account budget for the year is likely to show a break-even position with the balance being £482k approximately by year end. Because there is a significant revenue contribution to capital, this balance is driven more by capital financing than on the revenue transactions. The reserve is not available to Council Fund services. This position is likely to change in future years as the Welsh Quality Housing Standards programme has now been completed. This will free up revenue resources and lead to an increase in the HRA balance over time.

3. Earmarked Reserves (other than Service Reserves)

Appendix A reproduces the figures and narrative on earmarked reserves as in the audited 2012/13 statement of accounts, with an update on the current position.

The latest review of these reserves shows limited scope for clawback to support next year's budget. The balances identified for closer review are:

- The Penhesgyn Waste Management Site Reserve which was transferred to provisions at the end of March 2013 to provide for after-care costs at the site to meet audit requirements.
- The balance on the insurance reserve reduced last year by £178k to £2.351m to fund the Council's liability with regard to the clawback of paid claims by MMI, reported to members as part of the closure of accounts process.
- The Capital Expenditure reserve has been kept at about £1million by using the year end financing decision to allow the flexibility of carrying forward revenue contributions as well as capital funds. This allows the switching of resources between revenue and capital. As there are unallocated contingencies in this year's capital budget, a one off transfer of up to £1 million is possible.
- The Equal Pay, Single Status and Job Evaluation Reserves are likely to be needed as the Council comes to decisions in this area. The Welsh Government have agreed to issue a capitalisation direction of £3.3m in 2013/14 to enable the Council borrow money to fund part of the equal pay liability over a 20 year period. The spending has to take place within this year to take advantage of this direction. Funding beyond this level and spending which falls outside the current financial year will have to be met from capital receipts from the sale of council assets or from reserves. The level of the reserves that will be needed to meet this liability going forward will therefore only be known at the year-end when the value of the capitalisation direction that has been utilised can be calculated.

4. Service Reserves (other than restricted service reserves)

Service reserves are created when services underspend their annual budgets and carry forward the difference to be spent in subsequent years. Some services are in deficit to the extent that past overspending has not yet been paid back.

In early 2009 this approach was tightened by limiting the carry forward to 1% of budget, except where a commitment has been approved in advance. The Executive agreed to this approach to be applied to carry forwards as at 31 March 2010 and for future years. This approach leads to a balance of £1.89m in aggregate across services as at 31 March 2013, reducing as commitments unwind. The position includes an unallocated service reserve contingency of £2.4m which will reduce the value of service reserves by top-slicing individual balances on a pro-rata basis after allowing for identified commitments. This adjustment is being carried out in the current financial year.

If the Executive wishes to tighten this situation in future years it is possible to amend the percentage that can be carried forward.

5. Restricted Service Reserves

These are mainly reserves created when money earmarked, often by third parties, for specific projects slip from one year to the next. Appendix B reviews the restricted reserves as at 31 March 2013.

The balances on these reserves increased by £3m in 2012/13, largely due to the set aside of grant receipts for Supporting People. There may be the possibility of releasing some of these restricted reserves during the year but this is still under discussion with Heads of Service. I will report back on this in due course as any release of restricted reserves will be dependent on service requirements and any grant related conditions that apply to reserve balances.

6. Provisions

The best assessment of financial standing is the extent to which the Authority has made provisions for known liabilities and the amount of distributable reserves available to cover other risks. For completeness, provisions are also disclosed here with the reminder that they have a very specific status in the Council's accounts as an item more akin to a commitment than the uncommitted and discretionary status of most reserves. They are discussed and agreed with the auditors who are able to request that the Council sets its provisions at a particular level. As at the balance sheet date of 31 March 2013, the following provisions had been made:

• Insurance Claims	£456k
• Penhesgyn Waste Disposal Site	£2.669m
• Termination Benefits	£247k
• MMI Scheme of Arrangement	£40k
• Other including Equal Pay	£4.186m

