

Review of General and Earmarked Reserves – 2012/13

EXECUTIVE MEMBER: Councillor Gillian Troughton

LEAD OFFICER: Joanne Wagstaffe, Corporate Director of Resources
and Transformation

REPORT AUTHOR: Barry Williams, Interim Technical Accountant
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The purpose of this report is to inform members of the level of reserves held by the Council and to review their use to support the Council's budget.

RECOMMENDATION:

1. That the recommendation from RPWG to increase the level of the risk based reserve by £553,487 to £1,866,321 by utilising part of the unallocated General Fund Balance be approved; and
2. note the level of the remaining reserves held by the Council and the planned utilisation of £682,000 in 2012/13 as set out in paragraph 2.3.

1. INTRODUCTION

- 1.1 Revenue reserves play a key role in the management of the Council's budget. They are used as a contingency against risk, to fund new policy initiatives and to support the Council's revenue and capital budgets when needed.
- 1.2 The Reserves Strategy was agreed by Council in February 2011. As a general principle, reserves will only be used to finance non-recurring spending or to cover transitional costs. If in exceptional circumstances, the use of reserves is proposed to support recurring spending, this will be conditional on a strategy being in place to replace the use of reserves with mainstream funding.
- 1.3 The Reserves held by the Council consist of:
 - Sinking funds, which are required to meet potential long-term liabilities.
 - Risk based reserves, which form part of the General Fund balance but which have been set aside to meet potential corporate risks identified by services.
 - The General Fund unallocated balance which is available to provide financial support to the council's revenue budget.
 - Earmarked reserves set aside to meet specific revenue or capital spending.
- 1.4 This report updates members of the level of reserves held by the Council and makes recommendations to change the level of certain reserves in line with the Reserves Strategy.

2 RESERVES HELD BY THE COUNCIL

2.1 The estimated value of sinking funds and General Fund balances at 31 March 2012 based on current proposals to November 2011 is as follows:

2011/12 Summary	Balance 1/4/11 £'000	Receipts in 2011/12 £'000	Planned Utilisation 2011/12 £'000	Balance 31/3/12 £'000
Sinking Funds	1,728	215	(140)	1,803
General Fund Risk Based Reserve	1,313	-	-	1,313
General Fund Balance	1,642	50	(88)	1,604
Earmarked Reserves	4,777	-	(3,307)	1,470
Total	9,460	265	(3,535)	6,190

2.2 The planned utilisation of the Reserve for 2012/13 which will be recommended to Council in February is as shown below:

2012/13 Summary	Balance 1/4/12 £'000	Planned Receipts in 2012/13 £'000	Transfers in 2012/13 £'000	Planned Utilisation 2012/13 £'000	Balance 31/3/13 £'000
Sinking Funds	1,803	187	-	(137)	1,853
General Fund Risk Based Reserve	1,313	-	553	-	1,866
General Fund Balance	1,604	-	(722)	(246)	636
Earmarked Reserves	1,470	(6)	169	(299)	1,334
Total	6,190	181	0	(682)	5,689

2.3 Details of the planned utilisation of each reserve are as follows;

	£'000
<u>Sinking Funds</u>	
Bin Replacements	27
PFI – contract inflation	7
Catherine Street car park works	20
Crematorium car park	7
Beacon Improvements	76
Total	137
<u>General Fund – unallocated balance</u>	
Support to the 2012/13 budget	246
Total	246

Earmarked Reserves	£'000
Employment Tribunals	30
NCL – Contract Claims	122
Local Development Framework	56
LABGI – Funding for Whitehaven THI	25
Strategy for Seaside Success	50
Development Control – consultants and new plan printer	14
Building Control Service Improvement – degree costs	2
Total	299

Total utilisation for 2012/13 is therefore forecast to be £682,000.

- 2.4 Details of the changes to the individual reserves and sinking funds are contained in the appendices to this report but a summary of the position for each type of reserve is provided in more detail in the following paragraphs. There have been some changes to the way reserves have been classified to more accurately reflect their respective purpose. For example the Beacon Reserve has been re-classified as a Sinking Fund and some of the Sinking Funds relating to coastal management and environmental insurance have been re-classified as earmarked reserves. These changes are reflected in the respective appendices to the report.

