

CABINET
20 January 2006
FINAL ACCOUNTS AND AUDIT COMMITTEE
23 March 2006

RESERVES AND BALANCES 2006-07

Purpose of the Report

1. The purpose of this report is to consider and explain the background to an appropriate level of balances that should be maintained in 2006-07.

Background

2. Just before the budget is concluded I am required by the Local Government Act 2003 to advise Members on the adequacy of reserves. Whilst the Act requires that reserves are maintained it does not define what would be deemed to be adequate.
3. The Chartered Institute of Public Finance and Accountancy (CIPFA), in their publication Local Authority Accounting Panel (LAAP) 55, indicate that they do not believe it is possible for an external agency to give guidance on a minimum level of reserves. The Panel suggests that well run authorities, with a prudent approach to budgeting should be able to operate with a relatively low level of reserves.
4. In forming a view on the level of reserves that would be adequate I will take into account the risks faced by the Council. I must consider what has happened during the past year and whether corrective actions already taken are sufficiently robust to be relied upon in the future. I will also take into account what is planned for the coming year and the risks that the organisation faces.

Guidance on Level of Balances

5. The Audit Commission CPA guidance for 2002-03 states that Authorities with a top CPA rating would be expected to have reserves that are equal to a minimum of 5% of their net budget. I believe that we should seek to maintain at least this level of balances.
6. In calculating the net budget for the Council I have removed the schools' element of spending as this is protected by legislation and the schools have their own reserves.
7. This results in an adjusted net budget for 2006-07 of about £215 million after excluding the Dedicated Schools Grant and certain capital transactions. Thus our revenue reserves should be in the region of £11 million (Appendix A).

8. The adequacy of reserves will be monitored and kept under review, taking into account developments, until the budget is approved by County Council on the 7 February 2006.

Review of Reserves

9. The Council has a number of different reserves and accounts that make up the total equity of the organisation as shown in our Statement of Accounts. Of those reserves and accounts only two, the Earmarked Reserves and the general balances, are relevant to this exercise.
10. The Earmarked Reserves consist of a number of different items, detailed in Appendix B. The majority of these are ring fenced or committed and are not available to support revenue spending.

The Earmarked Reserves for 2006-07	£ million
Revenue	5.600
Capital	4.471
Schools	16.339
Total Earmarked Reserves	26.410

- Revenue reserves are held by different departments for various reasons and these are documented in Appendix C (this appendix also explains the purpose of each of the council's major reserves. In the event of a major crisis it may be possible to use these reserves on the understanding that they would be replenished).
 - Capital reserves are those that are held to fund ongoing capital projects and as such are not available to support revenue spending.
 - Schools reserves are those that relate directly to activities under the umbrella of the LEA, the majority of these reserves are schools rollovers (£14.883 million). These reserves are ring fenced and as such are not available to fund general revenue budgets.
11. A summary of the minimum recommended position is shown in Appendix A. This indicates that the Council should be seeking to maintain revenue reserves of at least £11 million. Currently the general fund is predicted to have a balance of £5.532 million and earmarked reserves are predicting £5.600 million.

Impact of Other Proposals on the Level of Balances

12. The proposal to use part of the Revenue Budget Contingency Reserve to off-set £5.320 million of this year's overspending, with the balance transferring to the general balances, has been detailed in the Projected Revenue Spending report elsewhere on this agenda.
13. It is important to understand that the use of the Contingency Reserve is a one off solution and there are no other contingency reserves which would be available to cover any overspending which might arise in 2006-07. It will therefore be imperative that service departments manage their activities in 2006-07 within the cash limits arising from the Revenue Budget.

14. The current budget proposals do not provide for a contribution to or withdrawal from general balances during 2006-07 but I will consider this again in a later Cabinet report just before the budget is concluded.

Environmental Impact of Proposal

15. There is no identified environmental impact arising out of the proposals in this report.

Risk Assessment

16. This report specifically considers balances to be held to provide against financial risks in 2006-07. Based on the recommended guidance noted above the authority needs to ensure that its reserves are at least in line with the recommended minimum

Financial Implications

17. These are explicit in the report.

Reasons for Proposals

18. To inform the Cabinet of the balances available, my recommendation of the minimum level and their impact on the budget setting process.

Proposals

19. Cabinet are asked to:
- a) Recognise that the total of general balances and earmarked reserves are currently within the Audit Commission recommended level at 5% (paragraph 5).
 - b) Note the level of general balances will need to be reviewed just before the budget for 2006-07 is finalised.