7. General Revenue Balances

The Council's general revenue balance as at 31 March 2013 stood at £5.91 million, in the Statement of Accounts and the budget for 2013/14 approved a contribution of £500k to balances leaving a projected balance at year end of £6.41m. The quarter 2 budget monitoring report on the current year's revenue budget now projects a deterioration as a result of non achievement of efficiency savings, as well as overspends on demand led budgets. Efforts are being made to mitigate the overspend and make additional savings, however, pulling the spend into line will be difficult and there may still be a further significant overspend to address depending on what spending commitments arise in the rest of the year. There remains great uncertainty on current year budgets as a result of these issues. The revised projection for general balances is £6.2 as at 31 March 2014 after allowing for the current projected overspend of £235k unless a transfer is made from earmarked reserves as outlined above.

A long term target of 5% of the net revenue budget excluding schools has been discussed in the past. In previous reports we have also outlined a risk-based approach which takes account of certain types of risk and their possible impact, building up to the amount required in a credible worst case. After reviewing the potential continuing economic pressures it is considered that £5m should remain as the minimum required as a working balance. This does however mean that potentially the Council will have up to £1m available to support the revenue budget going forward. This will help mitigate to a small extent the significant loss of support from the Welsh Government through the Revenue Support Grant over the next 5 years, which is expected to exceed £20m in total

8. Conclusion

To assist in budget planning, I can advise the Executive that they may be able to release reserves and the Council's general balance to support the 2014/15 budget on a one-off basis. This position will however need to be reviewed for 2015/16 and beyond when the out-turn position for 2013/14 is known.

The Senior Leadership Team and Finance Officers will review the position and feed into future advice. As always these are figures which have to be kept under review in the light of changing circumstances, and which I will formally report on again as the Council sets the budget.

CLARE WILLIAMS
HEAD OF FUNCTION (RESOURCES)
AND SECTION 151 OFFICER

29 NOVEMBER 2013

EARMARKED RESERVES

RESERVES	AMOUNT 31-03-13 £'000	STATEMENT OF ACCOUNTS NARRATIVE 2012-13	FURTHER COMMENTS
Capital Expenditure	1,000	To fund capital expenditure in future years. This has been created to ensure committed capital expenditure, including expenditure which has slipped from previous years, is fully financed.	Set up to meet committed to capital slippage in the capital plan. Could be clawed back with corresponding reduction in unallocated capital budgets.
Infrequent Events	17	To allow the Council to even out from year to year the cost of making contributions to events which occur less frequently than annually.	Still useful but not required.
Museum Purchases	16	Earmarked gifts and other finances to fund future expenditure of Oriel Ynys Môn.	Still required.
Leisure Improvements Reserve	196	To fund capital expenditure on improvements to, and provision of, strategic leisure facilities.	Would require a decision of the County Council to release for other purposes.
School Days	(28)	To equalise the costs of varying number of school days in each financial year.	Still required.
Service Reserves	1,891	Under the Council's Financial Procedure Rules over and under-spending is carried forward as earmarked reserves to the level set by the Executive.	This is the balance with the limit set at 1% of budget plus approved commitments. Should be reviewed for 2014-15.
Restricted Service Reserves	4,906	Earmarked budgets within service areas which remain unspent at year end.	Analysis in Appendix B.
Building Maintenance Service	50	To provide a working balance. A substantial part of this balance accrued under the Unit's previous status as a Direct Service Organisation under Compulsory Competitive Tendering legislation.	Still required but may be reviewed.
Equal Pay, Single Status and Job Evaluation	2,667	As a result of the 'Single Status' agreement, the Authority, in common with most other local authorities, is required to introduce a new pay and grading system with effect from 1 April 2007. The extent to which this may involve an obligation to back pay is uncertain. Negotiations are proceeding on a revised pay and grading structure. A sum has been set aside in the Job Evaluation reserve towards the overall cost of the exercise, including the administrative costs, the cost of new pay scales, any pay protection and any back pay. Although the individual elements cannot be estimated with certainty, the Authority is of the view that the sums set aside are adequate.	Decision of Pay and Grading Panel, October 2009 and Executive, November 2009 fully commit this towards protection and other costs of the grading review.

