



<u>Committee and Date</u>	<u>Item</u>
Audit Committee 18 June 2010	<b>11</b> Public
Strategic Overview & Scrutiny Committee 23 June 2010	
Council 24 June 2010	

## RESERVES, PROVISIONS AND BALANCES AS AT 31 MARCH 2010

**Responsible Officer** Laura Rowley

e-mail: Laura.Rowley@shropshire.gov.uk

Tel: 01743 252007

Fax 01743 2525901

### Summary

The report identifies the Council's reserves, provisions and balances as at 31<sup>st</sup> March 2010 and explains the purposes for which they are held.

The Council's 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.

### Recommendations

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

- A. Note that the level of the Council's reserves, provisions and balances and the purposes for which they are held.
- B. Note that the level of School Balances has increased from £7,552,000 to £7,647,770.
- C. Note that the General Fund Balance, has increased from £2,250,000 to £2,875,226 as set out in Appendix 2.
- D. Note the specific revenue reserves and provisions, after incorporating balances transferred from the District Councils, has increased from £30,885,000 to £38,175,000, as set out in Appendix 1.

## REPORT

1. The following report describes the level of reserves, provisions and balances held by the Council at the 31<sup>st</sup> March 2010.
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 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 £574,019,000 for 2009/10 the target level for the general fund balance was between £2,870,095 and £11,480,380.

On the 1<sup>st</sup> April 2009, the general fund balances of the five Shropshire Districts were transferred into the general fund balance (£5,980,000). During 2009/10 a "one-off" contribution of £3.2m was made from the general fund balance as planned for and approved in the base budget. This "one-off" contribution enabled the Council to take savings from the move to unitary to be taken in two stages. The first stage was transition and this stage delivered savings of £10.8m from 1<sup>st</sup> April 2009. The second stage was transformation and this delivered savings of £4.1m savings from 1<sup>st</sup> April 2010. This "one-off" contribution from balances has been removed from the budget strategy in 2010/11 as the planned compensating savings from unitary transformation have been identified. It has also been necessary to draw down from the general fund balance to help fund the costs of Voluntary Early Retirement payments and also to fund the balance remaining on some legacy capital projects.

The general fund balance is currently £2,875,226 which is just above the lower limit set out in the policy.

The District Auditor considers the Council's balances in the round, including school balances. Taken together, the school balances of £7,647,770 and the general fund balance of £2,875,000 amount to £10,522,770. 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.
6. The District Councils transferred a total of £8.9m in earmarked reserves and provisions to the unitary council. A review of the earmarked reserves has now been undertaken and these have been used to meet "one-off" costs incurred during the year as appropriate, or have subsequently been allocated to existing or new reserves.
7. Five new reserves have been set up in 2009/10, as a result of the commitments made by the old Shropshire District Councils or due to new requirements to earmark funds. The five reserves are as follows:
  - Craven Arms Auction Yard.
  - Major Repairs Reserve.
  - Planning Reserve.
  - Theatre Severn Repairs & Maintenance.
  - Unitary Transformation.

### **RESERVES AS AT 31 MARCH 2010**

8. **Advisory Service - £Nil**, established from prior years' unapplied retained Standards Fund grant balances.
9. **Area Based Grant - £1,667,000**, established from unapplied Area Based Grant balances. Commitments have been made against these balances in 2010/11.
10. **Building Maintenance - £Nil**, this was established from an underspend within Property Services and slippage in the repairs and maintenance programme for council buildings. In 2009/10 this reserve has been used to fund planned repairs and maintenance on the buildings and the building works associated with the accommodation works for the unitary council.
11. **Connexions Legacy - £368,000**, 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".
12. **Council Elections - £36,000**, established to meet the periodic cost of Council Elections which take place every four years. In 2009/10, £129,000 was used from this reserve to fund the cost of the Unitary elections held in June 2009. As the balance held within the reserve was not required for the purpose of the election, £250,000 was released to the Voluntary Early Retirement Reserve to help meet transition costs.

