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Cabinet 29 June 2009		
Strategic Overview & Scrutiny Committee 30 June 2009	Public	
Audit Committee 2 July 2009		
Council 16 July 2009		

## **RESERVES, PROVISIONS AND BALANCES AS AT 31 MARCH 2009 (SHROPSHIRE COUNTY COUNCIL)**

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### **Summary**

The report identifies the County Council's reserves, provisions and balances as at the end of March 2009 and explains the purposes for which they are held.

### **Recommendations**

#### To Cabinet, Strategic Overview & Scrutiny Committee, Audit Committee and Council

- A. Note the level of the County Council's reserves, provisions and balances and the purposes for which they are held.
- B. To note the level of School Balances has reduced from £8,446,000 to £7,552,000.
- C. To note that the General Fund Balance, has reduced from £2,721,000 to £2,250,000 as detailed in Appendix 2.
- D. To note the specific revenue reserves and provisions has increased from £19,272,000 to £21,983,000, as detailed in Appendix 1.
- E. To note that the Council's present policy on reserves is:
  - a) To provide sufficient monies in specific reserves and provisions to meet known and estimated future liabilities.
  - b) To have a general fund balance (excluding Schools' Balances) of between ½% and 2% of the gross revenue budget.

## REPORT

1. The following report describes the level of reserves, provisions and balances held by the County Council at the 31<sup>st</sup> March 2009.
2. The definition of provisions is set out in Financial Reporting Standard 12.

A provision should be established when:

- i) The Council has a present obligation as a result of a past event, and
- ii) A reliable estimate can be made of the likely cost to the Council.

A reserve should be established when:

- i) There is a possible obligation as a result of a past event, and
- ii) The likely cost to the Council cannot be measured with sufficient reliability.

3. These definitions are for accounting purposes. The important issue for Members in looking forward is whether or not the reserves and provisions, taken together with the Council's general balances, are sufficient to meet the cost of fulfilling the obligations for which these reserves and provisions were established. If those obligations have been met, it is good practice to release the reserve or provision. The funds released are then available for other uses.
4. In accordance with the provisions of the Local Government Act 2003 (section 25), the Director of Resources is required to report on the adequacy of the proposed financial reserves.

The County Council's objective was:

- a) To provide sufficient monies in specific provisions and reserves to meet known and estimated future liabilities, and
- b) In addition to have a general fund balance (excluding schools balances) of between ½% and 2% of the gross revenue budget.

This we believe will strike an appropriate balance between having resources available to meet liabilities whilst at the same time not holding back resources which could be applied to improving services or keeping Council Tax at affordable levels. Based on a gross revenue budget of £445,691,000 for 2008/09 the target level for the general fund balance was between £2,228,000 and £8,914,000.

During 2008/09 a contribution of £585,000 was made to the general fund balance in line with previous budget strategies. However, in 2008/09 it has been necessary to draw down from the general fund balance to help fund the costs of compensation payments under Job Evaluation Phase 2 and also to offset the deficit balance of the Decriminalised Parking Reserve. It was originally anticipated that surpluses arising from the operation of the decriminalised parking regime would offset this balance, however after a comprehensive review of the service and a decision to make the Park Right Service more sensitive in its approach to parking enforcement it is now unlikely that levels of income will be as high as originally envisaged.

The general fund balance is currently £2,250,000 which is just above the lower limit set out in the policy.

The District Auditor considers the County Council's balances in the round, including school balances. Taken together, the school balances of £7,552,000 and the general fund balance of £2,250,000 amount to £9,802,000. Given the level of specific

reserves and provisions, the general fund balance and the size of the school balances, the Director of Resources considers that the overall level of balances is sufficient to meet the likely level of obligations to be met from balances.

5. The Council's Reserves and Provisions are set out in the Annual Statement of Accounts. An extract from the Accounts is attached at Appendix 1. A narrative explanation of the purposes for which each of the reserves and provisions is held is given below. In some cases the total figure shown in Appendix 1 for a particular reserve or provision covers a number of items. Where this is the case, more detail is provided.
6. During 2008/09 a new reserve was established for the commitments remaining from the Area Based Grant.

