

PERTH & KINROSS COUNCIL

10 March 2021

RESERVES STRATEGY

Report by Head of Finance (Report No. 21/34)

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 2021/22.

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 3 February 2021 (Report No. 21/15 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 2019/20 Annual Accounts which were presented to the Audit Committee on 16 September 2020 (Report No. 20/162 refers), give an overview of the Reserves position as at 31 March 2020 which is summarised in the table below.

Summary of Council Reserves as at 31 March 2020	
	£'000
General Fund	49,296
Housing Revenue Account	1,000
Capital Fund	31,640
Insurance Fund	2,970
Capital Statutory Funds	2,648
Capital Grants Unapplied	2,189
	<hr/>
	89,743

- 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 2020 totalled £50.296 million once HRA balances (£1 million) and commitments (£36.375 million) are excluded, there was an uncommitted General Fund balance of £12.921 million. This represented 3.7% of the Council's 2020/21 Revenue Budget approved in March 2020.
- 1.8 The projected position as at 31 March 2021 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 Budget 2020-21 Update No 3 as presented to the Council on 27 January 2021 (Report No. 21/8 refers), detailed the projected outturn for the Council's 2020/21 General Fund Revenue Budget. These projections have been further refined to recognise a number of adjustments which are required in closing the Council's 2020/21 Annual Accounts and are material changes in the projected outturn. This includes the expected receipt of £3.326 million of additional Scottish Government grant funding in 2020/21 in respect of the loss of income scheme.
- 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 £42.716 million at 31 March 2021. Of the projected balance as at 31 March 2021, £34.981 million is earmarked for the specific purposes set out in the table below at paragraph 2.5 with a projected uncommitted balance of £7.735 million.
- 2.3 There remains some areas of uncertainty in relation to the projected level of balances at 31 March 2021. 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 and the ongoing impact of COVID-19.
- 2.4 As part of the preparation of the Revenue Budget 2021/22 the Head of Finance and Executive Officer Team have reviewed all earmarked Reserves. The following balances are proposed to be un-earmarked to contribute to the COVID-19 Reserve.

Earmarked reserve	31.3.21 projection £000
Transformation	350
Energy Efficiency Fund	41
Contaminated Land	211
Planning Appeals & Public Inquiries	229
Culture	250
Health and Social Care	180
TOTAL	1,261

- 2.5 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:

Projected Uncommitted General Fund Balance at 31 March 2021 (Excluding HRA)		
	£'000	£'000
Projected General Fund Balance at 31 March 2021 (Per Appendix 2)		42,716
<u>Less: Proposed Amounts Earmarked Against Balances:</u>		
COVID-19	(10,867)	
Developer Contributions	(5,227)	
Workforce Management (including transformation programme)	(3,731)	
Revenue Grants	(3,413)	
Affordable Housing	(2,800)	
Perth High School	(1,408)	
Car Parking	(1,183)	
REACH project	(1,094)	
Devolved School Management Balances	(919)	
Secondary Schools	(813)	
School Counsellors	(574)	
Perth & Kinross Offer	(499)	
Culture	(418)	
Modern Apprentices / Graduate Trainees	(374)	
Community Investment Fund	(304)	
PH2O	(290)	
Works Maintenance	(200)	
Financial Assistance	(176)	
Elections	(159)	
Grounds maintenance	(150)	
Local Action Partnerships	(145)	
Revenue Budget Flexibility 2020	(125)	
Salix	(72)	
Public Sector Leadership	(40)	
		(34,981)
Revised Projected Uncommitted Balance at 31 March 2021		7,735

- 2.6 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.

COVID-19 - £10.867 million

- 2.7 The Council approved the creation of a COVID-19 Reserve on 27 January 2021 (Report 21/8 refers) to assist with addressing the ongoing impact of Covid-19 in future years. It also approved that the final under spend arising at 31 March 2021 would be earmarked within this Reserve.

- 2.8 The Council's Revenue Budget report being considered today (Report No. 21/33 refers) proposes a transfer to this earmarked Reserve from previously approved in year contributions to the Capital Fund in 2020/21 (and 2021/22) and from savings in principal loans fund repayments that can be funded from the Capital Fund in 2020/21 (and 2021/22). This is further detailed in the Revenue Budget report being considered today. This amounts to £5.1 million in 2020/21 that will be earmarked at 31 March 2021.
- 2.9 Given the unprecedented times that the Council is operating under, this Reserve will be utilised in helping to deal with the levels of uncertainty over expenditure pressures and loss of income in future years. It will also assist with Council initiatives such as economic wellbeing.
- 2.10 The Council's approved Reserves policy is to maintain a range of between 2% and 4% of unearmarked Reserves. Whilst this range is still considered to be appropriate, there needs to be a recognition of the uncertainty facing the Council's finances over the short to medium term. Therefore, it is proposed that the balance in excess of 2% is transferred to the Covid-19 earmarked Reserve in the short term. Over the medium to longer term it would be prudent for the Council in future to return to maintaining uncommitted Reserves in excess of 2%.
- 2.11 The following table sets out these proposed adjustments:

