

RESERVES AND BALANCES

Introduction

1. There was a time when this subject was a small element of a report on resources to fund revenue spending. This year the subject is sufficiently important to justify a report.
2. Why should this be so?
3. In 2000-01, because of projected over-spending by the Education and Social Services Committees and uncertainty over the deficit of WDS, there were concerns that balances would be overdrawn by 31 March 2001. Remedial action was taken in the autumn to reduce those concerns.
4. In considering the budget for 2001-02, it is imperative that balances are reviewed, against the risks inherent in the proposed budget. This report sets out the outcome of this review.

What balances are projected for 2001-02?

5. The report on projected spending for 2000-01 shows that balances estimated at 31 March 2001 are £1.0 million. This includes £1.4 million from the remedial action taken in October 2000.
6. The Council's policy on rollover expects that a committee that overspends in one financial year treats the overspending as a first charge on the committee's resources for the following year. Committees will therefore be repaying £1.9 million in 2001-02, taking balances to £2.9 million.
7. In addition, the Social Services Committee has made provision for the first repayment of its advance to fund the transfer of homes for older people. This will take balances to £3.0 million.
8. This projection takes account of the estimated deficit for WDS to March 2001. There is no provision in the budget proposals for 2001-02 for:
 - (a) any trading deficit after 31 March 2001
 - (b) any one-off costs, such as through redundancies
 - (c) the cost of the outsourcing project.
9. I have set out on the Appendix my estimate of probable costs at £1.4 million. A large element of this is for possible redundancy costs. This would leave balances of £1.6 million.

Is there a benchmark for balances?

10. One comparator would be the balances accepted for the Budget 2000-01. They were £2.2 million at 31 March 2001. This was lower than normal, because I had previously recommended the Council to use up to £1 million of balances to assist with the funding of the transfer of homes to the Orders of St John. The true balances should be, therefore, about £3.2 million.

11. Each year the Society of County Treasurers conducts a budget survey and one of the aspects is the level of unallocated reserves.
12. The return for 2000-01 showed county balances from 0% to 3.1% of net expenditure. The average was 1.3%. Wiltshire's was below the average at 0.7%.
13. The rule of thumb adopted over several years was 2% of net expenditure, excluding school delegated budgets. For 2000-01, we showed 1.4%, against a shire average of 2.3%.
14. All other things being equal, which they rarely are, one might expect Wiltshire's balances to be above the average, when expressed as a percentage of expenditure, because of our smaller size.

What factors affect the level of balances?

15. CIPFA offers some guidance on the assessment of the need for balances and the District Auditor referred to this in raising concerns during 2000. The guidance does not provide a formula, but indicates the factors to take into account:
 - (a) Adequacy of inflation or interest rate provisions
 - (b) Effects of capital finance system
 - (c) Cash-flow management
 - (d) Debt collection expenditure/uncertainty of income
 - (e) Unpredictable and demand-led expenditure
 - (f) Emergency expenditure
 - (g) Management of change.
16. To this I would add the deliverability of budget proposals. Can spending be contained within the budgets set? Can the identified savings really be achieved? Does low or no provision risk legal challenge?
17. To come to a view, I have consulted chief officer colleagues and the monitoring officer.
18. The situation is not helped by uncertainty about the resources that will be allocated by the County Council to committees for 2001-02. My assessment in the following paragraph is based on the recommendations of the Policy and Resources Committee. Additional allocations would reduce the risk to balances.
19. Taking each committee in turn, my assessments are as follows:
 - (a) Education Many of the budgets managed by the LEA are demand-led and therefore more difficult to control. They include special education needs, school intervention and redundancy costs. Without being specific, it would be difficult to deliver spending within £0.5 million of an allocated budget.
 - (b) Environment and Transport Issues may arise from "failing to properly maintain the highway". The weather emergency budget is based on an average year, and there is now likely to be a negative rollover from this year. This Committee is particularly affected by fuel price changes, both on transport and highway maintenance budgets.

- (c) Policy and Resources One issue is the Coroner's Service, where the Council is unable to cap spending. Additional spending has been approved for 2000-01. It is probable that, without additional resources, an overspending of £60,000 will occur in 2001-02. The other issue concerns the Combined Fire Authority, where the constituent authorities have been asked to provide for two financial risks for retained fire-fighters (equality of pay and pensions with full-time fire fighters). Both of these are national issues. The budget for retained fire-fighters is £2.2 million. Discussions with the Fire Authority Treasurer indicate that the potential liability in 2001-02 could be £0.15 million.
 - (d) Social Services Discussions that the Chief Executive and I have had with the Director of Social Services indicate the proposed budget has considerable risks of non-delivery. Without further resources, I believe that there is a significant risk of an overspending in 2001-02 of at least £2 million, because some of the proposed savings are probably not deliverable. In addition, there is still a possibility that the ruling on charges for mental health care could be back-dated, at a cost of up to £1 million. In addition, as with the Education Committee, it will be difficult to deliver spending within £0.5 million of an allocated budget.
 - (e) Other factors Once complete, the outsourcing of WDS will eliminate one of the risks in the budget, although it is probable that the cost of the new contracts will exceed the charges made by WDS. This will add to the pressure on service budgets and may lead to some over-spending in 2001-02, to be rolled forward to 2002-03. On the pay front, I am hopeful that the provision for awards is adequate.
20. I am sufficiently concerned about the budget proposed for the Social Services Committee to recommend the Council that, if a sum less than £2 million is added to the Social Services Committee's budget, the shortfall against £2 million, should be added to balances. This is the first time that I have felt it necessary to make such a recommendation.
21. If, and when, we are required to refund charges previously made under the Mental Health Act, there are a number of sources from which the liabilities could be financed:
- (a) I am investigating the cover given by existing external insurance policies.
 - (b) Some liability may fall to the insurance reserve.
 - (c) Any residual deficit would have to be met from the approved revenue budget or balances.
22. Furthermore, it is unlikely that all liabilities will be identified and met in one financial year. I do not see the need to make any specific provision in balances for 2001-02.
23. I would hope that the Council would feel able to make an additional allocation of £60,000 for the coroner, leaving retained firemen as the remaining significant financial risk, apart from spending volatility.

Summary

24. In paragraph 9, I indicated that, without further action, balances would be £1.6 million by March 2002, before any committee overspending or "un-provided" events.
25. That is less than we planned to have in 2000-01 and would be inadequate. I am recommending that a minimum addition of £1.25 million is made to balances.
26. After the events of 2000-01, I should have liked to recommend a higher sum. I do understand that the effect would be to reduce the allocation to services and increase the risks inherent in budgets.

27. Instead, as an additional safeguard, I am recommending that the revenue contribution to funding the capital budget is frozen, until the actual spending for 2000-01 and the final cost of WDS and the outsourcing project are known. This is unlikely to be until the late summer. That would provide a cushion of £0.85 million, if needed.
28. Although the balances for 2002-03 will be considered in January 2002, it is a real possibility that a further top-up to balances will be needed.

Recommendations

29. I recommend the County Council to:
- (a) Note the assessment of the need for balances;
 - (b) Make additional provision in the revenue budget for 2001-02 for the coroner (£60,000) and Social Services (£2million);
 - (c) Agree, in the light of the additional provisions in (b), to a contribution to balances of £1.25 million in 2001-02;
 - (d) Note that a similar contribution may be needed for 2002-03.

DAVID CHALKER
County Treasurer

Unpublished documents relied upon in the production of this report:

Correspondence with Chief Officers and Treasurer to CFA on budget risks

Environmental impact of these proposals:

NONE