13. **Craven Arms Auction Yard - £70,000**, has been established to cover the expected future costs associated with maintaining the new development at the former Craven Arms Auction Yard site.
14. **CYPS Directorate - £461,000**, 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 has also been used in 2007/08, 2008/09 and 2009/10 to support the directorate's base budget overspends.
15. **Economic Development Workshops Major Maintenance - £121,000**, set up to meet the costs of major maintenance of Economic Development Workshops.
16. **Education Staff Sickness Insurance - £298,000**, schools' self help insurance for staff sickness with premiums met from delegated budgets. Any surplus generated is used to benefit contributing schools and schools' related budgets.
17. **Education Theft Insurance - £38,000**, this is the schools' self help insurance scheme to cover equipment damage and losses. Any surplus generated is used to benefit contributing schools and schools' related budgets.
18. **Fire Liability** - see Fire and Liability Insurance under Provisions below.
19. **Landfill Allowance Trading Scheme - £355,000**, 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.
20. **Legal Disbursements - £169,000**, this helps to meet extraordinary legal costs incurred by service directorates over and above budgets. An underspend of £110,000 against legal budgets has been contributed to the reserve in 2009/10 to meet future corporate legal disbursement costs.
21. **Local Authority Business Growth Incentive - £50,000**, 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 and is fully committed in 2010/11.
22. **Major Planning Inquiries - £1,017,000**, this reserve is used to meet the one-off costs of major planning inquiries, and is a corporate reserve. There was no expenditure in 2009/10. The balance remaining from the Housing and Planning Delivery Grant received in 2009/10 (£956,000) has been allocated to the reserve to meet the costs of any future liabilities.
23. **Major Repairs Reserve - £3,928,000**, this reserve is used to meet the costs of major repairs to be undertaken on the Council's housing stock.
24. **Motor Insurance - £162,000**, an internally operated self-insurance reserve to meet costs not covered by the Council's Motor Insurance Policy.
25. **PFI Buildings Equipment Replacement - £285,000**, 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 - £803,000**, 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 2010/11.
27. **Revenue Commitments for Future Capital Expenditure - £2,224,000**, 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 2010/11.
28. **Schools Building Maintenance Insurance - £285,000**, 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. In 2009/10 there has been some slippage in the programme of works, therefore the balance of £285,000 will be fully committed in 2010/11.
29. **School Meals - Academic Year - £Nil**, this reserve was held to support financial years when there has been a higher than average number of school days.
30. **Shire Catering and Cleaning Efficiency - £80,000**, this is built up from trading surpluses to invest in new initiatives, to meet exceptional unbudgeted costs or cover any trading deficits. During 2009/10 Shire Services' overall trading position was a deficit of £11,000, but a £91,000 surplus had been carried forward from the previous year leaving £80,000 available which will be carried forward for 2010/11.
31. **Shropshire Waste Partnership (Smoothing Reserve) – £11,145,000**, 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 SWP Business Plan anticipated the PFI smoothing reserve earning interest at 5% per annum. Interest of £48,641 has been added in 2008/09; applying an interest rate of 0.67% which reflects the average rate the Council has earned on its balances throughout the year. A further £314,355 has been transferred from the General reserve below to make up the shortfall in interest.
32. **Shropshire Waste Partnership (General Reserve) - £5,308,000**, the general reserve arises from SWP underspends and this will be earmarked towards future capital and revenue pressures in the budget. £452,579 was added in 2009/10 and a contribution of £314,355 was made to the smoothing reserve to make up for a shortfall on interest. The balance has also been adjusted to take account of adjustments required under International Financial Reporting Standards. These accounting adjustments have resulted in a contribution to the reserve of £2,165,000 which represents the underspend arising from the prepayment for planned assets not yet provided under the SWP contract.

