

## PERTH AND KINROSS COUNCIL

22 February 2018

## RESERVES STRATEGY

Report by the Head of Finance

**PURPOSE OF REPORT:**

This report recommends a strategy for managing the Council's Reserves (with the exception of the Housing Revenue Account balance) in the context of setting the Council's Final Revenue Budget for 2018/19 and Provisional Revenue Budgets for 2019/20 and 2020/21.

**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 the Housing Revenue Account (HRA) balance, which was considered in a separate report to the Housing and Communities Committee on 24 January 2018 (Report No. 18/16 refers).
- 1.2 CIPFA Local Authority Advisory Panel Bulletin (LAAP) 99 published in July 2014 provides guidance on the establishment and maintenance of Reserves and Balances and has informed the preparation of this report.
- 1.3 In determining medium term financial plans and preparing budgets the Council needs to consider the establishment and maintenance of Reserves in accordance with its statutory powers. Reserves can be held for three main purposes:
  - Working balances to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of General Reserves.
  - A contingency to cushion the impact of unexpected events or emergencies – this also forms part of General Reserves.
  - A means of building up funds often referred to as Earmarked Reserves, to meet known or predicted liabilities.
- 1.4 LAAP Bulletin 99 also provided guidance on the various categories of Earmarked Reserve that the Council is permitted to hold:

- Sums set aside for major schemes, such as capital developments or asset purchases, or to fund major reorganisations
- Insurance reserves
- Reserves for trading and business units
- Reserves retained for service use
- Reserves for unspent revenue grants
- School balances

1.5 The audited 2016/17 Annual Accounts which were presented to the Council on 4 October 2017 (Report No. 17/315 refers), give an overview of the Reserves position as at 31 March 2017 which is summarised in the table below.

<b><u>Summary of Council Reserves as at 31 March 2017</u></b>	
	<b>£'000</b>
General Fund	51,402
Housing Revenue Account	800
Capital Fund	23,615
Renewal and Repair Fund	283
Insurance Fund	2,844
Capital Receipts Reserve	1,326
Capital Grants Unapplied	87
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	80,357

- 1.6 The above summary excludes the Revaluation Reserve; Capital Adjustments Account; the Financial Instruments Adjustment Account; the Pensions Reserve and the Employee Statutory Adjustment Account. These Reserves reflect proper accounting practice, but are not resource-backed and are, therefore, of limited relevance in determining the Council's Reserves and budget strategies.
- 1.7 The General Fund figure included above merits further consideration and is analysed in detail at Appendix 1 to this report. To assist in effective financial management, Housing Revenue Account balances are considered separately from the rest of the General Fund although for accounting purposes they are part of the General Fund. With regard to Appendix 1 it is important to note that although the General Fund balance as at 31 March 2017 totalled £52,202,000, once HRA balances (£800,000) and commitments (£35,859,000) are excluded, there was an uncommitted General Fund balance of £15,543,000. This represented 4.8% of the Council's net budgeted expenditure for 2016/17 (per Revenue Monitoring Report No.4 – considered by the Strategic Policy and Resources Committee on 20 April 2017 (Report No. 17/152 refers)).

- 1.8 The projected position as at 31 March 2018 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 7 February 2018 (Report No. 18/41 refers), detailed the projected outturn for the Council's 2017/18 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 2017/18 Annual Accounts.
- 2.2 The impact of these projections on the level of balances is summarised at Appendix 2 to this report, which indicates a projected General Fund (excluding HRA) balance of £47,205,000 at 31 March 2018.
- 2.3 It should be understood that some areas of uncertainty remain about the projected level of balances at 31 March 2018. Significant issues which might impact on balances include expenditure in relation to any weather related events that occur during the remainder of the financial year.
- 2.4 Based on the Council's existing financial and policy commitments and the work undertaken in updating the Provisional Revenue Budgets, it is advised that significant amounts will require to be earmarked against the projected General Fund balance as follows:

<b>Projected Uncommitted General Fund Balance at 31 March 2018 (Excluding HRA)</b>		
	£'000	£'000
Projected General Fund Balance at 31 March 2018 (Per Appendix 2)		47,205
<u>Less: Proposed Amounts Earmarked Against Balances:</u>		
Transformation Programme (including Workforce Management and Organisational Change)	(9,030)	
Developer Contributions	(5,458)	
Affordable Housing	(5,043)	
Revenue Budget Flexibility 2018	(3,188)	
Health and Social Care Transformation	(2,812)	
Perth High School	(1,989)	
Secondary Schools	(1,799)	
Remodelling of Residential Care (Children & Young People)	(1,300)	
Devolved School Management Balances	(859)	
Revenue Budget Flexibility 2017	(550)	
Car Parking	(283)	
Perth City Centre Projects	(270)	
Bridge Feasibility Studies	(260)	
Revenue Budget 2018/19 Commitment	(250)	
Perth & Kinross Marketing and Promotional Scheme	(235)	
Community Action Partnerships	(232)	
Flood Prevention Works	(225)	
Revenue Grants	(221)	
Energy and Water Management	(200)	
Planning Appeals and Public Enquiries	(182)	
Contaminated Land	(148)	
Financial Assistance	(116)	
Modern Apprentices / Graduate Trainees	(113)	
Culture	(107)	
Discretionary Non-Domestic Rates Relief Scheme	(100)	
Central Energy Efficiency Fund	(96)	
Corporate Feasibility Studies	(55)	
Public Service Network	(39)	
		(35,160)
<b>Revised Projected Uncommitted Balance at 31 March 2018</b>		<b>12,045</b>

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

**Transformation Programme (including Workforce Management and Organisational Change) - £9,030,000**

- 2.6 As outlined in the Medium Term Financial Plan, which was approved by the Council on 4 October 2017 (Report No. 17/317 refers), the Council faces a number of risks over the medium term in relation to future levels of funding and demand for Council services.
- 2.7 In response to this continuing financial challenge the Council has put in place a significant and ambitious Transformation Programme which requires initial non-recurring contributions from this earmarked Reserve in order to generate significant recurring savings. This earmarked Reserve is also in place to fund further workforce management costs that the Council may incur as it prepares for the challenges ahead.
- 2.8 During the year the Reserve has been used to fund £2,265,000 of transformation projects, £500,000 towards the review and remodelling of residential care (children and young people) project (Report No. 17/262 refers) and £1,387,000 in respect of workforce management measures.
- 2.9 Beyond the current financial year there are likely to be significant calls on this funding. To the extent these calls have not yet been committed they are inevitably very difficult to quantify on an objective basis and the amounts outlined below are a broad indication of the possible demands on this resource:
- Transformation Programme – there are currently further commitments of £5,300,000 in terms of the Council's approved transformation programme.
  - Further workforce management measures for all groups of staff (which includes voluntary severance schemes) - £2,530,000. The 2018/19 to 2020/21 Provisional Revenue Budgets assume workforce reductions in each year. Further reductions are likely to be necessary beyond this period. This figure will be reviewed as part of the 2017/18 Unaudited Accounts process in light of the final outturn for the Council.
  - Further Transformation and Organisational Change - £1,200,000 – this is provision for future transformation which, although difficult to quantify at this point, may be required to deliver further savings. There is also provision for assisting in delivering a programme of cultural change, and building capacity and capability across the organisation to deliver public service reform and transformation. This will involve supporting individuals within the organisation involved in delivering services in new and innovative ways.

- 2.10 The total estimated cost of these further initiatives is £9,030,000 as summarised below:

	£000
Transformation existing programme	5,300
Workforce management	2,530
Further Transformation and Organisational Change	1,200
<b>TOTAL</b>	<b>9,030</b>

- 2.11 Detailed monitoring information on the Transformation Programme will continue to be presented to every meeting of the Strategic Policy and Resources Committee.
- 2.12 These resources will also be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

**Developer Contributions: Commuted Sums & Infrastructure and Affordable Housing - £5,458,000**

- 2.13 The Enterprise and Infrastructure Committee approved supplementary guidance on 3 September 2014 for developer contributions covering community greenspace, primary education, Auchterarder A9 junction improvements, affordable housing and transport infrastructure. (Report No. 14/370 refers).
- 2.14 Developer Contributions are held in the Council's Reserves until they are applied to relevant schemes. It is projected that approximately £1,763,000 of unapplied resources in relation to affordable housing will be held by the Council at 31 March 2018 and it is proposed to earmark the unapplied amount within General Fund Balances. Additionally it is proposed to earmark accumulated balances of £2,791,000 for the provision of education infrastructure and £113,000 for transport infrastructure. Contributions are also provided by developers towards the cost of maintaining areas of ground. These contributions are used to fund relevant expenditure over ten years. It is projected that approximately £791,000 of unapplied resources for tree planting, play areas, community allotments and sports grounds will be held by the Council at 31 March 2018 and it is proposed to earmark the unapplied amount within General Fund Balances for these purposes as follows.