### **RESERVES AS AT 31 MARCH 2009**

7. **Advisory Service - £50,000**, established from prior years' unapplied retained Standards Fund grant balances, where matched funding requirements were provided through base budget provision. This reserve will be used to apply to future revenue account matched grant funding requirements, and to support base budget pressures, particularly variations to schools' income subscription levels.
8. **Area Based Grant - £2,167,000**, established from unapplied Area Based Grant balances. Commitments have been made against these balances in 2009/10.
9. **Building Maintenance - £78,000**, this was established from an underspend within Property Services and slippage in the repairs and maintenance programme for county council buildings. In 2008/09 this reserve has been used to fund planned repairs and maintenance on the buildings and the building works associated with the accommodation works for preparation for the unitary council.
10. **Connexions Legacy - £441,000**, established from the process of liquidating the old external Connexions Company with effect from 31 March 2007. The Agreement to transfer the assets of the old Company to Shropshire County Council stipulates that "the Distributable Funds shall only be applied for the benefit of young persons and for no other purpose whatsoever".
11. **Council Tax on Second Homes - £Nil**, this reserve was used to fund local initiatives undertaken with the District and Borough Councils to fund local initiatives. The budget was originally set up following the additional income raised from the change in council tax on second homes.
12. **Council Elections - £414,000**, established to meet the periodic cost of Council Elections which take place every four years. This reserve is fully committed in 2009/10 to help meet the costs of the Unitary elections.
13. **CYPS Directorate - £595,000**, this reserve was established from overall directorate underspends in 2004/05. This reserve has been applied to one-off spending initiatives which are time-limited and not covered by base budget provision. It was also used in 2007/08 and 2008/09 to support the directorate's base budget overspends, and has been earmarked to contribute towards any overspending pressures in 2009/10 and future years.

14. **Decriminalised Parking - £Nil**, was established to cover the set up costs associated with the establishment of a decriminalised parking regime within Shropshire. The deficit balance carried forward from 2007/08 has been offset by a contribution from the general fund balance.
15. **Economic Development Workshops Major Maintenance - £79,000**, set up to meet the costs of major maintenance of Economic Development Workshops.
16. **Education Staff Sickness Insurance - £951,000**, schools' self help insurance for staff sickness with premiums met from delegated budgets. Any surplus generated is used to benefit contributing schools.
17. **Education Theft Insurance - £144,000**, this is the schools' self help insurance scheme to cover equipment damage and losses. Any surplus generated is used to benefit contributing schools.
18. **Fire Liability** - see Fire and Liability Insurance under Provisions below.
19. **Landfill Allowance Trading Scheme - £Nil**, this reserve has been set up to recognise the notional surplus generated because the council's liability for waste disposal tonnage since 2005/06 has been less than the allowances allocated by DEFRA. As this represents a notional surplus it **cannot** be spent. This reserve has only been set up because the accounting guidelines require it. Cash would only be generated if the surplus LATS credits were sold to another authority. Balances have been written down to zero, reflecting both the absence of an active market, and that 2009/10 is the first target year of the scheme where no banking from previous years is permitted.
20. **Legal Disbursements - £59,000**, this helps to meet extraordinary legal costs incurred by service directorates over and above budgets.
21. **Local Government Review - £Nil**, this reserve was set up to fund any one-off costs that arose as a result of the transition to the new Unitary Council for Shropshire. This reserve has been fully spent in 2008/09.
22. **Local Authority Business Growth Incentive - £507,000**, this reserve has been established using grant from the Department for Communities and Local Government. The reserve will be spent on schemes that will benefit business development within Shropshire.
23. **Major Planning Inquiries – £61,000**, this reserve is used to meet the one-off costs of major planning inquiries, and is a corporate reserve; £66,024 was used during 2008/09. The annual contribution of £50,000 was removed as part of the 2005/06 Budget Strategy savings. There are a number of inquiries pending which under the current arrangements will exhaust the fund by the end of 2009/10.
24. **Motor Insurance - £150,000**, an internally operated self-insurance reserve to meet costs not covered by the Council's Motor Insurance Policy.
25. **PFI Buildings Equipment Replacement - £249,000**, this was established in 2007/08 to fund replacement equipment in PFI buildings. This relates to items of equipment not covered by the PFI contract, that the council are responsible for maintaining.

