

Council Reserves and the current financial climate in which they are held

There are three main areas of concern around the future funding of the council and as we near the general election these risks increase:

1. New Homes Bonus (NHB)

It is almost certain that this scheme will be revised whichever party wins the next election. The council relies on part of the NHB award to fund its core services. This is in the range of £1m from the £2m that we currently receive.

If there is a change of government there is a real and significant risk that the subsequent alterations to NHB will require the council to draw down on reserves to balance the budget whilst looking to reduce the overall council budget.

2. Business Rates Retention

This is a new scheme and there are already rumours of changes to the formula. As the scheme has a safety net mechanism in place any change (unless it is to remove/change the safety net) would have an impact on the funding but would not be as material as the potential for the NHB changes.

3. Revenue Support Grant

The annual reduction in revenue support grant is reducing year on year and this will have a continuing effect on our ability to set a balanced budget.

The categories and total amounts of reserves held as at 31 March 2014 are as follows

1. General Fund – Revenue Balances £12,386,000
2. Housing Revenue Account – Revenue Balances £3,372,000
3. Capital Receipts Reserves – £1,259,000
4. Capital Grants Unapplied – £79,000

This gives a total of £17,096,000

Each of these areas needs looking at in turn

General Fund – Revenue Balances £12,386,000

The following table is an extract from the 13/14 final accounts and sets out each of the reserves that make up the total

General Fund	31 March 2013 £'000	Transfer In £'000	Transfer Out £'000	31 March 2014 £'000
Working Balance	1,214	-	-	1,214
Working Balance Sub Total	1,214	-	-	1,214
Budget Equalization	1,251	165	-	1,416
Budget Slippage Reserve	-	28	-	28
Business Rates Reserve	-	4,423	-	4,423
Change Management	587	508	(172)	923
Council Tax Freeze Reserve	124	50	-	174
Economic Development	117	103	-	220
Elections	47	20	-	67
Emergency Response	90	50	-	140
Hardship Fund	100	-	-	100
Homelessness	81	20	-	101
Landsbanki contingency	165	-	(165)	-
Licensing	63	-	(16)	47
Local Government Resource Review	962	423	-	1,385
Municipal Mutual Reserve	51	-	-	51
Neighbourhood Front Runners	66	-	(9)	57
New Homes Bonus - Community Projects	26	-	(11)	15
New Homes Bonus - Contingency	830	-	(40)	790
Planning Development	266	678	(9)	935
Waste Management	79	221	-	300
Earmarked Reserves Sub Total	4,905	6,689	(422)	11,172
Usable Reserves Total	6,119	6,689	(422)	12,386

The table below explains in more detail each of the reserves

Reserve	Amount	Purpose
Working Balance	£1,214,000	The council are required to keep a working balance reserve to offset the risks identified in the annual budget. In February 2014 the recommendation was that the figure should be £1,200,000 and as the figure in the reserve was £1,214,000 no change was sought. This is the absolute minimum of reserves required for any authority and is not 'spendable' which is why it is shown on a separate line to the other reserves

Budget Equalization	£1,416,000	Set up to help offset the challenges that the council faced in future years in setting a balanced budget
Budget Slippage	£28,000	Relates to a c/fwd. from 13/14 and is specifically allocated to be used for the Fritch Green community centre sound attenuation and an ANPR camera
Business Rates	£4,423,000	This is ring-fenced to the new localised business rates and will be allocated to the deficit that will be incurred in the Collection Fund in years 14/15 and 15/16
Change Management	£923,000	To cover one-off costs in implementing change to the way in which the council works such as restructure and new technology costs
Council Tax Freeze	£174,000	Monies received from government to offset pressures on the budget as a result of not increasing the council tax. Will be used to offset any future council tax increases
Economic Development	£220,000	To assist economic development in the district
Elections	£67,000	Each year money is set aside to spread the costs of elections
Emergency Response	£140,000	To cover costs arising from a civil emergency
Hardship Fund	£100,000	To provide additional support over and above the annual hardship funds to ensure the council can continue to help
Homelessness	£101,000	To smooth out the fluctuating costs around providing accommodation for homeless people, this was a member requirement to ensure this was topped up annually. Anticipate between £17 – £20k draw down in 2014/15
Licensing	£47,000	The taxi licensing service is a ring-fenced service which operates on a cost recovery basis on a rolling 3 year programme. This is the surplus on the

Comment [AD1]: One of several duplicated pots of money.

Comment [AD2]: Is the council really going to spend £1m on redundancy costs to change the way it operates?