	£000
Affordable Housing	1,763
Education Infrastructure	2,791
Transport Infrastructure	113
Environmental Infrastructure	791
<b>TOTAL</b>	<b>5,458</b>

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

**Affordable Housing (Resources accrued from reduced Council Tax Discounts) - £5,043,000**

- 2.16 It is anticipated that by the end of the current financial year there will be a balance of approximately £5,043,000 in Reserves which has been generated as a result of the Council's policy of varying the level of Council Tax charged for long term empty properties and second homes. This money can only be used for the provision of affordable housing through Registered Social Landlords including the Council, and is, therefore, shown as an earmarked Reserve.
- 2.17 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

**Revenue Budget Flexibility 2017 and 2018 - £3,188,000 & £550,000**

- 2.18 The Council operates a Revenue Budget Flexibility Scheme which, subject to approval, allows certain Service under and over spends from one financial year to be carried forward to future financial years (Report No. 01/306 refers) to allow the management of the Revenue Budget over the medium term. Revenue Budget flexibility proposals are reviewed annually with the earmarked amount utilised for the purposes approved by Council. The amount shown is in line with the proposals to utilise budget flexibility contained within Revenue Budget 2018/19 to 2020/21 – Report Number 2 on the agenda for the special meeting of the Council (Report No. 18/47 refers) and the previous year's Revenue Budget report (Report 17/47 refers). The assumption underlying this report is that all of the budget flexibility proposals contained within the Revenue Budget report are approved.
- 2.19 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

**Health and Social Care Partnership - £2,812,000**

- 2.20 The Strategic Policy and Resources Committee approved earmarking £598,000 as part of 2016/17 Revenue Monitoring Report 3 (Report 17/45 refers) for future partnership transformation projects. 2017/18 Revenue Monitoring Report 2 earmarked a further £2,564,000 or projected under spending on social care for future social care activity (Report No 17/388 refers). After allowing for approved commitments, the remaining balance of £2,812,000 continues to be earmarked for social care.
- 2.21 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

### **Perth High School - £1,989,000**

- 2.22 These resources were earmarked as part of 2016/17 Revenue Monitoring Report 1 to the Strategic Policy and Resources Committee (Report No. 16/400 refers) for future maintenance works at Perth High School.
- 2.23 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

### **Secondary Schools - £1,799,000**

- 2.24 £1,399,000 of these resources were originally earmarked as part of 2015/16 Revenue Monitoring Report No. 1 to the Strategic Policy and Resources Committee (Report No. 15/395 refers) which approved the proposal to earmark resources to equip the new school at Bertha Park. The balance at 31 March 2017 includes a further £400,000 approved in the 2017/18 Revenue Monitoring Report 3 to the Strategic Policy & Resources Committee (Report No 18/41 refers).
- 2.25 It is therefore proposed, that £1,799,000 is earmarked to support the delivery of the new school at Bertha Park and this may be increased by further resources from Education and Children's Services in the future. These resources will be utilised in future years once the school is built.
- 2.26 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

### **Review and Remodelling of Residential Care (Children & Young People) - £1,300,000**

- 2.27 The Council meeting of 16 August 2017 approved the review and remodelling of residential care (children and young people) and the financial resources to fund this transformation project (Report No.17/262 refers). The Council approved £500,000 from transformation funding and £500,000 for uncommitted Reserves and up to £700,000 from the Education and Children Services budget. 2017/18 Revenue Monitoring Report 3 to the Strategic Policy & Resources Committee approved £300,000 to be transferred from Education and Children Services to this earmarked balance. (Report No.18/41 refers).
- 2.28 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

### **Devolved School Management (DSM) - £859,000**

- 2.29 The earmarked amount shown above is an estimate of the accumulated sum available to be carried forward at 31 March 2018 under the approved scheme for managing these budgets. The purposes for which the earmarked amount can be used and the procedures for its management and control are detailed in the Council's approved DSM scheme (Report No. 15/507 refers).



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

**Car Parking - £283,000**

- 2.31 The car parking balance is an estimate of the accumulated surpluses at 31 March 2018. These surpluses are restricted in their application under the Road Traffic Regulation Act 1984 and any proposals to utilise these resources will require to be approved by the Strategic Policy and Resources Committee.
- 2.32 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

**Perth City Centre Projects - £270,000**

- 2.33 It is proposed that the Council continues to earmark £270,000 for future City Centre development projects. This funding will contribute to the overall budget for the delivery of the Perth City Hall project and associated environmental improvements.
- 2.34 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

**Bridge Feasibility Studies - £260,000**

- 2.35 It is proposed that the Council continues to earmark the balance of £260,000 for testing and assessment of the Queens Bridge, Perth and Old Perth Bridge which will be completed in 2018/19. (Report No. 17/60 refers).
- 2.36 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

**Revenue Budget 2018/19 Commitment - £250,000**

- 2.37 This amount was approved in February 2017 as part of the 2018/19 Provisional Revenue Budget to be funded from Reserves (Report 17/47 refers).
- 2.38 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

**Perth & Kinross Marketing & Promotional Scheme - £235,000**

- 2.39 These resources were earmarked as part of 2016/17 Revenue Monitoring No.1 to the Strategic Policy and Resources Committee (Report No. 16/400 refers) for use in future years.