3 SINKING FUNDS

- 3.1 Sinking Funds are set aside generally through a contribution from the Council's budget to fund spending in future years. They are similar to earmarked reserves except that as they are designed to meet funding requirements over a longer period and they attract internal investment income to increase their balances.
- 3.2 At the Council Budget meeting of 22 February 2011, the value of the Sinking Funds was stated as being £1,686,177. At the year-end this balance dropped to £1,631,450 as the previous forecast had not accounted for the use of the Crematorium Sinking Fund to finance part of the capital scheme carried out at the facility in 2010/11, or the interest on the balances held at the year-end. Following the re-classification of sinking funds to earmarked reserves, and vice versa, the balance at 31 March 2011 has been revised to £1,728,614. The forecast value at 31 March 2012 is £1,803,385.
- 3.3 In 2012/13 it is proposed that £162,812 will be set aside from the Council's revenue budget to fund contributions to Sinking Funds, the bulk of which is provision for the Copeland Centre. In addition interest of £17,410 will be added and a transfer of £7,000 will be made from the General Fund unallocated balance to increase the Sinking Fund balance in relation to a shortfall in the contributions for the PFI contract to enable it meet its potential commitments. It is anticipated that planned utilisation of circa £137,000 will take place as outlined in paragraph 2.3.
- 3.4 Appendix A provides a detailed forecast of movements going forward with the summary detailed below:

Sinking Fund Summary	Balance 31/3/12 £000	Balance 31/3/13 £000	Balance 31/3/14 £000	Balance 31/3/15 £000	Balance 31/3/16 £000
Closing Balance	1,803	1,853	2,019	2,199	2,361

We will investigate for future years, whether we could capitalise some of the spending funded from these funds, rather than by making annual revenue contributions. A review of the process to give each of the funds interest on their balances from interest received by the Council will also be carried out, given the current pressures on the revenue budget.

4 THE GENERAL FUND

4.1 The Council's General Fund consists of 2 parts:

- A risk-based element to cover potential shortfalls in grant funding, unexpected shortfalls in income, non-delivery of service savings and efficiencies and other specific risks and;
- An unallocated balance which is usually used to support the revenue budget.

4.2 The risk-based reserve is re-assessed annually based on current a set of criteria used to determine if the risks covered by the reserve are more or less likely to occur in the future. At 31 March 2011, the balance was £1,714,420. Following the re-classification of some elements of the reserve to earmarked reserves, the forecast balance at 31 March 2012 stands at £1,312,834.

4.3 This year's review of this part of the General Fund indicates that it would be prudent to increase the level of the risk based reserve to £1,866,321, primarily to allow for potential reductions in government grant, the potential delays to the delivery of service reviews going forward into 2012/13 and later years, to provide a buffer against both for localising Council Tax benefits, to provide a contingency against the possible loss or reduction in the value of recycling credits paid by Cumbria County Council and to provide a buffer against lower investment returns due to low interest rates. The increase in 2012/13 is £553,487 and this will be met by reducing the unallocated General Fund balance by a corresponding amount.

4.4 The General Fund unallocated balance at 31 March 2011 was £1,641,843 and Council approved the use of £236,091 within 2011/12 to support the revenue budget. The ongoing budget monitoring process now forecasts that there will be an underspend in 2011/12 which will increase the available balance. The current budget proposals for 2012/13 include a contribution of £50,000 from the Working Neighbourhoods earmarked reserve to the General Fund unallocated balance in 2011/12 to provide support to the base budget in 2012/13. This will require the approval of the Executive at its next meeting. In summary the movements in 2011/12 are;

	£'000
Balance at 31 March 2011	1,642
Approved utilisation as part of the 2011/12 budget setting process	(236)
Current forecast underspend	148
Transfer from Working Neighbourhoods Reserve	50
Revised forecast balance at 31 March 2012	1,604

4.5 The latest forecasts for use of the General Fund unallocated balance based on the current work being carried out as part of the budget preparation indicate that £414,948 will be required in 2012/13. This comprises:

- A contribution to a Housing Reserve to fund survey work in the future £10,000. This will be an annual contribution to be made in each of the next 4 years;
- A contribution to the PFI Sinking Fund as stated in paragraph 3.3 - £7,000 p.a;
- A contribution to an earmarked reserve to cover possible claims from NCL due to the condition of the buildings used as part of the leisure contract £122,000;
- A contribution to an earmarked reserve to fund potential Industrial Tribunal costs - £30,000;
- One-year budget support to fund budget pressures at Moresby depot arising from the potential loss of income and empty property rates following the termination of the lease with Copeland Homes £106,000;
- One year budget support to provide funding for the Locality Team £65,000.
- General one year support to the 2012/13 revenue budget £74,948.

