

## The Highland Council

27 June 2013

Agenda Item	
Report No	

### Strategy and Use of Reserves and Balances

#### Report by Director of Finance

##### Summary

This report sets out the current strategy for the Council's reserves and balances, and summarises the balances held as at 31 March 2013.

#### 1. Background

- 1.1 Reserves and Balances are considered as part of the report on the revenue budget. At the meeting on 7 February 2013, members asked for a further report on the purpose and use of all balances.
- 1.2 Following completion of the Council's Statement of Accounts for 2012/13, the opportunity has now been taken to review and update the current strategy for consideration by members.
- 1.3 This report sets out the reserves and balances held by the Council, the purpose of each, and the balance held as at 31 March 2013. **Annex 1** summarises all reserves and balances held.

#### 2. Discussion

- 2.1 In relation to the Council's non-earmarked General Fund balance, which is the non-committed contingency available to the Council for unseen events, the recommended strategy continues to be the retention of a minimum sum equivalent to 3% of the Council's net revenue budget. This is a prudent sum in the current financial climate.
- 2.2 For 2013/14, the sum retained is £18.167m, and is the basis on which the statement of accounts for 2012/13 has been prepared. This provides an element of additional flexibility above the 3% target of £16.393m based on the base budget of £546.436m agreed in February.
- 2.3 All earmarked reserves are held for specific purposes and are generally not available for other uses.
- 2.4 After allowing for the contingency level to be retained, the Statement of Accounts has also earmarked a sum of £5m for the new Strategic Change and

Development Fund, the principle of which had been agreed by the Council in February of this year. This new fund is the subject of a separate report on this meeting's agenda.

- 2.5 As agreed by the Council on 7 February, a further two earmarked revenue balances have been created in respect of Community Challenge Fund (£1m) and Roads Maintenance (£2m).
- 2.6 The strategy will be kept under regular review, and any reports brought to members as and when required. As described above, the Council's annual budget setting report would include an update strategy position as well as detailing any planned use of balances for the forthcoming financial year.

#### Recommendations

Members are asked to consider this report and:-

- (1) reaffirm the strategy of retaining a non-earmarked General Fund balance of at least 3% of the Council's new Revenue Budget
- (2) agree the updated reserves and balances strategy set out on **annex 1**

Designation: Director of Finance

Date: 18 June 2013

Authors: Brian Porter, Finance Manager  
David Robertson Head of Accounting and Budgeting

Background Papers: None

## Annex 1

### (a) Summary of usable reserves and balances

Details of the nature and purpose of each sum is detailed on the pages following the table.

	<b>Balance as at 31/3/2013 £m</b>
<b>A: Non-Earmarked Revenue Balances</b>	
General Fund (target to retain 3% contingency)	18.167
Housing Revenue Account	6.804
<b>Sub-Total Non-Earmarked Revenue Balances</b>	<b>24.971</b>
<b>B: Earmarked Revenue Balances</b>	
Community Challenge Fund	1.000
Roads maintenance 2013/14	2.000
Strategic Change and Development Fund	5.000
Spend to save and future change implementation funds	0.981
Schools DSM	2.265
IT investment funds	1.491
Central Energy Efficiency Fund	0.752
Caithness Heat and Power	0.405
Learning and teaching	0.280
IRA Gaelic extension	0.151
Grant and Match Funding	0.185
Business Rates Incentivisation Scheme	1.300
<b>Sub-Total Earmarked Revenue Balances</b>	<b>15.810</b>
<b>C: Other Statutory Reserves</b>	
Capital receipts reserve	1.517
Renewal and repair funds	1.667
Capital Fund – Landbanking Fund	28.734
Capital Fund – Developer Contributions	2.437
Insurance Fund	2.394
<b>Sub-Total Other Statutory Reserves</b>	<b>36.749</b>
<b>Total Useable Reserves and Balances</b>	<b>77.530</b>

## **(b) Nature and purpose of reserves and balances held**

### **• General Fund Revenue Balances – Non Earmarked**

- A general contingency held by the Council to provide balances to deal with unforeseen and unplanned events e.g. pay or inflationary pressures, interest rate rises, demand led service pressures, extreme weather events, or other unplanned expenditure. The policy position is that a sum equivalent to 3% of the Council's revenue budget is the target level to be held as a minimum, to provide a general contingency.