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

**Community Action Partnerships - £232,000**

- 2.41 The amount shown is earmarked for Communities and was approved in 20017/18 Revenue Monitoring Report 3 by the Strategic Policy & Resources Committee (Report No.18/41 refers).
- 2.42 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

**Flood Prevention works - £225,000**

- 2.43 The amount shown is the balance of the earmarked Reserve for improvement works in 2018/19 and was originally earmarked in the Reserves Strategy in February 2017 (Report No.17/48 refers).

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

**Revenue Grants - £221,000**

- 2.44 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. It is possible that further grants will be received in advance of the financial year end, which will augment the projected earmarked Reserve.
- 2.45 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

**Energy and Water Management - £200,000**

- 2.46 The Council approved the transfer of £200,000 to an Energy and Water Management Reserve as part of the 2014/15 Revenue Budget approved in February 2014 (Report No. 14/44 refers). This funding is to deal with any potential over spends on energy and water management associated with severe weather.
- 2.47 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

**Planning Appeals and Public Inquiries - £182,000**

- 2.48 The Council has previously earmarked resources for future planning appeals and public inquiries as they arise. As expenditure within this area is unpredictable these Reserves will be drawn down if and when they are required.

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

**Contaminated Land - £148,000**

- 2.50 The Council has a statutory duty in relation to contaminated land to protect public health. In general terms, the Council has a duty to investigate the land in its area to determine whether any meets the statutory definition of contaminated land and, if so, to arrange for any necessary remediation work to be carried out. This remediation is done at the expense of the liable party or parties (under certain criteria). Where the source of the contamination cannot be traced, the Council may be required to fund the remediation work. There is a projected balance of £148,000 earmarked for this purpose.

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

**Financial Assistance - £116,000**

- 2.52 At its meeting on 9 February 2006 the Council approved the creation of a recurring budget of £20,000 to fund a potential contribution to a future hosting of the Mod (Report No. 06/79 refers). The projected accumulated balance available for this purpose at 31 March 2018 is £116,000.

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

**Modern Apprentices/Graduate Trainees - £113,000**

- 2.54 The Strategic Policy and Resources Committee approved the transfer of £150,000 during 2014/15 to fund future expenditure on modern apprentices and graduate trainees. The projected balance remaining at 31 March 2018 is £113,000 which will be utilised to offset the costs of modern apprentices and graduate and professional trainees in 2018/19.

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

**Culture - £107,000**

- 2.56 There is a balance of £107,000 of resources remaining from the £400,000 originally earmarked for the UK City of Culture Bid. (Report Nos. 15/417 and 16/445 refer). In August 2017, Council approved the use of this underspend on the recruitment of a fundraising post to support delivery of future cultural events (Report No 17/260 refers). It was not possible to recruit to this post by the end of 2017 and the role will be re-scoped and re-advertised in spring 2018.

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

### **Discretionary Non-Domestic Rates Relief Scheme - £100,000**

- 2.58 The amount shown is earmarked for a Rates Relief Scheme targeted at key vacant property across Perth and Kinross and was approved by the Strategic Policy & Resources Committee of 13 September 2017 (Report No. 17/281 refers).
- 2.59 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

### **Central Energy Efficiency Fund - £96,000**

- 2.60 The Central Energy Efficiency Fund is a means of pooling grant received from the former Scottish Executive together with savings achieved from the implementation of energy conservation and efficiency schemes to fund expenditure on further schemes of the same type.
- 2.61 It is projected that the balance on the Fund at 31 March 2018 will be approximately £96,000 and this amount is shown as being earmarked within General Fund Reserves.
- 2.62 These resources will be monitored as part of the revenue monitoring process, reported to the Strategic Policy and Resources Committee.

### **Corporate Feasibility Studies - £55,000**

- 2.63 There are £55,000 of resources remaining from those originally earmarked as part of 2017/18 Revenue Budget (Report No. 17/47 refers) for feasibility studies. These resources will be utilised in 2018/19.
- 2.64 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

### **Public Service Network - £39,000**

- 2.65 The Council achieved Public Service Network (PSN) accreditation in November 2015. Ongoing works are being undertaken and £39,000 of resources are projected to remain from the amount originally earmarked as at 31 March 2016. These will be drawn down from Reserves as required in 2018/19.
- 2.66 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy and Resources Committee.