4.6 **Appendix B** provides a detailed forecast of movements on the General Fund going forward at 31 March 2012 and the value of the General Fund at 31 March 2012 is forecast at £2,916,914 – being the risk based reserve £1,312,834 and an unallocated balance £1,604,080. The closing balances going forward are as set out below:

General Fund Reserve Summary	Balance 31/3/12 £000	Balance 31/3/13 £000	Balance 31/3/14 £000	Balance 31/3/15 £000	Balance 31/3/16 £000
Closing Balance – Risk Based	1,313	1,866	1,866	1,866	1,866
Closing Balance - Unallocated	1,604	629	612	595	578

5 EARMARKED RESERVES

- 5.1 Earmarked Reserves are usually set aside set up from carrying forward unspent budgets or grants that have not been utilised in full to meet specific initiatives, generally on a short-term basis.
- 5.2 At the Council meeting of 22 February 2011, the value of Earmarked Reserves was stated as being £3,385,589. At the year-end this balance increased by £1,087,540 to £4,474,129 following the approval of carry forwards at the year-end and a year-end adjustment to the level of reserves applied in 2010/11. Following the re-classification of some risk-based reserves and sinking funds to earmarked reserves, and vice versa, the forecast balance at 31 March 2012 stands at £1,470,478.

- 5.3 Appendix C provides a detailed forecast of movements going forward with the balances going forward projected to be as follows:.

Earmarked Reserve Summary	Balance 31/3/12 £000	Balance 31/3/13 £000	Balance 31/3/14 £000	Balance 31/3/15 £000	Balance 31/3/16 £000
Closing Balance	1,470	1,334	1,295	1,255	1,265

- 5.4 The requested usage of earmarked reserves is £299,000 as set out in paragraph 2.3.

- 5.5 The use of the Choosing to Change reserve is however not expected to reach the forecast level of £1,538,000 in 2011/12 and work is underway to re-profile the use of the reserve. A revised forecast of anticipated use of this reserve will be provided to the Executive as part of the quarter 3 monitoring report. Re-phasing the use of this reserve will increase the available balance at 31 March 2012.

6. CONCLUSION

- 6.1 The financial implications of this report will be to increase the level of general reserves available to the Council to support its revenue budget on an ongoing basis.

7 STATUTORY OFFICER COMMENTS

- 7.1 The Monitoring Officer's comments are:

None

- 7.2 The Section 151 Officer's comments are;

All comments are contained within the report.

- 7.3 Other consultee comments, if any;

Corporate Leadership Team and Heads of Service have been consulted on the report and their comments are reflected within the body of the report.

8 HOW WILL THE PROPOSALS BE PROJECT MANAGED AND HOW ARE THE RISKS GOING TO BE MANAGED?

- 8.1 Through the budget monitoring process which is carried out on a monthly basis, and periodic reports of progress on delivery of Service review Savings.

9. WHAT MEASURABLE OUTCOMES OR OUTPUTS WILL ARISE FROM THIS REPORT?

- 9.1 The increase in the level of general reserves provides the Council with some flexibility when setting its budgets and level of Council Tax in the future.