33. **Theatre Severn Repairs & Maintenance - £155,000**, established from underspends within culture and leisure, the reserve will be earmarked towards future capital and revenue expenditure on repairs, maintenance and replacement of essential equipment at the Theatre.
34. **TMO Vehicle Replacement - £1,414,000**, this reserve was set up to meet the costs of replacement vehicles by the Integrated Transport Unit. An additional £758,430 was added in 2009/10, which included £82,713 of Bus Services Operators Grant (BSOG), and contributions for the replacement of existing vehicles of £675,717. Expenditure of £89,643 was incurred on the acquisition of vehicles.
35. **Transport – Academic Year - £Nil**, this reserve was held to support financial years when there has been a higher than average number of school days, or to support transport base budget spending pressures.
36. **Unitary Transformation - £149,000**, this reserve has been established from underspends on Organisational Development training programmes and will be used in 2010/11 to fund costs incurred in supporting the transformation programme of the unitary council.
37. **Voluntary Early Retirement/Severance - £1,865,000**, 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 2009/10 this reserve has been used to fund the one-off voluntary early retirement and redundancy costs associated with the transition and transformation stages of the Unitary Council.
38. **Waste Management - £50,000**, to meet potential claims from our contractors. Expenditure of £384,904 was incurred in 2009/10, and all claims up to 2008/09 have now been settled.
39. **Youth Service Vehicle Replacement - £Nil**, this reserve was established to meet the costs of purchasing specialist vehicles for the Youth Service.
40. **Directorate Carry Forwards – (£679,000)**, 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 2010/11 or alternatively an overspend must be recovered. The balance against this reserve relates only to the over and underspends for Community Services, Development Services and Resources, Chief Executive’s Office and Legal & Democratic Services. In 2009/10 an overspend of £679,000 has been carried forward into 2010/11. Children & Young People have allocated their £240,000 overspend against the CYPS directorate reserve. The year end outturn position for each Directorate is shown below:

Directorate/Service	2009/10 Outturn Overspend/(Underspend) £’000
Community Services	24
Community Services – County Training	1,141
Development Services	(40)
Resources (including Shire Services)	0
Corporate Issues	(199)
Chief Executive’s Office	(245)
Legal & Democratic Services	(2)

<b>TOTAL</b>	<b>679</b>
--------------	------------

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

- 41.1 **Children and Young People** – The final outturn position is a net overspend of £239,513 against base budget provision, after applying available Reserves and Provisions. This overspend will be carried forward to 2010/11 to be managed as part of the monitoring process within the year.
- 41.2 **Community Services** – The end of year outturn position is a £23,660 overspend plus an overspend on the County Training trading account of £1,141,531. This compares to the 2008/09 year end position for these services of a balanced budget. There is an overspend of £250,000 on Learning Disability services principally due to the cost of transition cases and a growing demand for services, but this is offset by an underspend within Business Strategy and Support.
- 41.3 For **Development Services** – The overall position is an underspend of £40,000 (after allowing for a £451,000 underspend within Waste Management being transferred to reserve) In line with previous years the overspends arising from Highways Maintenance and Severe Weather (£802,000) will be ring fenced to Highways and funded as a first call on the 2010/11 Highways Maintenance Budget. The revised underspend across the remainder of the Directorate of £863,000; as a result of increased vacancy management savings will be carried forward to offset a number of pressures in 2010/11.
- 41.4 For **Resources, Chief Executive's Office, Legal and Democratic Services and Corporate Issues** the overall position is an underspend of £446,000. There was a nil variation against Resources budgets, however Shire Services had a trading deficit of £11,000 for the year which will be carried forward to 2010/11. Within the Chief Executive's Office the most significant underspends was against the Area Partnership budgets and these balances will be carried forward to 2010/11. Legal and Democratic Services have a minor underspend of £2,000. Finally, within Corporate Issues an underspend has been generated within the Local Joint Committee budgets.

#### **PROVISIONS AS AT 31 MARCH 2010**

41. **Fire and Liability Insurance – (Fire £1,709,000 and Liability £3,945,000)**, this is made up of two separately identifiable amounts:
- **Old Shropshire – (Liability £632,000)**, 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 £1,709,000 and Liability £3,313,000)**, 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).
42. **Single Status – £369,000**, this was established by Bridgnorth District Council to meet the costs of implementing the harmonisation of terms and conditions of service for

employees under a nationally negotiated scheme. As the negotiations around the scheme are still ongoing, this provision has been retained for use in 2010/11.

43. **Contract Retention – £176,000**, this was established by Oswestry Borough Council to fund contract retentions agreed for Housing improvement relating to the housing stock in Oswestry.
44. **Other Provisions – £152,000**, this includes a number of small provisions inherited from the District and Borough Councils, including S106 Accrued Interest, Tenancy Deposit Clawbacks, and a planning appeal at Shrewsbury and Atcham .