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

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

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

- 3.2 In determining the Council's Reserves Strategy it should be noted that there are likely to be constraints on the Council's capacity to increase uncommitted Reserves in the future.
- 3.3 These constraints arise firstly from the tight budgetary environment anticipated over the medium term, which means that there will be limited opportunities to raise Reserves 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 Reserves being built up through Service under spends.
- 3.4 The application of Reserves, therefore, requires to be undertaken on a sustainable basis and the overall level of Reserves requires to reflect the difficulty likely to be experienced in reinstating them as and when they are applied.

#### **Political, Economic, Social and Other Risks Facing the Council**

- 3.5 The Council faces significant challenges over the medium term. A more comprehensive list of the many risks facing the Council in the next few years which may impact on the budget is set out in the Revenue Budget 2018/19 to 2020/21 – Report Number 2 which is on the agenda for this special meeting of the Council (Report No. 18/47 refers). These include –
- Reliance on transformation across the Council to achieve significant budget reductions
  - Assumptions in relation to the continued growth in the number of Band D equivalent properties
  - Uncertainty over Scottish Government funding levels beyond 2018/19
  - Voluntary Severance Schemes
  - Implementation of Welfare Reform
  - Pay award assumptions in 2018/19 and beyond
  - Inflation
  - Current Economic Climate

#### **Severe Weather**

- 3.6 The Provisional Revenue Budgets for 2018/19 to 2020/21 for winter maintenance include provision for the cost of an average winter. However a worse than average winter may have a significant adverse impact on the Reserves position.

- 3.7 The variable costs of service provision can increase substantially as a result of prolonged spells of colder than average weather or particularly severe winter weather. In the past there have been significant over spends on this activity, which were funded from Reserves.
- 3.8 The Council also has extensive experience of flood events in recent years and the potential for incurring unbudgeted costs as a result of these is significant. Once again, scenarios in which the Council could incur costs of several million pounds from one or more major events can be envisaged.
- 3.9 The Council's practice in respect of unbudgeted severe weather costs in recent years has been to fund them through savings against other (particularly maintenance) budgets as well as Reserves. It is anticipated that alternative savings would be sought where possible in the event of severe weather. Notwithstanding this, the probability and potential financial impact of severe weather is such that this risk must be a major consideration in developing the Reserves Strategy. The following table sets out final outturns on Winter Maintenance over the last ten years.

<b>Winter Maintenance Final Over / Underspend</b>	
2017/18 (Projected)	Over spend of £450,000
2016/17	Underspend £540,000
2015/16	Over spend £59,000
2014/15	Over spend £260,000
2013/14	Under spend £531,000
2012/13	Over spend £1,411,000
2011/12	Over spend £785,000
2010/11	Over spend £3,160,000
2009/10	Over spend £2,044,000
2008/09	Over spend £656,000

### **Bellwin Scheme**

- 3.10 The Bellwin Scheme operates under Section 155(2) of the Local Government and Housing Act 1989. It allows Scottish Ministers to make additional revenue support available to local authorities to assist with the immediate and unforeseen costs of dealing with the aftermath of emergency incidents.
- 3.11 Currently Councils are expected to retain the equivalent of 0.2% of their annual Net Revenue Budget to deal with unforeseen emergencies (approximately £650,000 for Perth & Kinross Council).

### **Comparison with other authorities**

- 3.12 There is limited current data on the Reserves position of local authorities in Scotland as a whole. Individual Councils do include information in their published annual accounts, the most recent being as at 31 March 2017.

- 3.13 Audit Scotland's overview report for 2016/17 makes a number of observations in terms of Council's useable Reserves. The main observation was that 20 Councils drew on their usable Revenue and Capital Reserves during 2016/17 compared to eight in 2015/16 with an overall reduction in Reserves of £33 million across all Councils.
- 3.14 The report makes reference to signs that Councils are under financial pressure and are finding it increasingly difficult to identify and deliver savings and more have drawn on Reserves to fund change programmes and routine service delivery.
- 3.15 It is highly probable that a number of authorities are holding levels of uncommitted Reserves significantly below the levels that would normally be considered desirable as a result of pressures on their expenditure. Additionally, for reasons of geography many authorities do not face the same risks in relation to severe weather as Perth & Kinross Council.

