

## The Highland Council

13 March 2014

Agenda Item	14
Report No	HC/65/13

### Reserves and Balances - Review and Strategy

#### Report by Director of Finance

##### Summary

This report sets out a review of the Council's reserves and balances position, an updated strategy, and recommendations in relation to proposals for use of balances.

## 1. Background

- 1.1 The Council has a current reserves and balances strategy, and this was last reported to members in February 2013 as part of the revenue budget and council tax report.
- 1.2 It is recommended practice for the Council to keep its strategy under regular review, in particular to ensure its strategy is a key aspect of its forward financial planning arrangements.
- 1.3 Following consideration of the previous agenda items providing an update on the Council's budget plans, and NHS Highland Budget Quantum for Adult Care Services, this report now provides an update on the reserves and balances strategy.

## 2. Strategy

- 2.1 For a number of years the Council has maintained a strategy which can be summarised as follows:
  - Where specific commitments or risks are identified, or legislation requires maintenance of a separate reserve, standalone reserves and earmarked balances are created. These sums are not available for general use, unless the commitment does not materialise, and a decision is made to return these sums to mainstream balances (subject to that being permissible in legislation).
  - Separate to these sums, a remaining General Fund Revenue Contingency Balance is retained. This sum represents the uncommitted balance retained to provide a contingency against unforeseen events. The Council's policy for a number of years has been for this sum to be held at a target level of 3% of the Council's revenue budget, as a minimum.
- 2.2 The types of risk the contingency is held for have been previously reported to

members, and include unplanned events such as: higher pay or inflationary pressures, higher interest rate rises, demand led service pressures, delays in delivering budget savings, other service over-spending, extreme weather events, or other unplanned expenditure.

- 2.3 There is now a proposal to vary this over-arching strategy, and it is recommended that the target level is reduced to 2.5%. At this time this equates to a retained sum of £14.1m.
- 2.4 The strategy of retaining 3% has served the Council well over the years. However it has not required to be used to any great extent. This has allowed year end balances to be allocated, on a one-off basis, to support a range of Council initiatives.
- 2.5 In light of the current financial climate, when there is increasing pressure on Service budgets, and the negotiations with NHS Highland, it is now proposed to reduce the policy regarding reserves from 3% to 2.5%.

### 3. Reserves and Balances Forecast

- 3.1 **Annex 1** sets out details of all the reserves and balances currently held, the purpose of each, and the forecast position as at 31/3/2014
- 3.2 In relation to the General Fund Non Earmarked Balance (the general contingency), it is forecast that by the financial year end that will stand at a sum of £21.9m, which is some £7.8m above the revised 2.5% policy target. However this can only be an estimate until the final outturn is confirmed. This is based on current agreed use of balances and expected out-turn position for 2013/14. However, there are the following proposals for use of balances presented for decision within this report.

	Amount £m
<b>NHSH Budget for Adult Care 2013/14</b> – it is proposed that a one-off sum is provided to NHS Highland for 2013/14, in addition to the budget already provided, to support the integration of adult care services and assist with current budget pressures. At present NHS Highland are forecasting an overspend in Adult Care services of £2.4m. This sum would add to £1.4m which NHSH are contributing to the overspend. This is in line with the separate report on today's Agenda.	1.00
<b>NHSH Budget for Adult Care 2014/15 to 2016/17</b> – it is proposed to allocate an additional one-off sum to help support the provision of home care services, and allow NHS Highland time to re-provision services to deliver better outcomes for clients. This will be used to support the Change and Improvement Plan. This is in line with the separate report on today's Agenda.	3.50
<b>Strategic Change and Development Fund (SCDF)</b> – it	0.75

is proposed that the following sum is earmarked from balances to increase the SCDF. Based on existing commitments, and other proposed use of SCDF, the fund balance could reduce to nil. Earmarking of this additional sum would therefore add to the fund balance, and provide for the one-off or short-term costs that may arise as a result of implementing future budget savings and service reviews. The funding would be used to provide for items including; early retirement/redundancy costs, staff relocation costs e.g. staff travel. In the past the Council has set aside sums for this purpose, however, these are now fully utilised.	
<b>Additional Support Needs</b> – this is a budget that is under considerable pressure, and will take time to develop options that will direct spend towards prevention and more appropriate support, at lower cost. Additional funding will provide financial support to allow this transformation to take place.	1.00
<b>Roads Maintenance</b> – national surveys have confirmed that the road condition is deteriorating in a number of areas. In successive financial years both the Scottish Government and The Highland Council have provided additional one-off funding to address the backlog maintenance issue. This proposal is subject to a detailed option appraisal as to how it can be best targeted to maximise benefits.	1.25
<b>Total</b>	<b>7.50</b>

3.3 If agreed, these decisions would reduce the forecast General Fund contingency to a sum of just over £14.4m which would equate to 2.56% and in line with the strategy set out at section 2.

#### 4. Implications

4.1 Resource implications – as set out above. Proposals to reduce 3% target to 2.5% for contingency balances, and planned use of £7.5m balances as shown.