	£m
Unearmarked Reserves prior to transfer to Covid-19 earmarked Reserve (3.5%)	13.502
Unearmarked Reserves as at 31 March 2021 (2%)	7.735
Amount to be applied to Covid-19 earmarked Reserve	5.767

- 2.12 **ACTION: The Council is asked to approve that un-earmarked Reserves at 31 March 2021 be maintained at 2% and any resources over and above this level are earmarked in respect of Covid-19. The impact of this recommendation is to increase the Covid-19 earmarked reserve by a further £5.767 million.**
- 2.13 These resources will be monitored as part of the revenue monitoring process and the use of funding from the Covid-19 earmarked Reserve reported to and subject to approval by either the Strategic Policy & Resources Committee or Council.

Developer Contributions: Commuted Sums & Infrastructure and Affordable Housing - £5.227 million

- 2.14 The Enterprise & 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).

- 2.15 Developer Contributions are held in the Council's Reserves until they are applied to relevant schemes. It is projected that approximately £2.587 million of unapplied resources in relation to affordable housing will be held by the Council at 31 March 2021 and it is proposed to earmark the unapplied amount within General Fund Balances. Additionally, it is proposed to earmark accumulated balances of £1.192 million for the provision of education infrastructure and £171,000 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 a ten-year period. It is projected that approximately £1.277 million of unapplied resources for tree planting, play areas, community allotments and sports grounds will be held by the Council at 31 March 2021. In summary it is proposed to earmark the unapplied amount of developer contributions and commuted sums within General Fund Balances as follows:

	£000
Affordable Housing	2,587
Education Infrastructure	1,192
Transport Infrastructure	171
Environmental Infrastructure	1,277
TOTAL	5,227

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

Workforce Management (including transformation programme) - £3.731 million

- 2.17 Workforce management measures for all groups of staff (which includes voluntary severance schemes) can be funded from these earmarked resources.
- 2.18 Over a number of years, the Council has contributed significant resources to transformation projects. There continues to be a small amount earmarked for projects which are still operational.

- 2.19 The resources earmarked are as follows:

	£'000
Transformation existing programme	215
Workforce management	3,516
TOTAL	3,731

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

Revenue Grants - £3.413 million

- 2.21 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.
- 2.22 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

Affordable Housing (Resources accrued from reduced Council Tax Discounts) - £2.8 million

- 2.23 It is anticipated that by the end of the current financial year, there will be a balance of approximately £2.8 million 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. The Housing and Communities Committee on 3 February 2021 (report No 21/17 refers) approved the use of £1.36 million for Affordable Housing projects in 2021/22.
- 2.24 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

Perth High School - £1.408 million

- 2.25 This is the remaining balance of £2.116 million originally 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. This is for works identified over and above those funded each year from the property maintenance budgets in future financial years.
- 2.26 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

Car Parking - £1.183 million

- 2.27 The Car Parking balance is estimated to be a similar level at 31 March 2021 as the previous year assuming that an element of the loss of income scheme compensates for the loss of car parking income. This surplus is restricted in its application under the Road Traffic Regulation Act 1984 and any proposals to utilise these resources will require to be approved by the Strategic Policy & Resources Committee.
- 2.28 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

REACH Project - £1.094 million

- 2.29 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 £700,000 from the Education and Children Services budget. The use of this Reserve was also approved by Council in September 2020 to fund additional Social Work capacity over a two year fixed period at a cost of £416,000 (report 20/173 refers). The balance of £1.094 million continues to be earmarked for these purposes.
- 2.30 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

Devolved School Management (DSM) - £919,000

- 2.31 The earmarked amount shown above is an estimate of the accumulated sum available to be carried forward at 31 March 2021 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).
- 2.32 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

Secondary Schools - £813,000

- 2.33 There is £813,000 of resources remaining from the £1.799 million originally earmarked to equip the new school at Bertha Park which opened in August 2019. (Report Nos 15/395 and 18/41 refer).
- 2.34 These resources will be utilised in future years as the pupil intake increases to equip further classrooms.
- 2.35 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