26. **Resources Efficiency - £291,000**, established for investment in new developments, particularly information technology, that client directorates would not be expected to meet from their internal service level agreements for support services. This reserve is used for corporate developments such as the development of the server room and electronic data management infrastructure. The reserve is fully committed in 2009/10.
27. **Revenue Commitments for Future Capital Expenditure - £1,780,000**, this reserve comprises underspends against budgeted revenue contributions available for capital schemes. The underspends have arisen due to slippage in capital schemes or because other funding streams were utilised during the year so as to maximise time limited grants. This sum is available to fund commitments against capital schemes in 2009/10.
28. **Schools Building Maintenance Insurance - £Nil**, the schools building maintenance insurance scheme is a service provided by Property Services for schools. In return for an annual sum all structural repairs and maintenance responsibilities previously identified as the "authority's responsibility" are carried out at no additional charge to the school. In broad terms this includes annual contract maintenance, programmed structural repairs, mechanical and electrical contract maintenance and reactive essential maintenance works. The unspent balance from 2007/08 was fully spent in 2008/09.
29. **School Meals - Academic Year - £83,000**, established from an underspend in 2004/05 due to there being fewer than average school days in that financial year. The fund increased by £44,000 in 2007/08, reflecting a lower number of trading days within the financial year (185 against standard budgeted provision of 190). The reserve is held to support financial years when there is a higher than average number of school days.
30. **Section 117 - £Nil**, Section 117 of the Mental Health Act 1983 places a duty on the County Council to provide after-care services for certain patients discharged from detention under the Act. All known backdated claims have now been settled. This reserve will now be closed.
31. **Shire Catering and Cleaning Efficiency - £91,000**, this is built up from trading surpluses to invest in new initiatives, to meet exceptional unbudgeted costs or cover any trading deficits. During 2008/09 Shire Services' overall trading position was a surplus of £96,000, but a £5,000 deficit had been carried forward from the previous year leaving £91,000 available which will be carried forward for 2009/10.
32. **Shropshire Waste Partnership (Smoothing Reserve) – £7,610,000**, the PFI smoothing reserve reflects the budgeted contributions in the early years of the Waste PFI contract that will be used to smooth the step up in the Unitary Charge once additional facilities come on line. The PFI smoothing reserve will ensure that the Shropshire Waste Partnership does not pay for services in advance of receiving them but that once costs are increased in line with the contract money is available to meet those costs. The District partners have funded £350,000 of the PFI smoothing reserve and the County Council £2,395,000. The SWP Business Plan anticipated the PFI smoothing reserve earning interest at 5% per annum. Interest of £127,917 has been added in 2008/09; applying an interest rate of 4.66% which reflects the average rate the Council has earned on its balances throughout the year.

33. **Shropshire Waste Partnership (General Reserve) - £912,000**, the general reserve arises from SWP underspends and this will be earmarked towards future capital and revenue pressures in the budget.
34. **TMO Vehicle Replacement - £688,000**, this reserve was set up to meet the costs of replacement vehicles by the Integrated Transport Unit. An additional £349,631 was added in 2008/09, which included £145,981 of Bus Services Operators Grant (BSOG), and contributions for the replacement of existing vehicles of £203,650. Expenditure of £40,343 was incurred on the acquisition of vehicles.
35. **Transport – Academic Year - £Nil**, established from an underspend in 2004/05 due to there being fewer than average school days in that financial year. The Reserve is held to support financial years when there is a higher than average number of school days, or to support transport base budget spending pressures.
36. **Voluntary Early Retirement/Severance - £219,000**, used to help meet one-off costs arising from approved staffing reductions, allowing the full approved savings in salaries or wages to reach the revenue account. During 2008/09 this reserve has been used to fund the one-off voluntary early retirement and redundancy costs associated with the Unitary Council.
37. **Waste Management - £435,000**, to meet potential claims from our contractors. Contractual claims for 2005/06, 2006/07, 2007/08 and 2008/09 are still outstanding.
38. **Youth Service Vehicle Replacement - £58,000**, this reserve was established to meet the costs of purchasing specialist vehicles for the Youth Service.
39. **Directorate Carry Forwards - £2,141,000 (Deficit)**, this represents the net overspend on Directorates' budgets at the end of the year. Under devolved financial arrangements for directorates any underspend is available for use in 2009/10 or alternatively an overspend must be recovered. In 2008/09 an underspend of £133,000 has been carried forward into 2009/10. The year end outturn position for each Directorate is shown below:

Directorate/Service	2008/09 Outturn Overspend/(Underspend) £'000
Children and Young People	0
Community Services	0
Economy and Environment	(37)
Economy & Environment Services - Highways	2,386
Resources (including Shire Services)	61
Corporate Issues	(155)
Chief Executive's Office	(114)
Legal & Democratic Services	0
<b>TOTAL</b>	<b>2,141</b>

The main reasons for the outturn positions are detailed below, full explanations have been provided in the regular quarterly monitoring reports to Cabinet.