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

- 3.16 Taking account of all of the above factors and historical experience in Perth & Kinross since 1996 it is recommended that the targeted level of uncommitted non-HRA General Fund Reserves continues to be in the range of 2% to 4% of the Council's net revenue expenditure in the medium term. Based on the Net Provisional Revenue Budget for 2018/19 of £338,044,000 (including the application of Revenue Budget headroom) this would imply a level of uncommitted Reserves of between approximately £6,761,000 and £13,522,000 for 2018/19.
- 3.17 It has been recommended that the targeted level of uncommitted Reserves be maintained in the 2% to 4% range for a number of years. Whilst this range is still considered to be appropriate it should be understood that the level of risk involved in managing the Council's Revenue Budget will continue to be raised over the short to medium term. This reflects the fact that the local government settlements for the last few years have seen real terms reductions in funding and that future settlements are expected to be challenging; that there is no information from the Scottish Government on the level of settlement beyond 2018/19, nor on sanctions and policy in relation to teacher numbers or social care in future years and that many of the savings options included in the Revenue Budget Executive Summaries will be challenging to deliver.
- 3.18 In these circumstances it would be prudent to maintain the level of uncommitted Reserves towards the upper end of the range if this is at all possible. Inevitably determining the exact level of uncommitted Reserves within the recommended range will involve judgements in relation to the profile of risks faced by the Council and the options available in managing the Revenue Budget. Due to the continuing uncertainties and risks beyond 2018/19 it would not be imprudent to maintain uncommitted Reserves above 4% in the medium term.

- 3.19 A comparison with the forecast position set out above indicates that the Council's projected uncommitted reserves will be approximately £12,045,000 (prior to any budget decisions which have an effect on the Reserves position). This equates to 3.6% of the Net Provisional Revenue Budget for 2018/19.
- 3.20 In view of the above, it is recommended that the uncommitted General Fund Reserves be maintained at a level of at least 2% of the Net Provisional Revenue Budget (approximately £6,761,000) in determining the 2018/19 Final Revenue Budget. In the event that any use of General Fund Reserves is made in determining the 2018/19 Revenue Budget this should only be done on the basis of a sustainable strategy, which ensures that future years' Revenue Budgets are not dependent on the continuing use of Reserves.
- 3.21 Appendix 3 illustrates the contributions to and from Reserves recommended in setting the Provisional Revenue Budget for 2018/19 and anticipated in 2019/20 and 2020/21.

#### **4. CAPITAL RECEIPTS RESERVE**

- 4.1 The Capital Receipts Reserve holds capital receipts from the disposal of assets, which have not yet been used to finance replacement assets or to redeem debt. At the end of the financial year it is anticipated that there will be £1,421,000 of capital receipts carried forward to 2018/19. The forecasts for unapplied capital receipts all relate to the Commercial Property Investment Programme and recommendations for utilising these resources will be reported to the Strategic Policy and Resources Committee.

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

- 5.1 The Council operates a Renewal and Repair Fund in accordance with the Local Government (Scotland) Act 1975. The position of the Fund is monitored in the capital monitoring reports submitted to the Strategic Policy and Resources Committee.
- 5.2 The projected balance on the Fund at 31 March 2018 included in the capital monitoring reports to the Strategic Policy & Resources Committee on 7 February 2018 (Report No.18/42 refers) was £20,000.
- 5.3 The Strategic Policy and Resources Committee have previously approved proposals to meet expenditure in future years on the Integrated Human Resources and Payroll System. The balance includes a final allocation of £20,000 towards this project.

#### **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, Arthur J Gallagher undertook the triennial review of the Fund as at 31 March 2017 and concluded, in summary, that the balance of £2,844,000 excluding



prepayments and provisions on the Fund was adequate and provides flexibility should the Council look to increase insurance excess levels. Any increase in excess levels would be balanced by premium savings relative to the additional risk.

6.2 The balance on the Fund at 31 March, 2017 was £2,844,000 (excluding provisions for outstanding liabilities) and it is anticipated that the balance may increase to approximately £2,909,000 by 31 March 2018 assuming no significant change in claims.

6.3 The 2018/19 Provisional Revenue Budget assumes that a budgeted contribution of £200,000 from the General Fund and £50,000 from the Housing Revenue Account is made.

6.4 The current level of the Fund should provide both a degree of resilience 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 and the potential of an increase in claims in relation to abuse linked to the Limitation (Child Abuse) Act recently passed by the Scottish Parliament.

## **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 2018 will be £25,078,000. The strategy for managing these resources was considered as part of the Capital Budget which was approved by the Council on 22 June 2016. (Report No.16/277 refers).

## **8. CAPITAL GRANTS UNAPPLIED**

8.1 The Capital Grants Unapplied Reserve holds capital grants which have been received by the Council for which the capital works have not yet been undertaken or completed. The current balance is £87,000 and this will be applied to the relevant projects as the works are completed.