MIKE PRINCE
County Treasurer

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The following unpublished documents have been relied on in the preparation of this Report: NONE
53/2006/CAB/IB

APPENDIX A

County Council Reserves

Summary of position

	31-Mar-05	31-Mar-06	31-Mar-07
	Actual	Estimated	Estimated
	£m	£m	£m
Net Budget	383.319	410.643	437.000
Less Dedicated Schools Grant	164.156	203.700	218.300
Less Capital Financing	4.875	4.875	4.000
Adjusted Budget for calculation purposes	214.288	202.068	214.700

Recommended minimum at 5.2%

11.164

Year End Balances

General Balances	6.368	5.532	5.532
Other Revenue Earmarked Reserves at appendix B	4.844	4.405	5.600
Total County Controlled Reserves Available	11.212	9.937	11.132

APPENDIX B

County Council Reserves

Summary of Earmarked Reserves

	Balance 31-Mar-05 £m	Balance 31-Mar-06 £m	Balance 31-Mar-07 £m
Capital Reserves			
Capital Reserve	4.468	1.468	1.468
Capital Contingency Fund	0.000	0.000	0.000
PFI Reserve	5.503	3.003	3.003
	9.971	4.471	4.471
School and Other Ring Fenced Reserves			
Locally Managed Schools' Balances	14.883	14.883	14.883
Free School Meals	0.337	0.337	0.337
Sickness Insurance Scheme	0.897	0.897	0.897
Connexions	0.222	0.222	0.222
	16.339	16.339	16.339
Revenue Reserves			
Insurance Reserve	3.675	3.800	4.200
Revenue Budget Contingency Reserve	0.000	0.000	0.000
Corporate Services Department	0.270	0.132	0.210
Finance Department	0.482	0.108	0.166
Environmental Services Department	0.184	0.136	0.136
Printing and Copying Accrued Surplus	0.025	0.000	0.010
Chief Executive	0.013	0.000	0.000
Invest to Save Fund	0.097	0.176	0.846
Wiltshire Direct Services Residual Costs	0.024	0.000	0.000
Staff Development	0.070	0.047	0.024
Conservation Centre Specialist Equipment	0.004	0.006	0.008
	4.844	4.405	5.600
Total Reserves	31.154	25.215	26.410

County Council Reserves

Summary of Purpose Each Reserve / Account

Reserve / Account	Purpose of the Reserve / Account	Calculation Basis
<u>Statutory Reserves and Accounts</u>		
Fixed Asset Restatement Account	To provide the matching entry when fixed assets are revalued or disposed of.	Statutory Requirement
Capital Financing Account	To smooth out the implications of different rates of depreciation between the capital program and disclosure in the accounts.	Statutory Requirement
Useable Capital Receipts Reserve	To protect capital receipts to either fund future capital purchases or to reduce the borrowing requirement of the council.	Statutory Requirement
Pensions Reserve	To reflect the Councils long term liability to fund the needs of the pension fund.	Statutory Requirement
Deferred Credit	To reflect capital receipts due in future years. In Wiltshire's case this is a long term debt from Swindon Borough Council, in relation to the divestment of that Authority from Wiltshire in 1997.	

Earmarked Reserves

these fall into 3 main categories.

- a working balance to help cushion uneven cash flows.
- a contingency to cushion the impact of unexpected events or
- a means of building up funds to meet known or predicted liabilities.

Capital Reserves

Capital Reserve	To fund the capital programme	Capital programme slippages and under / over spends
PFI Reserve	To cover the lease payments in the second part of the PFI contract	Costs / 30 years

School and Other Ring Fenced Reserves

Locally Managed Schools' Balances	Held by schools	Ring fenced
Free School Meals	These are a quasi self insurance by the council on behalf of schools	Potentially ring fenced
Sickness Insurance Scheme	Funded by schools and protected	Ring fenced
Connexions	Grant funded operation reserves are ring fenced and only useable for delivery of service	Ring fenced

Revenue Reserves

Insurance Reserve	To cover the council against it's un-insured loses	Based on annual actuarial assessments
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Corporate Services Department

Election Costs	To spread the cost of the 4 yearly elections	none
Telephone	Over recovery of balances	none
Redundancy Reserve	To cover potential efficiency redundancies	none

Finance Department

Redundancy Reserve	To cover potential efficiency redundancies	none
IT	Provision to fund equipment replacement	none

Environmental Services Department	To meet unexpected fluctuations for the property function	
Chief Executive	Over recovery of balances	none
Invest to Save Fund	Provide start up capital for projects generating savings	none
Staff Development	To be spent within 3 years on staff training by DACS	Costs / 3 years
Conservation Centre Specialist Equipment	Provide funds to replace equipment in the future	Expected replacement cost / 6 years

General Balances	The general reserves of the authority to be used to support any activity that the Council is involved in.	
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