RESERVES	AMOUNT 31-03-13 £'000	STATEMENT OF ACCOUNTS NARRATIVE 2012-13	FURTHER COMMENTS
Section 117 (Mental Health Act 1983)	299	To provide for the anticipated repayment of charges previously levied on some Social Service users.	Known cases could make a substantial call on this and there remain other potential claims.
Recycling	789	Landfill cost savings created by diverting waste to recycling. The reserve will be utilised towards recycling initiatives.	Committed by waste grant conditions and past Executive decisions to recycling. Projects approved by Commissioners. The reserve includes income related to recycling. WG guidance is that this income is also tied by the terms and conditions of the grant.
Risk Management Reserves	20	The Risk Management Reserve was set up to cover work done in collaboration with the Council's Insurers including Corporate Risk Management, Business Continuity and Health and Safety.	Contractually committed.
Performance Management Reserves	1,439	Amounts earmarked towards performance improvement measures from the Outcome Agreement Grant.	This comprises Performance Incentive Grant (now Outcome Agreement Grant received up to 2012-13. Earmarked as a source of funding for recovery and improvement work as in previous years.
Insurance	2,529	The Council runs an internal insurance account which pays for self insured losses and which receives 'premia' from service accounts. The known losses at year end are provided for. This reserve is the surplus on the internal insurance account plus interest on balances and is intended to cover claims which have been incurred but have not been reported.	Level dependent on claims experience and an actuarial assessment would be useful before clawing back. Consider reducing the annual contribution.

RESTRICTED SERVICE RESERVES

RESERVE	£'000	PURPOSE OF RESERVE	COMMENT/UPDATE
Cost of Change	711	Expenditure to meet one-off cost of change proposals.	Allows delivery of savings in current and future years.
R & M Schools	(34)	To smooth out costs of schools R & M.	Review to include service reserve.
School Breakfast Set up Cost	40	Balance of Welsh Assembly Government Grant. Used to fund the set up costs for any school where a Breakfast Club is set up.	Still required – grant conditions.
Sickness Absence Scheme	79	Used to fund the cost of supply if teachers are absent through sickness. Schools pay a premium from their budgets each year and costs are funded from these premiums. This reserve represents the net balance of premiums paid over costs incurred.	Still required.
Risk Management	35	Balance of the unused budget from the Corporate Risk Management Budget.	Review to see if still required.
Licensing	23	Due to cyclical nature of the licences issued, it is projected that the administrative work will be higher every fifth year. Reserve will meet the additional costs in those peak years.	Still required.
Mobile CCTV	12	Specific Grant.	Still required.
Maes Awyr Môn	14	Balance of funding received to set up airport. Earmarked to be used to meet any future costs relating to the airport.	Still required.
South Stack	11	To fund future maintenance costs of South Stack.	Still required.
Capacity Fund	11	Balance of unspent budgets from 2010-11.	Review to see if still required.
Child Protection Board Reserve	24	Balance of unspent budgets from previous years. Will be used to fund costs of the Board which are in excess of the budget in future years.	Still required.
NWW Treatment Plant	789	Unspent budgets.	Still required to cover commitment.
Energy Island	155	Unspent contributions: Council and Third Party.	Carries forward unspent budgets.
Client's funds	66	Clients' funds.	Should be re-designated as a creditor as this money is only held by the Council on behalf of its clients.
Supporting People	2,094	Unspent amounts set aside for activities related to the programme	Still required.
Property	119	Unspent budgets	Review to see if still required.
New Ledger System	317	Unspent budgets on implementation of the new financial ledger. Used to fund consultancy and staffing costs associated with system implementation and development.	Can be reviewed when the new financial system is operating to capacity
Schools Rationalisation	144	Specific grant.	Still required.
Performance Improvement	145	Unspent budgets.	Review to see if still required.
Highways – Developer Contribution	150	Specific contribution to upgrade highways.	Still required.