List of Appendices

Appendix A – Sinking Funds usage 2011/12 – 2015/16
Appendix B – General Fund usage 2011/12 – 2015/16.
Appendix C – Earmarked Reserves usage 2011/12 – 2015/16

List of Background Documents:

Budget Report 2011/12
Budget Monitoring Reports 2011/12
Foreshore and Cliff Management Action Plan

RESERVES - SINKING FUNDS

Appendix A

Description	Balance reported to Council 22 Feb 2011	Changes arising from 2010/11 out-turn	Balance at 31 March 2011	2011/12				2012/13				2013/14				2014/15				2015/16			
				Estimated Internal Interest in Year	Contributions In Year	Utilised (+)	2011/12 Balance carried forward	Estimated Internal Interest in Year	Contributions In Year	Utilised (+)	2012/13 Balance carried forward	Estimated Internal Interest in Year	Contributions In Year	Utilised (+)	2013/14 Balance carried forward	Estimated Internal Interest in Year	Contributions in Year	Utilised (+)	2014/15 Balance carried forward	Estimated Internal Interest in Year	Contributions in Year	Utilised (+)	2015/16 Balance carried forward
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Bin Replacement Sinking Fund	-166,954	-1,486	-168,440	-1,684		35,000	-135,124	-1,351		27,000	-109,476	-1,095		27,000	-83,570	-838		27,000	-57,406	-574		27,000	-30,980
PFI Sinking Fund	-1,295,931	-10,931	-1,306,862	-13,069	-135,392		-1,455,323	-14,553	-146,392	7,000	-1,609,268	-16,093	-157,784	7,000	-1,776,144	-17,761	-169,517	7,000	-1,956,423	-19,564	-181,603	7,000	-2,150,590
Phoenix Court Sinking Fund	-4,118	-171	-4,289	-175			-4,464	-180			-4,644	-185			-4,829	-190			-5,019	-195			-5,214
Sea Walls Sinking Fund	-9,270	-9,270	-18,540	-185	-9,270		-27,995	-280	-9,270		-37,545	-375	-9,270		-47,191	-472	-9,270		-56,933	-569	-9,270		-66,772
Catherine Street Car Park	-65,331	-5,754	-71,085	-711	-5,150		-76,946	-769	-5,150	20,000	-62,865	-629	-5,150		-68,644	-688	-5,150		-74,480	-745	-5,150		-80,375
Crematorium Sinking Fund	-101,175	82,725	-18,450	-185	-8,950		-27,585	-276	-9,000	7,000	-29,860	-299	-9,000		-39,159	-392	-9,000		-48,551	-486	-9,000		-58,036
Beacon Sinking Fund	-50,585	-90,363	-140,948	0	-40,000	105,000	-75,948			75,948	0				0				0				0
Total	-1,693,364	-35,250	-1,728,614	-16,009	-198,762	140,000	-1,803,385	-17,410	-169,812	136,948	-1,653,659	-18,675	-181,204	34,000	-2,019,538	-20,337	-192,937	34,000	-2,198,812	-22,133	-206,023	34,000	-2,360,987

RESERVES - GENERAL FUND

Appendix B

	Balance reported to Council 22 Feb 2011	Changes arising from 2010/11 out-turn	Balance at 31 March 2011	2011/12			2012/13			2013/14			2014/15			2015/16		
				Additions in Year	Released in Year	Balance Carried forward	Additions in Year	Released in Year	Balance Carried forward	Additions in Year	Released in Year	Balance Carried forward	Additions in Year	Released in Year	Balance Carried forward	Additions in Year	Released in Year	Balance Carried forward
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Base Budget Risks																		
Sustainability of Base Budget	-111,870		-111,870			-111,870	-91,890		-203,760			-203,760			-203,760			-203,760
Medium Term Financial Plan	-123,230		-123,230			-123,230	-221,645		-344,875			-344,875			-344,875			-344,875
Grant Settlement	-590,500		-590,500			-590,500	-223,550		-814,050			-814,050			-814,050			-814,050
Vacancy Factor	-33,750		-33,750			-33,750	33,750		0			0			0			0
Reduced Fees and Charges	-60,586		-60,586			-60,586	-1,740		-62,326			-62,326			-62,326			-62,326
Actuarial Review	0		0			0	-33,050		-33,050			-33,050			-33,050			-33,050
Reduced Investment Income	-28,310		-28,310			-28,310	-29,190		-57,500			-57,500			-57,500			-57,500
Housing Benefits	-90,525		-90,525			-90,525	8,025		-82,500			-82,500			-82,500			-82,500
HGV Licence - Operators Fund	-74,200		-74,200			-74,200			-74,200			-74,200			-74,200			-74,200
Fuel Price	-28,850		-28,850			-28,850			-28,850			-28,850			-28,850			-28,850
Civil Emergencies	-58,449		-58,449			-58,449	-3,032		-61,481			-61,481			-61,481			-61,481
Insurance Excesses	-11,859		-11,859			-11,859	1,214		-10,645			-10,645			-10,645			-10,645
Assets and Property	-100,705		-100,705			-100,705	7,621		-93,084			-93,084			-93,084			-93,084
	-1,312,834	0	-1,312,834	0	0	-1,312,834	-553,487	0	-1,866,321	0	0	-1,866,321	0	0	-1,866,321	0	0	-1,866,321
General Fund Unallocated	-1,641,843	0	-1,641,843	-50,000	87,763	-1,604,080	553,487	421,948	-628,645	0	17,000	-611,645	0	17,000	-594,645	0	17,000	-577,645
Total General Fund	-2,954,677	0	-2,954,677	-50,000	87,763	-2,916,914	0	421,948	-2,494,966	0	17,000	-2,477,966	0	17,000	-2,460,966	0	17,000	-2,443,966