Comment [AD3]: Almost certainly not needed.

Comment [AD4]: What will this deliver?

Comment [AD5]: Is this needed?

Comment [AD6]: Not been touched; is it needed?

Comment [AD7]: Is it too high?

		account which is drawn down each year.
Local Government Resource Review	£1,385,000	To smooth out funding fluctuations and pressures resulting from local government funding reviews.
Municipal Mutual	£51,000	MMI will not be able to deal with the amount of future claims and in the event of their insolvency local authorities would need to pay additional claims relating to asbestos poisoning for ex-employees
Neighbourhood Front Runners	£57,000	Ring-fenced planning expenditure
New Homes Bonus Community Projects	£15,000	This is the remaining sum from the scheme a couple of years ago. The money is allocated but the parishes concerned are yet to have the work done or the invoice to be received.
New Homes Bonus Contingency	£790,000	Monies available for community projects yet to be identified. Current allocations have included the war memorial cleaning and the creation of remembrance gardens
Planning Development	£935,000	To cover budget fluctuations within the planning service
Waste Management	£300,000	To cover budget fluctuations within the waste service, originally set up to offset any adverse financial effect of the zero based budgeting exercise and adoption a 4 day week

Comment [AD8]: Another duplicated pot of money.

Comment [AD9]: A large amount of money without much of a plan behind it.

Comment [AD10]: Intended for fighting big planning appeals; but UDC has abandoned fighting big planning appeals, so what's it for?

Comment [AD11]: Cost of recycling has soared, so likely to be needed.

As the Business Rates Reserve and Working Balance are ring-fenced specifically for the purposes stated and therefore cannot be used for any other purpose these amounts should be removed from the usable reserves total. If this is done the revised usable reserves total stands at £6,749,000

Changes for 2014/15

It is planned to review the number of reserves held and for the non-service related ones to be more specific around the heading. For these there will also be specific criteria to reflect the purpose it is held for and therefore the way in which it will be used.

Housing Revenue Account (HRA) – Revenue Balances

The following table is an extract from the 13/14 final accounts and sets out each of the reserves that make up the total. These amounts relate specifically to the housing stock element of the council and are ring-fenced to be spent in that area alone.

Housing Revenue Account	31 March 2013 £'000	Transfer In £'000	Transfer Out £'000	31 March 2014 £'000
Working Balance	680	-	-	680
Working Balance Sub Total	680	-	-	680
Change Management	200	-	-	200
Capital Projects	1,223	-	-	1,223
Potential Development Projects	800	-	-	800
Revenue Projects	60	-	-	60
Sheltered Housing Reserve	-	318	-	318
Earmarked Reserves Total	2,283	318	-	2,601
Major Repairs Reserve	-	91	-	91
Reserves Total	2,283	409	-	2,692
Housing Revenue Balances Total	2,963	409	-	3,372

In the same way as the General Fund is required to have a Working Balance so is the HRA.

The HRA has a comprehensive 30 year business plan and included in that are a number of projects that are yet to secure funding. Any underspend on the year is allocated to a specific project. This happened this year with the £318,000 being allocated to fund additional sheltered housing scheme remodelling.

There was expected to be monies drawn down on the Change Management Reserve in 13/14 however a re-structuring was delayed until 14/15 (now completed).

The Capital Projects Reserve relates mainly to the Mead Court project and there has been significantly drawn down in 2014/15 and the balance on this reserve by the end of 2014/15 is projected to be £73k.

The Potential Development Projects Reserve relates to the support of 1 for 1 agreement to build new social housing.

Work is progressing on a number of schemes at present and in accordance with the business plan a number of other options/sites/schemes are being worked up.

Based on current costings and predictions we anticipate that the 5 year capital programme will have a financing shortfall of £2m and this will draw down on the capital reserve balances over the next 2/3 years and these will not start to be replenished until 2017/18.

Comment [AD12]: Should UDC be more ambitious with its council house building programme? Money left in the bank loses value as house prices increase so the longer it is kept there, the fewer houses we are likely to get.

Capital Receipts Reserves

This Reserve identifies capital receipts from the sale of our assets (primarily council houses) which can be used to fund future capital expenditure thus avoiding the need to borrow. Capital receipts if not used to build new housing are repayable to central government.

Capital Grants Unapplied

The only significant grant is £69,000 received during 13/14 which came from the Energy Saving Trust (Renewable Heat Premium Payments) which the council uses to finance energy efficiency schemes in the capital programme.