## **9. CONCLUSIONS AND RECOMMENDATIONS**

9.1 This report sets out the proposed strategy for managing the Council's Reserves and Balances with the exception of the Housing Revenue Account Balance.

9.2 A number of proposals for earmarking General Fund Balances are outlined in section 2 above. In financial terms the most significant of these relate to the Transformation Programme (including Workforce Management), Developer Contributions, Affordable Housing, Revenue Budget Flexibility, Perth High School and Secondary Schools.

- 9.3 After taking account of the proposals for earmarking Reserves and based on an assessment of financial risks over the medium term, it is recommended that the Council retain a level of uncommitted General Fund Reserves in the range of 2% to 4% of the Net Revenue Budget in the medium term.
- 9.4 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 £6,761,000 in determining the Final Revenue Budget for 2018/19. In the event that any use of General Fund Reserves is made in determining the 2018/19 Final Revenue Budget and the 2019/20 and 2020/21 Provisional 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.
- 9.5 Recommendations for managing the Capital Receipts Reserve; the Renewal and Repair Fund; the Insurance Fund; the Capital Fund and Capital Grants Unapplied are also outlined. In essence these Reserves are either committed or require to be maintained at broadly current levels in view of the proposed budget strategies and the risks facing the Council.
- 9.6 It is recommended that the Council approves:
- 9.6.1 The proposals to earmark General Fund Reserves as set out in Section 2.
- 9.6.2 The proposed approach to managing uncommitted General Fund Reserves as set out in Section 3.
- 9.6.3 The proposed approaches to managing the Capital Receipts Reserve; Renewal and Repair Fund; Insurance Fund, Capital Fund and Capital Grants Unapplied Reserve as set out in Sections 4 to 8.

#### **Author(s)**

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

<b>Name</b>	<b>Designation</b>	<b>Date</b>
Stewart Mackenzie	Head of Finance	9 February 2018
Jim Valentine	Depute Chief Executive and Chief Operating Officer	10 February 2018

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

### 1. Strategic Implications

#### 1.1. Corporate Plan

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

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

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

## 2. Resource Implications

### 2.1. Financial

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

### 2.2. Workforce

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

### 2.3. Asset Management (land, property, IT)

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

## 3. Assessments

### 3.1. Equality Impact Assessment

- 3.1.1. Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.
- 3.1.2. The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

### 3.2 Strategic Environmental Assessment

- 3.2.1 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.
- 3.2.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

### 3.3 Sustainability

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

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

#### **4. Consultation**

##### **4.1 Internal**

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

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

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

#### **3. APPENDICES**

Appendix 1 – Summary of General Fund Balances at 31 March 2017

Appendix 2 – Projected General Fund Balance at 31 March 2018 (excluding the Housing Revenue Account)

Appendix 3 – Summary of the Projected Use of General Fund Revenue Balances 2018/19, 2019/20 and 2020/21



## Appendix 1

<b>Summary of General Fund Balances at 31 March 2017</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 2017</b>	800	51,402	52,202
<u>Less Commitments Against Balances</u>			
Transformation programme (including Workforce Management and Organisational Change)		(13,682)	(13,682)
Developer Contributions: Commuted Sums & Infrastructure and Affordable Housing		(4,698)	(4,698)
Affordable Housing		(4,024)	(4,024)
Revenue Budget Flexibility		(2,833)	(2,833)
Perth High School		(2,116)	(2,116)
Secondary Schools		(1,399)	(1,399)
Devolved School Management		(1,103)	(1,103)
Bridge Feasibility Studies		(808)	(808)
Revenue Grants		(694)	(694)
Health and Social Care Partnership		(598)	(598)
Crematorium Abatement Levy		(500)	(500)
Perth & Kinross Marketing & Promotional Scheme		(435)	(435)
Car Parking		(417)	(417)
Perth City Centre Projects		(392)	(392)
Flood Prevention works		(291)	(291)
UK City of Culture		(240)	(240)
Environmental Improvements		(212)	(212)
Local Government Elections		(212)	(212)
Energy and Water Management		(200)	(200)
Planning Appeals & Public Inquiries		(196)	(196)
Central Energy Efficiency Fund		(150)	(150)
Public Service Network		(140)	(140)
Contaminated Land		(123)	(123)
Modern Apprentices / Graduate Trainees		(121)	(121)
Corporate Feasibility Studies		(100)	(100)
Financial Assistance		(100)	(100)
Investment in Improvement Funds		(75)	(75)
<b>Uncommitted Balance at 31 March 2017</b>	<b>800</b>	<b>15,543</b>	<b>16,343</b>