Description	Balance as per report to Council 22 February 2011	Changes to utilisation arising from 2010/11 out-turn	Final Balance as at 31 March 2011	2011/12			2012/13			2013/14			2014/15			2015/16		
				Contributions in year	Planned utilisation	Balance as at 31 March 2012	Contributions in year	Planned utilisation	Balance as at 31 March 2013	Contributions in year	Planned utilisation	Balance as at 31 March 2014	Contributions in year	Planned utilisation	Balance as at 31 March 2015	Contributions in year	Planned utilisation	Balance as at 31 March 2016
CHIEF EXECUTIVE																		
Choosing to Change	-1,552,996	-50,725	-1,603,721		1,538,000	-65,721			-65,721			-65,721			-65,721			-65,721
Assist in resourcing Nuclear activities	-19,658	-200,000	-219,658		200,000	-19,658			-19,658			-19,658			-19,658			-19,658
TOTAL	-1,572,654	-250,725	-1,823,379	0	1,738,000	-85,379	0	0	-85,379	0	0	-85,379	0	0	-85,379	0	0	-85,379
POLICY & TRANSFORMATION																		
IT Review	-25,000		-25,000		25,000	0			0			0			0			0
TOTAL	-25,000	0	-25,000	0	25,000	0	0	0	0	0	0	0	0	0	0	0	0	0
CORPORATE RESOURCES																		
2010/11 Carry Forwards	0	-252,291	-252,291		252,291	0			0			0			0			0
Audit Shared Services	-27,000		-27,000			-27,000			-27,000			-27,000			-27,000			-27,000
Revenues & Benefits Shared Service	-40,722		-40,722			-40,722			-40,722			-40,722			-40,722			-40,722
DWP Grant Reserve.	-16,691		-16,691			-16,691			-16,691			-16,691			-16,691			-16,691
Revenues & Benefits Shared Service	-8,315	336	-7,979			-7,979			-7,979			-7,979			-7,979			-7,979
Legal Services - Taxi Ranks	-2,319		-2,319			-2,319			-2,319			-2,319			-2,319			-2,319
Mayors Charity Bequest	-12,967		-12,967			-12,967			-12,967			-12,967			-12,967			-12,967
Members IT Reserve	-7,902		-7,902			-7,902			-7,902			-7,902			-7,902			-7,902
Members Induction	-12,500		-12,500			-12,500			-12,500			-12,500			-12,500			-12,500
Elections Fund	-42,390	-333	-42,723			-42,723			-42,723			-42,723			-42,723			-42,723
Human Resources Employment Tribunals	0		0			0	-30,000	30,000	0			0			0			0
Asset Management Enabling Fund	-40,227		-40,227			-40,227			-40,227			-40,227			-40,227			-40,227
PFI Non Conformance Incidents	-71,010	53,424	-17,586			-17,586			-17,586			-17,586			-17,586			-17,586
Building Maintenance and energy	0	-2,000	-2,000			-2,000			-2,000			-2,000			-2,000			-2,000
Crematorium Chapel	-31,000		-31,000			-31,000			-31,000			-31,000			-31,000			-31,000
NCL Contract	0		0			0	-122,000	122,000	0			0			0			0
Vertex	-37,500		-37,500			-37,500			-37,500			-37,500			-37,500			-37,500
Environmental Insurance Reserve	-90,000		-90,000			-90,000			-90,000			-90,000			-90,000			-90,000
Coastal Management	-267,649		-267,649			-267,649			-267,649			-267,649			-267,649			-267,649