#### **GENERAL FUND AND SCHOOL BALANCES AS AT 31 MARCH 2010**

45. **The General Fund Balance** stood at £2,250,000 at the end of 2008/09. The General Fund Balance has been increased by the balances transferred from the district authorities, totalling £5,981,000. These balances have been used within the year to fund known one off pressures. This includes the £3.2m base budget transfer from reserves which has now been funded within the 2010/11 base budget by compensating savings arising from the transformation stage of unitary. Additional allocations from the General Fund balances have been made to fund the Voluntary Early Retirement costs associated with the transformation stage, and the balance on some legacy capital schemes. Full Council and Cabinet approval has been obtained on all of these transfers during the course of the year. Further details of in-year movements are provided at Appendix 2.
46. **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 £7,647,770 represents 5.4% of Schools' delegated budgets, an analysis of this balance is provided in the table below:

	<b>Balance as at 31 March 2010</b>			
	<b>£000</b>	<b>As a % of Delegated Budgets</b>	<b>No. Schools in Surplus</b>	<b>No. Schools in Deficit</b>
Primary Schools	5,741	8.7	128	5
Secondary Schools	984	1.5	16	5
Special Schools	758	13.2	2	0
Foundation Schools*	165	5.6	2	0
<b>Total</b>	<b>7,648</b>	<b>5.4</b>	<b>148</b>	<b>10</b>

\* Foundation Schools' 2009/10 external balances of £165,000 have been estimated.

47. 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 2009/10 £221,000 of the £7,648,000 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 2009/10

Budget Monitor for Fourth Quarter of 2009/10: Cabinet, 12 May 2010, Shropshire 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 2009/10 Statement of Accounts – Reserves and Provisions
2. General Fund Balance Statement

**Decision(s)**

EXTRACT FROM THE STATEMENT OF ACCOUNTS

**RESERVES AND PROVISIONS**

The 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>Restated Balance at 31 March 2009</i>	<i>Balance transferred from the Districts 1<sup>st</sup> April 2009</i>	<i>Expenditure in 2009/10</i>	<i>Income in 2009/10</i>	<i>Balance at 31 March 2010</i>
<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Reserves</b>				
50	-	50	-	-
2,167	-	1,676	1,176	1,667
78	-	78	-	-
441	-	118	45	368
414	-	378	-	36
-	70	-	-	70
595	-	1,094	960	461
79	-	-	42	121
951	-	2,280	1,627	298
144	-	150	44	38
1,701	-	-	8	1,709
-	-	-	355	355
59	-	-	110	169
507	-	485	28	50
61	-	-	956	1,017
-	1,503	174	2,599	3,928
150	-	85	97	162
249	-	2	38	285
291	1,664	2,418	1,266	803
1,780	3,887	3,962	519	2,224
-	-	-	285	285
83	-	83	-	-
-	-	1,000	1,000	-
91	-	187	176	80
7,610	-	-	3,535	11,145
2,655	-	-	2,653	5,308
-	-	-	155	155
688	-	90	816	1,414
-	-	-	-	-
-	-	-	149	149
219	1,081	4,407	4,972	1,865
435	-	385	-	50
58	-	58	-	-
<b>21,556</b>	<b>8,205</b>	<b>19,160</b>	<b>23,611</b>	<b>34,212</b>
<b>Directorates Carry Forwards</b>				
-	-	24	-	(24)
-	-	1,141	-	(1,141)
37	-	37	40	40
(2,386)	-	-	2,386	-
208	-	208	446	446
<b>(2,141)</b>	<b>-</b>	<b>1,410</b>	<b>2,872</b>	<b>(679)</b>
<b>Provisions</b>				
4,311	-	639	273	3,945
-	369	-	-	369
-	176	-	-	176
-	152	-	-	152
4,311	697	639	273	4,642
<b>23,726</b>	<b>8,902</b>	<b>21,209</b>	<b>26,756</b>	<b>38,175</b>

**Appendix 2**

**GENERAL FUND BALANCE STATEMENT**

	<i>£000</i>
<b>Actual Balance as at 1 April 2009</b>	<b>2,250</b>
Balances transferred from the Districts	5,980
Base Budget Contribution (compensating savings built into 2010/11 budget)	(3,200)
Voluntary Early Retirement	(1,556)
Capital Projects	(604)
Insurances – Below the Line Underspend	5
<b>Final Balance at 31 March 2010</b>	<u><b>2,875</b></u>