- 38.1 **Children and Young People** – An overall net base budget overspend of £501,225 has been fully offset in 2008/09 by applying one off contributions from the C&YPS Directorate Carry Forward and Advisory Service Reserves.

- 38.2 **Community Services** – The end of year outturn position is a balanced budget. This compares to the 2007/08 year end position for these services of £178,000 overspend. There is an overspend of £65,000 on Learning Disability services principally due to the cost of transition cases, but this is offset by an underspend within Business Strategy and Support.
- 38.3 For **Economy and Environment** a net overspend of £2,349,000 has been carried forward and provided for in the revenue budget for 2009/10. Additional costs of £2,386,000 arising from the severity of the winter weather and the flooding of September 2008 have been ringfenced to Highways and funded as a first call on the 2009/10 Highways Maintenance budget. After removing the ringfenced overspend on Highways Maintenance, the Directorate has a net underspend of £37,000 which will be ringfenced to deal with service pressures arising in 2009/10.
- 38.4 For **Resources, Chief Executive's Office, Legal and Democratic Services and Corporate Issues** the overall position is an underspend of £208,000. There was an overspend of £61,000 within Resources which included increased energy costs and lower than budgeted income within Property Services. Shire Services trading surplus for the year was £96,000 and this will be carried forward to 2009/10. Within the Chief Executive's Office the most significant underspends were against Human Resources and Development and Shropshire Partnership, these were mainly due to staffing savings and underspends against equalities initiatives. Legal and Democratic Services has a balanced budget. Finally, within Corporate Issues there was an overall underspend, mainly due to underspends against Local Committee budgets, Corporate and Democratic Core, Precepts and Shirehall Catering, partially offset by additional costs associated with corporate responsibilities.

#### **PROVISIONS AS AT 31 MARCH 2009**

40. **Fire and Liability Insurance – (Fire £1,701,000 and Liability £4,311,000)**, this is made up of two separately identifiable amounts:
- **Old Shropshire – (Liability £869,000)**, provision to meet the estimated actuarial valuation of claims for public liability and employers' liability relating to the period up to 31 March 1998. Payments will be made over a period of years as claims are settled.
  - **New Shropshire – (Fire £1,701,000 and Liability £3,447,000)**, this is available to meet the cost of excesses on all council properties (Fire Liability Reserve) as well as the cost of excesses relating to Public and Employers' Liability Claims on or after 1 April 1998 (Liability Insurance Provision).

#### **GENERAL FUND AND SCHOOL BALANCES AS AT 31 MARCH 2009**

41. **The General Fund Balance** stood at £2,721,000 at the end of 2007/08. During 2008/09 contributions amounting to £548,000 were made to the general fund balance, which have been offset by the costs of Job Evaluation Phase 2 (£305,000) and Decriminalised Parking (£714,000) taking the balance to £2,250,000 by the end of 2008/09. Further details of in-year movements are provided at Appendix 2.
42. **School Balances and Carry Forwards** – Schools' balances have to be ringfenced for use by schools and schools have the right to spend those balances at their discretion.

The total balance of £7,552,000 represents 5.4% of Schools' delegated budgets, an analysis of this balance is provided in the table below:

	Balance as at 31 March 2009			
	£000	As a % of Delegated Budgets	No. Schools in Surplus	No. Schools in Deficit
Primary Schools	5,294	7.8	132	8
Secondary Schools	1,620	2.5	19	2
Special Schools	465	8.6	2	0
Foundation Schools*	173	5.1	2	0
<b>Total</b>	<b>7,552</b>	<b>5.4</b>	<b>155</b>	<b>10</b>

\* Foundation Schools' 2008/09 external balances of £173,000 have been estimated.

43. Following consultation with the school's forum and head teachers, these balances have been used to purchase IT equipment for schools, the cost of this equipment is then recharged to schools over the life of that equipment, effectively operating as an internal leasing arrangement. At the end of 2008/09 £240,000 of the £7,552,000 was being used in this way.