School Counsellors - £574,000

- 2.36 Revenue Budget 2020-21 Update No 2 to the Strategic Policy & Resources Committee on 25 November 2020 (Report No. 20/225 refers) approved the earmarking of resources received from the Scottish Government in respect of counselling in schools which were not anticipated to be spent in 2020/21 due to school closure during the lockdown period. These resources will be applied in 2023/24 due to a three year contract being awarded.
- 2.37 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

Perth & Kinross Offer - £499,000

- 2.38 The Strategic Policy and Resources Committee in November 2020 approved the transfer of £262,000 from a budget of £350,000 as part of Revenue Budget 2020-21 Update No 2 to fund future expenditure on the Perth & Kinross Offer (Report No 20/22 refers). This was augmented by further resources in 2019/20. These resources will support the delivery of the Perth & Kinross Offer.
- 2.39 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

Culture - £418,000

- 2.40 There is £418,000 earmarked for developing the cultural offer originally approved from an under spend in the 2018/19 Revenue Budget and transferred to a Cultural Reserve as part of 2018/19 Revenue Monitoring Report 2 to the Strategic Policy & Resources Committee on 28 November 2018 (Report No. 18/384 refers). This was increased by a further £250,000 approved as part of the Revenue Budget 2020-21 Update No 3 to Council on 27 January 2021 (Report No. 21/8 refers).
- 2.41 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

Modern Apprentices / Graduate Trainees - £374,000

- 2.42 The Strategic Policy and Resources Committee originally 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 2021 is £374,000 which includes current and previous year underspends from an annual recurring budget of £450,000.
- 2.43 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

Community Investment Fund - £304,000

- 2.44 It is proposed that the Council continues to earmark the remaining balance of £304,000 of the Community Investment Fund approved as part of the 2018/19 – 2020/21 Revenue Budget.
- 2.45 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

PH2O (Perth Leisure Vision) - £290,000

- 2.46 The Strategic Policy and Resources Committee approved the transfer of £350,000 from a budget of £500,000 as part of 2019/20 Revenue Monitoring Report 3 to the Strategic Policy & Resources Committee to fund the future design and business operating model of the PH2O project (Report No 20/22 refers). The remaining balance of £290,000 will be utilised in future years on this project.
- 2.47 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

Works Maintenance - £200,000

- 2.48 It is proposed that the Council continues to earmark the balance of £200,000 for future works maintenance which remains from the £1.25 million approved as part of the 2018/19 – 2020/21 Revenue Budget.
- 2.49 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

Financial Assistance - £176,000

- 2.50 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). Following the Covid pandemic, An Comunn Gaidhealach has now approved the rescheduling of the Royal National Mod with the Mod now scheduled to be held in Perth in October 2022. The projected accumulated balance available for this purpose at 31 March 2021 is £176,000. This will be utilised in 2022/23.
- 2.51 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

Elections - £159,000

- 2.52 The Council's Revenue Budget contains a recurring contribution of £53,000 to fund local government elections. The projected balance at 31 March 2021 will be £159,000.
- 2.53 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

Grounds Maintenance - £150,000

- 2.54 The Strategic Policy and Resources Committee approved the transfer of £225,000 as part of 2018/19 Revenue Monitoring Report 4 to fund road safety measures around the A9/A85 project. (Report No 19/110 refers). The balance of £150,000 will be utilised over the next 2 financial years.

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

Local Action Partnerships - £145,000

- 2.56 The amount shown is earmarked for Local Action Partnerships and is the balance of resources which were approved in 2017/18 Revenue Monitoring Report 3 by the Strategic Policy & Resources Committee (Report No.18/41 refers). These resources are approved for payment to groups via application to one of the seven local action partnerships.
- 2.57 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

Revenue Budget Flexibility 2020/21 - £125,000

- 2.58 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 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 the Revenue Budget 2020/21 approved at the special meeting of the Council (Report No. 20/57 refers). The budget for £125,000 is for the implementation of the Education and Children's Services digital learning strategy and virtual campus.
- 2.59 These resources will be monitored as part of the revenue monitoring process and reported to the Strategic Policy & Resources Committee.

Salix - £72,000

- 2.60 Salix Finance Ltd is a Government owned non-departmental public body which provides interest free loan funding for energy efficiency works. The loan is re-paid to the fund over a number of years and re-invested in future energy efficiency works.
- 2.61 It is projected that the balance on the Fund at 31 March 2021 will be approximately £72,000 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 and reported to the Strategic Policy & Resources Committee.

Public Sector Leadership - £40,000

- 2.63 Revenue Budget Report 2020/21 No 3 to the Council on 27 January 2021 approved the earmarking of resources of £40,000 in respect of participation in the public sector leadership programme being developed jointly with the Scottish Government and the Hunter Foundation.