### **• General Fund Revenue Balances – Earmarked**

- Community Challenge Fund: supports community projects which explore new ways of delivering services at a local level;
- Roads maintenance 2013/14: support for the road maintenance budget in 2013/14 as agreed by the Council on 7 February 2013.
- Strategic Change and Development Fund: provides finance to generate opportunities to deliver change and develop services at reduced cost (see separate report on today's agenda).
- Spend to save and future change implementation funds: commitments remain relating to these two earmarked funds and it is anticipated that the funds will be fully utilised. However if there is a balance remaining it will be transferred to the Strategic Change and Development Fund, any future projects and initiatives will be considered against that fund.
- Devolved School Management: individual balances held by schools to provide year end budget flexibility and carry forward between years. The scheme is in line with National requirements for devolved school budgets. Decisions on use of earmarked DSM balances are delegated to Head Teachers, but has been reducing annually.
- IT Investment: provides funding for essential corporate ICT infrastructure improvements. The sources of funds are both internal and external, and include former Scottish Executive Modernising Government Funds. Services must provide business cases to access this fund, and justify expenditure. This reserve is largely fully committed with projects either underway or due to start.
- Central Energy Efficiency Fund: a 'revolving' fund which was originally established from Scottish Executive grant. In line with grant terms and conditions, savings from energy investment projects have been fed back to allow the funding to continue year on year. The fund supports projects to deliver on Council and Scottish Government targets relating to energy efficiency and carbon reduction.

- Caithness Heat & Power Ltd: retained balance to meet potential costs of future re-instatement or legacy obligations arising from the project. The requirement to continue with this earmarked balance will be reviewed at the end of each financial year.
- Learning and Teaching: supports the implementation of Curriculum for Excellence.
- IRA Gaelic extension: Scottish Government funding to contribute towards IRA gaelic unit provision.
- Grant and Match Funding: comprises several small balances or grants carried forward to ensure projects spanning the financial year end are fully funded
- Business Rates Incentivisation Scheme (BRIS): represents the estimated additional income relating to 2012/13 which the Council expects to receive under BRIS arrangements. 2012/13 is the first year of BRIS, and the targets on which this estimate was made remain under review by Scottish Government and are still subject to agreement by COSLA. It therefore remains uncertain what the final position for the year may be. The estimate has been earmarked meantime, pending finalisation of targets by Scottish Government, and thereafter consideration by the Council of its strategy for any BRIS income available.
- **Housing Revenue Account (HRA)**
  - The Council decides annually, as part of the HRA budget setting process, any use of HRA balances to support housing activities. Primarily the balances are retained to support capital investment by the HRA.
- **Capital Receipts Reserve**
  - This fund holds General Fund capital receipts, e.g. from asset sales, which have not yet been applied to fund capital expenditure. Some receipts within the fund at financial year end will represent committed receipts, due to be applied to capital expenditure in subsequent financial years. No receipts within the fund relate to HRA, as all HRA capital receipts are fully applied in the year received to fund HRA capital expenditure.
- **Repair & Renewal Fund**
  - This statutory fund holds commuted sums received from developers, representing payment to the Council for the Council to adopt land and undertake responsibility for ground maintenance. Interest earned on the fund balance is credited to the revenue account each year to support ground maintenance expenditure. The fund is held to meet the Council's adopted land responsibilities, and relates also to legal agreements entered

into with developers. As such, the fund is not available to utilise for other purposes.

- **Capital Fund**

- **Capital Fund (a) Developer Contributions:** This statutory fund holds contributions received from developers, under Section 75 or other planning agreements. Funds held are used to fulfil infrastructure or community enhancements in line with the developer contribution agreement.
- **Capital Fund (b) Landbanking Fund:** This statutory fund is used to support affordable housing investment within the Highlands. The fund is used to acquire land, provide infrastructure investment, and provide loans to partner housing organisations including housing associations and The Highland Housing Alliance. Income from repayment of loans and sale of land to housing associations is used to replenish the fund, and the fund is also added to annually by income from council tax on 2nd homes. The only use of the fund is for affordable housing support.

- **Insurance Fund**

- This statutory reserve is used to meet insurance costs and risks. The level of reserve is reviewed annually, based on claims experience in the previous financial year. In 2012/13 the Council retendered its insurance policies and accepted a significantly higher level of self-insurance to generate over £800,000 of revenue savings.
- In 2012/13 the net value of the fund increased slightly. Officers are currently arranging for an actuarial valuation to enable a further assessment to be made of the appropriate level of fund balance.