**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Revenue and Capital Budget 2008/09

Budget Monitor for Fourth Quarter of 2008/09: Implementation Executive, 20 May 2009, County Council Constitution: Part 4, Rules of Procedure – Financial Procedure Rules, pages 1-76.

**Human Right Act Appraisal**

No conflicts with the Human Rights Act have been identified.

**Environmental Appraisal**

N/A

**Community / Consultations Appraisal**

N/A

**Cabinet Member**

Keith Barrow, Leader of the Council.  
Portfolio Holders

**Local Member**

All

**Appendices**

1. Extract from 2008/09 Statement of Accounts – Reserves and Provisions
2. General Fund Balance Statement

**Decision(s)**

Appendix 1

EXTRACT FROM THE STATEMENT OF ACCOUNTS

**RESERVES AND PROVISIONS**

The County Council has created a number of specific reserves and provisions as permitted under the provisions of the Local Government and Housing Act 1989. These are to provide for known or anticipated future liabilities, and to assist in protecting essential services. Contributions, charged to the revenue account, are made either on a regular basis, or by appropriation from the revenue account when this is considered necessary.

<i>Balance at 31 March 2008 £000</i>	<i>Expenditur e in 2008/09 £000</i>	<i>Income in 2008/09 £000</i>	<i>Balance at 31 March 2009 £000</i>	
<b>Reserves</b>				
503	Advisory Service	453	-	50
-	Area Based Grant	-	2,167	2,167
219	Building Maintenance	1,002	861	78
293	Connexions Legacy	83	231	441
665	Council Tax on Second Homes	665	-	-
415	County Council Elections	1	-	414
402	CYPS Directorate	459	652	595
(714)	Decriminalised Parking	-	714	-
	Economic Development Workshops Major			
61	Maintenance	-	18	79
838	Education – Staff Sickness Insurance	-	113	951
129	Education – Theft Insurance	-	15	144
1,417	Fire Liability	-	284	1,701
403	Landfill Allowance Trading Scheme	403	-	-
57	Legal Disbursements	55	57	59
100	Local Government Review	492	392	-
599	Local Authority Business Growth Incentive	639	547	507
123	Major Planning Inquiries	66	4	61
129	Motor Insurance	33	54	150
196	PFI Buildings Equipment Replacement	7	60	249
1,000	Resources Efficiency	806	97	291
	Revenue Commitments for Future Capital			
2,809	Expenditure	1,520	491	1,780
101	Schools Building Maintenance Insurance	101	-	-
83	School Meals – Academic Year	-	-	83
68	Section 117	68	-	-
-	Severe Weather	-	-	-
(5)	Shire Catering and Cleaning Efficiency	56	152	91
2,745	Shropshire Waste Partnership (Smoothing Reserve)	-	4,865	7,610
647	Shropshire Waste Partnership (General Reserve)	-	265	912
379	TMO Vehicle Replacement	40	349	688
432	Transport – Academic Year	702	270	-
1,740	Voluntary Early Retirement/Severance	2,678	1,157	219
435	Waste Management	-	-	435
54	Youth Service Vehicle Replacement	-	4	58
<b>16,323</b>		<b>10,329</b>	<b>13,819</b>	<b>19,813</b>
<b>Directorates Carry Forwards</b>				
(178)	• Community Services	-	178	-
(122)	• Economy & Environment Services	-	159	37
(1,005)	• Economy & Environment - Highways	2,386	1,005	(2,386)
433	• Resources, Legal & Democratic Services, Chief Executive's Office and Corporate	433	208	208
<b>(872)</b>		<b>2,819</b>	<b>1,550</b>	<b>(2,141)</b>
<b>Provisions</b>				
3,821	<b>Liability Insurance</b>	11	501	4,311
3,821		11	501	4,311
<b>19,272</b>	<b>TOTAL</b>	<b>13,159</b>	<b>15,870</b>	<b>21,983</b>

**Appendix 2**

**GENERAL FUND BALANCE STATEMENT**

	<i>£000</i>
<b>Actual Balance as at 1 April 2008</b>	<b>2,721</b>
Base Budget Contribution	528
Decriminalised Parking	(714)
Job Evaluation	(305)
Insurances – Below the Line Underspend	20
<b>Final Balance at 31 March 2009</b>	<b><u>2,250</u></b>