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

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

- 3.1 In order to assess the adequacy of unallocated General Fund 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.
- 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 risks facing the Council in the next few years which may impact upon the Council's finances is set out in the separate report on the Revenue Budget 2021/22 which is on the agenda for this special meeting of the Council (Report No. 21/33 refers). These include –
- COVID-19 long term impact
 - Uncertainty over Scottish Government funding levels beyond 2021/22
 - The provisional 2022/23 revenue budget has a gap of £2.526m
 - Future financial position of Arms Length External Organisations
 - Assumptions in relation to the continued growth in the number of Band D equivalent properties
 - Welfare Reform
 - Pay award assumptions for 2021/22 and beyond
 - Expenditure pressures in 2022/23
 - Inflation assumptions
 - Current Economic Climate

Severe Weather

- 3.6 The 2021/22 Provisional Revenue Budget includes a provision for winter maintenance for the cost of an average winter. However, a worse than average winter may have a significant adverse impact on the Council's 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 both be envisaged and has been experienced.
- 3.9 The Council's practice in respect of unbudgeted severe weather costs in recent years has been to fund these 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.

Winter Maintenance Final Over / Underspend	
2020/21	Projected overspend £1.2 million
2019/20	Overspend £648,000
2018/19	Underspend £143,000
2017/18	Over spend of £1.35 million
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 million
2011/12	Over spend £785,000
2010/11	Over spend £3.16 million

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 (£743,000 in 2020/21 for Perth & Kinross Council) before being eligible for support through the Bellwin Scheme.

Comparison with other authorities

- 3.12 Audit Scotland's Financial Overview report for 2019/20, published on 26 January 2021 makes a number of observations in terms of council's useable Reserves. Their main observation was that unlike 2018/19 where there was a net draw on reserves of £45 million with 16 Councils ending the year with lower reserves than at the start of the financial year, in 2019/20 more councils (22) added to their revenue reserves with a net increase of £65 million across all Councils.
- 3.13 The report makes reference to the different strategies that Councils are using to manage their funding position and reserves over time. The report highlights that if some Councils continue to use their General Fund Reserves at the rate of the previous 3 years that they would deplete them in around 4 years. Perth & Kinross Council is not in this position.
- 3.14 It is 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

- 3.15 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 Budget in the medium term. Based on the Net Provisional Revenue Budget for 2021/22 of £386.767 million as detailed in Appendix B of the Budget Report being considered at Council today (report 21/33 refers) this would imply a level of uncommitted Reserves of between approximately £7.735 million and £15.470 million for 2021/22.
- 3.16 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 noted that the level of risk involved in managing the Council's Revenue Budget is significant, particularly given the unprecedented circumstances presented by the Covid-19 pandemic. There is currently no confirmation of the Council's Scottish Government funding beyond 2021/22 and it is anticipated that Council services will continue to operate in a challenging financial environment in future years.

- 3.17 The recommendation to earmark resources over 2% into the Covid-19 Reserve is a temporary adjustment. Over the medium to longer term it would be prudent for the Council in future to return to maintaining uncommitted Reserves in excess of 2%.
- 3.18 A comparison with the forecast position set out above indicates that the Council's projected uncommitted reserves will be approximately £7.735 million (prior to any budget decisions which have an effect on the Reserves position). This equates to 2.0% of the Net Provisional Revenue Budget for 2021/22.
- 3.19 Subject to Council approval of the recommendations contained within this report, the level of uncommitted Reserves will reduce from 3.7% at 31 March 2020 to the projected level of 2.0% at 31 March 2021. This equates to a reduction in the level of uncommitted Reserves of approximately £5.186 million. It is, however, important to recognise that this position includes the recommended creation of a substantial Covid-19 earmarked reserve to support the Council in addressing both the immediate and longer-term impact of the pandemic upon its finances. The application of the Covid-19 earmarked reserve will be subject to elected member approval; the forecast balance kept under review and the level and ongoing requirement for the Covid-19 reserve considered as part of the Council's future Reserves Strategy.
- 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 £7.735 million) in determining the 2021/22 Final Revenue Budget. In the event that any use of General Fund Reserves is made in determining the 2021/22 Revenue Budget, this should only be done on the basis of a sustainable strategy, which ensures that future years' Revenue Budgets are not dependent upon the continuing use of Reserves.
- 3.21 Appendix 3 to the reports shows the contributions to and from Reserves recommended in setting the Provisional Revenue Budget for 2021/22 and anticipated in 2022/23 and 2023/24.