TOTAL	-708,192	-200,864	-909,056	0	252,291	-656,765	-152,000	152,000	-656,765	0	0	-656,765	0	0	-656,765	0	0	-656,765
REGENERATION & COMMUNITIES																		
Local Development Framework	-267,903	-172,175	-440,078		300,000	-140,078		55,118	-84,960			-84,960			-84,960			-84,960
Planning Policy- Habitat Evaluation	-33,670		-33,670			-33,670			-33,670			-33,670			-33,670			-33,670
Cleator Moor Business Centre	-3,886		-3,886			-3,886			-3,886			-3,886			-3,886			-3,886
Empty Shops	0	-6,223	-6,223			-6,223			-6,223			-6,223			-6,223			-6,223
Dilapidated Buildings	-40,000		-40,000			-40,000			-40,000			-40,000			-40,000			-40,000
Dangerous Structures	-6,437		-6,437			-6,437			-6,437			-6,437			-6,437			-6,437
Development Strategy Consultants	-30,536		-30,536			-30,536			-30,536			-30,536			-30,536			-30,536
Housing Strategy	0		0			0	-10,000		-10,000	-10,000		-20,000	-10,000		-30,000	-10,000		-40,000
Homelessness Repossession Fund	0	-22,589	-22,589			-22,589			-22,589			-22,589			-22,589			-22,589
Local Business Growth Initiative	-141,917	-66,220	-208,137		168,220	-39,917		25,000	-14,917			-14,917			-14,917			-14,917
Whitehaven Regeneration Scheme	-9,800		-9,800			-9,800			-9,800			-9,800			-9,800			-9,800
Copeland Seaside Coastal Park	-200,000		-200,000		50,000	-150,000		50,000	-100,000		50,000	-50,000		50,000	0			0
Small Business Fund	-4,917	4,720	-197			-197			-197			-197			-197			-197
Working Neighbourhoods	-561,583	-240,144	-801,727		753,000	-48,727			-48,727			-48,727			-48,727			-48,727
Cultural Services - Ongoing Schemes	-2,481		-2,481			-2,481			-2,481			-2,481			-2,481			-2,481
Beacon Museum Exhibits	-20,829	-185	-21,014			-21,014			-21,014			-21,014			-21,014			-21,014
TOTAL	-1,323,969	-502,816	-1,826,775	0	1,271,220	-555,555	-10,000	130,118	-435,437	-10,000	50,000	-395,437	-10,000	50,000	-355,437	-10,000	0	-365,437
NEIGHBOURHOODS																		
Dog Control Orders		-10,000	-10,000		10,000	0			0			0			0			0
Crematorium Donations	-4,252	-407	-4,659			-4,659			-4,659			-4,659			-4,659			-4,659
Proceeds from CAMEO tax		-10,255	-10,255			-10,255			-10,255			-10,255			-10,255			-10,255
Recycling	-43,398	-386	-43,784	-438		-44,222	-442		-44,664	-447		-45,111	-451		-45,562	-456		-46,017
Development Control - Enforcement	-40,000		-40,000			-40,000		14,273	-25,727			-25,727			-25,727			-25,727
Development Control - Application Support	-25,758		-25,758			-25,758			-25,758			-25,758			-25,758			-25,758
Building Control - Service Improvement	-36,775	-22,110	-58,885		11,000	-47,885		2,225	-45,660			-45,660			-45,660			-45,660
TOTAL	-150,183	-43,158	-193,341	-438	21,000	-172,779	-442	16,498	-156,723	-447	0	-157,170	-451	0	-157,621	-456	0	-158,076
GRAND TOTAL	-3,779,988	-997,563	-4,777,551	-438	3,307,511	-1,470,478	-162,442	298,616	-1,334,304	-10,447	50,000	-1,294,751	-10,451	50,000	-1,255,202	-10,456	0	-1,265,657