**Projected General Fund Balance at 31 March 2018 (excl HRA)**

£'000      £'000

**Balance on General Fund at 1 April 2017 (Appendix 1)** 51,402**Budgeted Contributions to/(from) Balances (Approved February 2017)**

Budget Flexibility	(2,283)	
Budget Motion	(3,339)	
UK City of Culture	(240)	
Perth High School	(735)	
Modern Apprentices / Graduate Trainees	(112)	
Crematorium Abatement Levy	60	
Devolved School Management	(598)	
Investment in Improvement Fund	(75)	
Environmental Initiatives	(150)	
Elections	(212)	
Public Services Network	(101)	
Bridge Feasibility Studies	(648)	
Perth & Kinross Marketing & Promotional Scheme	(200)	
Flood Prevention Works	(291)	
Council Tax Second Home Discounts / Long Term Empty Property	1,019	
Events	20	
Workforce management	105	
Revenue Grants	(210)	
		(7,990)

**Approved Contributions to/(from) Balances since February 2017**

Devolved School Management	(505)	
Transformation	(2,265)	
Perth City Centre projects	(122)	
Corporate Feasibility Studies	(100)	
Health and Social Care Transformation	2,214	
June 2017 Council motion	(750)	
Revenue Grants	(484)	
Perth Theatre	(609)	
Events	(4)	
Environmental Initiatives	(62)	
Pay award reduction	102	
Discretionary Rates Relief Scheme	100	
Communities	232	
Unhypothecated Revenue Grant	725	
Secondary school	400	
Remodelling Care	300	
Perth High School	608	
Flood Prevention Works	225	
Bridge Feasibility Studies	100	
Corporate Feasibility Studies	55	
Repayment - Perth Office Programme	482	
Modern Apprentices / Graduate Trainees	104	
Culture	107	
		853

**Projected Underspend**

Service Budgets	3,173	
Corporate Budgets	51	
		3,224

**Projected General Fund Balance at 31 March 2018 (excl HRA)**

	£'000	£'000
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**Year End Accounting Adjustments:**

Voluntary Severance Scheme	(1,387)	
Devolved School Management: Projected Under spend	859	
Crematorium - repayment of debt	(560)	
PEF Funding	221	
Developer Contributions: Commuted Sums Net Income	760	
Car Parking	(134)	
Central Energy Efficiency Fund	(54)	
Planning appeals	(14)	
Contaminated Land	25	

(284)

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

	<u>47,205</u>
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**Summary of the Projected Use of General Fund Revenue Balances**  
**2018/19, 2019/20 and 2020/21**

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

Summary of the Projected Use of General Fund Balances 2018/19 - 2020/21 (Based on 2018/19 Provisional Revenue Budget)

	<b>£'000</b>	<b>£'000</b>
<b>Projected General Fund Balance at 1 April 2018</b>		<b>47,205</b>

**Financial Year 2018/19**

**Additions to Balances during year**

Workforce management	192
Financial Assistance	20
Elections	53
Council tax 2nd homes	1,300
POP Repayment Reserves	378

**Use of Balances**

Budget flexibility 2017	(550)	
Budget flexibility 2018	(3,188)	
Health and Social Care Partnership	(2,088)	
Devolved School Management	(859)	
Budget motion	(250)	
Public Service Network	(35)	
Perth High School	(450)	
Bridge Feasibility studies	(260)	
Marketing and promotional	(235)	
Transformation	(1,767)	
Cultural offer	(107)	
Corporate Feasibility Studies	(55)	
Flood works	(225)	
Communities	(232)	
Council tax 2nd homes - funding staff	(281)	
		<u>(8,639)</u>
<b>Projected General Fund Balance at 31 March 2019</b>		<b>38,566</b>

**Financial Year 2019/20**

**Additions to Balances during year**

Workforce management	192
Financial Assistance	20
Elections	53
Council tax 2nd homes	1,300

**Use of Balances**

Council tax 2nd homes - funding staff	(281)	
Perth High School	(340)	
Transformation	(1,767)	
		<u>(823)</u>
<b>Projected General Fund Balance at 31 March 2020</b>		<b><u>37,743</u></b>

**Summary of the Projected Use of General Fund Revenue Balances**  
**2018/19, 2019/20 and 2020/21**

**Financial Year 2020/21**

**Additions to Balances during year**

Workforce management	192
Financial Assistance	20
Elections	53
Council tax 2nd homes	1,300

**Use of Balances**

Council tax 2nd homes - funding staff	(281)
Transformation	(1,766)
	(482)
<b>Projected General Fund Balance at 31 March 2021</b>	<b><u><u>37,261</u></u></b>