4.2 Risk implications – the reduction to a 2.5% general balance would still serve to provide a contingency against unplanned future events and risks. However the reduction does represent a slightly higher financial risk.

4.3 Legal; Equalities; Climate Change/Carbon Clever implications – no specific implications to highlight.

Recommendation

Members are asked to consider this report and

- (a) Note the balances strategy and agree a revised target of a 2.5% retention as a general contingency.
- (b) Agree the proposed use of balances set out at paragraph 3.2.

Designation: Director of Finance

Date: 3 March 2014

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## Annex 1

### Projected General Fund Non Earmarked (Contingency) Balance

	2013/14 £m
Opening Balance as at 1 April 2013	18.167
<i>Agreed Use of/Earmarking of Balances</i>	
Write-off of debt - Nairn Common Good Fund (Sandown)	(0.390)
Costs of By-election - Caithness Landward Ward	(0.016)
Carbon Clever Highlands	(0.160)
Commonwealth Games Legacy Fund (February 2014 FHR)	(0.150)
<i>Transfers from Earmarked Balances</i>	
Caithness Heat and Power	0.405
Business Rates Incentivisation Scheme	tbc
<i>Budget Variances 2013/14</i>	
Service Variance (overspend)	(0.263)
Loan Charges (underspend)	1.400
Council Tax (surplus)	1.290
Unallocated Budget (underspend)	Up to 1.650
<b>Estimated Closing Balance 31 March 2014 - before new proposals below</b>	<b>21.933</b>
<i>Further Proposed Use/Earmarking of Balances</i>	
NHSH - Budget Quantum Top-up (2013/14 deficit contribution)	(1.000)
NHSH – Adult Care Services 2014/15 – 2016/17	(3.500)
Strategic Change and Development Fund	(0.750)
Additional Support Needs	(1.000)
Road maintenance fund	(1.250)
<b>Estimated Closing Balance 31 March 2014 - after new proposals above</b>	<b>14.433</b>
<b>Expressed as a percentage of revenue budget (target 2.5%)</b>	<b>2.56%</b>

## Summary of all usable reserves and balances

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

	<b>Projected Balance as at 31/3/2014 * £m</b>
<b>A: Non-Earmarked Revenue Balances</b>	
General Fund (before proposed use within this report)	21.933
Housing Revenue Account	6.804
<b>Sub-Total Non-Earmarked Revenue Balances</b>	<b>28.737</b>
<b>B: Earmarked Revenue Balances</b>	
Schools DSM	2.265
Community Challenge Fund	1.000
Strategic Change and Development Fund – Uncommitted	Nil
Former Spend to Save Fund – Uncommitted balance after legacy commitments	0.038
IT Investment Funds	1.491
Central Energy Efficiency Fund	0.702
IRA Gaelic Extension	0.151
Grant & Match Funding	0.161
Business Rates Incentivisation Scheme	1.300
Police Reserves	0.722
Pathfinder North	0.823
Carbon Clever Highlands	0.138
Employability Services	0.400
Commonwealth Games Legacy Fund	0.150
<b>Sub-Total Earmarked Revenue Balances</b>	<b>9.341</b>
<b>C: Other Statutory Reserves</b>	
Capital Receipts Reserve	1.767
Renewal and Repair Funds	1.670
Capital Fund – Landbanking Fund	31.534
Capital Fund – Developer Contributions	2.163
Insurance Fund	2.410
<b>Sub-Total Other Statutory Reserves</b>	<b>39.544</b>
<b>Total Useable Reserves and Balances</b>	<b>77.622</b>

\* Projected balance before implementation of the recommendations contained in this report

## **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 current policy position is that a sum equivalent to 2.5% 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**

- 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.
- Community Challenge Fund: Supports community projects which explore new ways of delivering services at a local level.
- Strategic Change and Development Fund: Provides finance to generate opportunities to deliver change and develop services at reduced cost.
- Legacy Commitments from former Spend to Save Fund: Commitments remain relating to the former Spend to Save earmarked fund. It is anticipated that the balance on this fund will be almost fully utilised. Any balance remaining will be transferred to the Strategic Change and Development Fund
- 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.
- 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: Represents the estimated additional income relating to 2012/13 which the Council expects to receive under BRIS arrangements. As 2012/13 is the first year of BRIS, and the targets on which this estimate was made remain under review by Scottish Government, it remains unclear 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.
- Police Reserves: Represents the balance of Police reserves, after grant deductions and requisition accruals reversals.
- Pathfinder North: Represents the Council's 2013/14 budget for Pathfinder North which will not be required due to a surplus position on the Pathfinder North contributions account. The balance will be available for the contract extension charges.
- Carbon Clever Highlands: Provides funding for two temporary posts within the Chief Executive's Service Policy Team to support the Carbon Clever Highlands Initiative.
- Employability Services: Represents employability services funding not required in 2013/14 and therefore earmarked in order to sustain employability activity during the period when there is no match funding remaining from the European Social Fund.
- Commonwealth Games Legacy Fund: Provides funding for Games legacy initiatives. Includes £50k for a short term Project Officer secondment.
- **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.