

Section 2

LOCAL GOVERNMENT ACT 2003, SECTION 25 STATEMENT

SECTION 2 - ADEQUACY OF RESERVES

The requirement for financial reserves is acknowledged in Statute. Sections 32 and 43 of the Local Government Finance Act 1992 requires billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, there is no set guidance on the minimum level of reserves that should be held.

The recommendation for the minimum prudent level and optimal level of reserves has therefore been based on the robustness of estimate information and an assessment of the strategic, operational and financial risks facing the authority over the next three years and Section 1 of this Appendix. Plymouth has significantly improved the approach to risk management over recent years. Our strategic and operational risk registers are comprehensive and are regularly reported to, discussed and challenged by senior officers and members.

In order to assess the adequacy of unallocated reserves the following factors have been taken into account:

- The level of earmarked reserves, which are shown in Annex 1 to this Appendix.
- There is always some degree of uncertainty over the timing and the full effects of any economy measures and/or service reductions that will be achieved. Directors have been requested to be prudent in their assumptions and that those assumptions, particularly about demand led budgets, will hold true in changing circumstances.
- The Bellwin Scheme Emergency Financial Assistance to Local Authorities provides assistance in the event of an emergency. The local authority is able to claim assistance with the cost of dealing with an emergency over and above a threshold set by the Government (Plymouth City Council's threshold for 2011/12 has yet to be confirmed but will be set at 2% of net revenue budget, and is currently estimated as around £0.700m). The assistance is usually 85% of any eligible costs over the threshold. Any incident for which assistance is sought must involve conditions, which are clearly exceptional by local standards and the damage to local authority infrastructure or communities must be exceptional in relation to normal experience. In the first instance these initial costs will have to be met from reserves.
- The continuing economic climate which is having an impact on income levels.
- The continuing financial climate which has seen a reduction in interest rates and Government support to prop up the UK banking industry.
- The risk of major litigation, both currently and in the future.
- Risks in the inter-relation between the NHS and Social Service authorities .
- Unplanned volume increases in major demand led budgets.

- The need to retain a general contingency to provide for any unforeseen circumstances, which may arise.
- The continuing uncertainties surrounding the recovery of monies in Iceland banks.
- The need to retain reserves for general day to day cash flow needs.
- An Increasing deficit on the pension fund.
- Potential redundancies in the light of Government grant reductions.

The effect of base budget changes, the full year effect of previous decisions, corporate priorities, demographic growth and legislative change have been identified and will continue to be identified during the budget and medium term planning process.

The Council has a good track record of delivering the budget. Variations from approved budget since becoming a Unitary authority have been within the range +0.3% to -1.7%. In 2010/11 a favourable variation of £0.150m was achieved.

The Council continues to set Directors a budget variance tolerance of no more than +1% overspend and -2% under spend of their budget allocation for any financial year, and performance against this target is reported to Cabinet as part of the performance and budget monitoring reports.

The achievement of delivery plan actions has been closely monitored during 2011/12 with regular reporting on a risk rated basis (RAG) to CMT. CMT and cabinet members also receive monthly scorecards highlighting performance and finance issues and whilst budget pressures have continued to be experienced across all Directorates in 2011/12, the reporting and implementation of timely corrective or alternative actions has seen the overall forecast deficit reported at September 2011 of £(0.569)m which is a reduction from the previous quarter's deficit forecast of £(1,294)m. **The Council is still aiming to achieve a breakeven position at the end of the year.**

The medium term financial strategy outlines in more detail the Council's policy on reserves for the period 2012/13 to 2014/15. The Council regularly reviews the appropriateness and use of reserves throughout each financial year. Where relevant, recommendations for changes are reported to Cabinet on an on-going basis. As a minimum, **all** specific reserves will be reviewed on an annual basis in March as part of the end of year accounting closedown arrangements.

The Council's 'Working Balance' is the revenue reserve that is put aside to cover any significant business risks that might arise outside of the set budget. This reserve stood at £11.518m at 31 March 2011, representing just under 6% of net revenue budget. It is forecast that the balance will remain at this level at the end of March 2012.

Taking all the above into account, it is recommended that the Working Balance for 2012/13 should equate to at least 5% of net revenue spend. This is in line with the Council's medium term strategy objective.

This Working Balance will continue to be kept under review in the light of the other factors the Council needs to consider in delivering its priorities and in the light of benchmarking.

RESERVES

1. As part of the 2012/13 budget process, a review has been undertaken of the Council's earmarked reserves to identify the purpose of each reserve, and the estimated movement on these balances in 2011/12. A summary of the estimated movement is shown in Table I to this Annex.
2. In total, current balances are considered to be sufficient to meet existing commitments.
3. Whilst, historically, it has been the Council's policy to maintain separate reserves for those services which operated as trading services, (the major ones are On Street Parking, Off Street Parking, Pannier Market), there is no requirement to keep separate reserves for many of these activities. Transfers from these balances to supplement the general Working Balance or support the overall budget have become commonplace and although most of the balances on these reserves have become exhausted, annual transfers to reserves will continue to be made from trading surpluses allowing, an albeit reduced, continued level of support to the general fund.
4. Reserves may also be established at the end of the financial year to carry forward certain unspent balances from the budget to finance the cost of specific commitments which may have slipped over into the following year or for one-off projects. The existing policy is that up to 50% of revenue under spends may be carried forward at year end providing they were declared in the mid year report and that all overspends should be carried forward unless Cabinet determines otherwise.
5. In November 2010, Cabinet approved the transfer of £2.333m to a new Invest to Save Reserve to be utilised to support the set up costs of delivery plan projects. A sum of £0.071m has subsequently been transferred back to the cemetery reserve to meet essential improvement works. Following a further review in September 2011, Cabinet have subsequently approved the transfer of a further £0.462m into this reserve. In November 2011, Cabinet recommended to Full Council that the revised Revenue Invest-to-Save reserve be allocated £1.3m to the provision of an ICT Data Centre at Windsor; £1.3m to fund road repairs in the city.
6. Other reserves held by the Council in the current year include:
 - Capital Financing Reserve
 - Waste Management Reserve
 - Staff reserves - Equal Pay / Redundancy
 - Accommodation Reserve / Commuted Maintenance Reserves
 - Insurance Reserve

Further detail of the reserves and their purpose is given in the Annex. Movements to and from reserves are kept under review during the year and an update is included in the mid-year budget monitoring report.

7. Schools Balances

In addition to the reserves detailed in the table, the Council also holds significant balances for schools. Schools are expected to manage within the delegated budgets which are allocated to them and at the end of each financial year schools are required to carry forward any budget variations to the following year. At 1st April 2011, school balances totalled £5.540m (net).