4. CAPITAL STATUTORY FUND

- 4.1 The Capital Statutory Fund holds capital receipts from the disposal of assets, which have not yet been used to finance replacement assets or to redeem debt. At the end of the financial year, it is anticipated that there will be £2.672 million of capital receipts carried forward to 2021/22. The forecasts for unapplied capital receipts relate to the Commercial Property Investment Programme and recommendations for utilising these resources will be reported to the Strategic Policy and Resources Committee.

5. INSURANCE FUND

- 5.1 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 million 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.
- 5.2 The balance on the Fund at 31 March 2020 was £2.97 million (excluding provisions for outstanding liabilities). It is anticipated that the balance may reduce to approximately £2.45 million by 31 March 2021 assuming no significant change in claims experience.
- 5.3 The 2021/22 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 to the Insurance Fund.
- 5.4 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, flooding claims for which the excess is £1 million and the potential for claims in relation to the Limitation (Child Abuse) Act passed by the Scottish Parliament. For the main classes of insurance e.g. Casualty or Property, there is an individual "stop loss" in place which limits the financial exposure to the Council in any one year. The maximum loss that the Council would be required to meet in any given year for these main classes is £1.3 million for Casualty and £800,000 for Property (excluding flooding).

6. CAPITAL FUND

- 6.1 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 2021 will be £27.983 million subject to approval of the recommendation for use of the Capital Fund set out in paragraph 2.8 above. The strategy for managing these resources will be considered as part of the future Capital Budget, which the Council will consider later in 2021.

7. CAPITAL GRANTS UNAPPLIED

- 7.1 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 £2.189 million and this will be applied to the relevant projects as the works are completed. This is mainly in respect of Capital projects supporting the expansion of nursery provision to 1140 hours.

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 Balance.
- 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 Covid-19, Developer Contributions, Workforce Management and Revenue Grants.
- 8.3 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 at 2% of the Net Revenue Budget in the medium term while addressing the implications of COVID-19.
- 8.4 The level of uncommitted General Fund Reserves has reduced from 3.7% at 31 March 2020 to the projected level of 2.0% at 31 March 2021 which represents a reduction of approximately £5.2 million.
- 8.5 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 £7.735 million in determining the Final Revenue Budget for 2021/22. In the event that any use of General Fund Reserves is made in determining the 2021/22 Final 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.
- 8.6 Recommendations for managing the Capital Statutory 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.
- 8.7 Based upon the recommendations within this report, as part of preparing the Council's Unaudited 2020/21 Annual Accounts, the Head of Finance will review the earmarked Reserves in light of the Council's actual financial performance. This will form part of the Unaudited Accounts which will be considered in June 2021.
- 8.8 It is recommended that the Council approves:
 - i) The proposals to earmark General Fund Reserves as set out in Section 2.

ii) The proposed approach to maintain uncommitted reserves at 2% of the Net Revenue Budget as a temporary measure with the forecast balance in excess of this amount transferred to the COVID-19 earmarked reserve as set out in paragraph 2.10 above.

iii) The proposed approaches to managing the Capital Statutory Fund, Insurance Fund, Capital Fund and Capital Grants Unapplied Reserve as set out in Sections 4 to 8.

Author(s)

Name	Designation	Contact Details
Scott Walker	Chief Accountant	chxfinance@pkc.gov.uk
Alison O'Brien	Corporate Accounting Manager	chxfinance@pkc.gov.uk

Approved

Name	Designation	Date
Stewart Mackenzie	Head of Finance	4 March 2021
Karen Donaldson	Chief Operating Officer	4 March 2021

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 the Customer Service Centre on 01738 475000.

You can also send us a text message on 07824 498145.

All Council Services can offer a telephone translation facility.

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

1. Strategic Implications

Corporate Plan

- 1.1 The Council's Corporate Plan 2018 – 2023 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.

2. Resource Implications

Financial

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

Workforce

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

Asset Management (land, property, IT)

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

3 Assessments

Equality Impact Assessment

- 3.1 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.
- 3.2 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.

Strategic Environmental Assessment

- 3.3 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.
- 3.4 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.

Sustainability

- 3.5 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.
- 3.6 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

Internal

- 4.1 The Chief Executive and Executive Officer Team have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

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

3. APPENDICES

- Appendix 1 – Summary of General Fund Balances at 31 March 2020
- Appendix 2 – Projected General Fund Balance at 31 March 2021 (excluding the Housing Revenue Account)
- Appendix 3 – Summary of the Projected Use of General Fund Revenue Balances 2021/22, 2022/23 and 2023/24