

Reserves, Balances and Provisions**Introduction:**

The key issue regarding local government accounting is the fact that all transactions need to 'travel' through the Income and Expenditure Account (I & E Account). So, for example, the VAT refund of £1,122k referred to at Appendix 2 needs to be credited to the Income and Expenditure Account in the first instance. The fact that it then distorts the true ongoing position can only be rectified by then transferring it out of the I & E Account to an appropriate reserve.

This paper attempts to explain a series of complex transactions which initially pass through the I& E Account. It will cover the relatively straightforward transactions first!

Housing Revenue Account (HRA) Balance £1,310k

The Council's Housing Stock was sold to the Housing Trust in 2007. The HRA was no longer required but could not be formally closed down until all historic HRA Grant claims had been signed off by external auditors. During 2010/2011 all outstanding issues were resolved and the HRA final balance can be transferred to an alternative 'resting place'. It is recommended that, in the first instance, it should be transferred to a newly created reserve called .."The Development Sites Decontamination Reserve". The logic behind this recommendation relates to the fact that when the Housing Stock was transferred to the WCHT there were four sites for which there was a probability of 'contamination' should they subsequently be developed. Any decontamination costs will fall upon the Council. In addition, the Council has a number of development projects where a degree of 'cleaning up' may be necessary. For these reasons it is recommended that the HRA Balance should initially be set aside in case of future unforeseen de-contamination costs.

General Fund Working Balance

This balance is available to support revenue expenditure / finance any overspends. It has been established as part of Budget finalisation for 2011/2012 that this balance should remain at £1,350k. The end year position for 2010/2011 has ensured that is has been achieved.

Provisions

The definition is..." provisions are made where an event has taken place that gives the authority a legal or constructive obligation that probably requires settlement "... The Council had one provision (£812k) at the start of the 2010/2011 financial year and this related to the potential repayment of Housing Benefit Subsidy. This was due to the fact that the HB subsidy claim for re-imburement from the Department for Works and Pensions is circa £35m in any one year. External auditors verify all claims and, should errors be found, then significant loss of subsidy can follow. The provision of £812k had been made because the 2008/2009 Claim was in dispute (and significant loss of subsidy was a possibility). During 2010/2011, the 2008/2009 Grant claim was finally agreed with a loss of £64,339 subsidy. Also the 2009/2010 Grant Claim was agreed with no loss of subsidy. As a consequence there is no current legal or accounting justification for having a provision.

During 2010/2011 the following transactions affected this provision:

- an originally planned use of £180k to assist the Housing Benefit client account.
- The financing of the subsidy claw back of £64,339 relating to 2008/2009.
- As part of accounts closure, a review of the residual balance which resulted in £200k being deemed 'over provided' and transferred to the Invest to Save Reserve.

After these transactions, the £812k opening balance has been reduced to £367k and this has now been transferred to a Housing Benefit Subsidy Reserve as a contingency for potential losses arising from certification of the 2010/2011 and future grant claims.

Reserves

There are two main activities that affect the ongoing level of reserves

- drawing down reserves to finance revenue or capital expenditure
- increasing reserves by charging the Income and Expenditure Account.

Detailed below is a brief explanation of what has occurred during 2010/2011.

Concessionary Fares:

2010/2011 was the final year where the net cost concessionary fares was financed by District Councils. It has now become a County Council function. This reserve has therefore been closed and the balance of £100k has been transferred into the Income and Expenditure Account to help fund the escalating cost of this service in 2010/2011.

Car Park Zones Reserve:

This has been drawn down to meet the implementation of new CPZ schemes, the financing of time expired parking meters and a deficit on running the CPZ operating account. As a consequence the reserve has been reduced to £406k.

Charter Place Tenants Reserve

This is not the Council's money, but has been built up through annual service charges to the tenants. It was drawn down in 2010/2011 to finance a major refurbishment of the 'environment' and some roof works. The reserve at year end is £672k.

Performance Reward Grant / LAGBI Reserve /Area Based Grant Reserve /Housing Planning Delivery Grant

All these reserves relate to specific grant received in the past from Central Government and are gradually being used to finance specific one-off initiatives.

Budget Carry Forward Reserve

In closing the accounts there are instances where expenditure is to be committed but has been delayed into the following financial year. Heads of Service therefore request that the funding should not be 'lost' but should be carried forward into the next year. Leadership Team consider all requests. This reserve therefore has two features, firstly the carry forwards from 2009/2010 approved as part of the previous year's final accounts process; and secondly requests to carry forward unspent

balances from 2010/2011 into the following year. The total of funding carried forward into next year is £349k and detail is attached at **Appendix 5A**.

Vehicle Replacement Reserve

This is to be built up over the next five years to enable some provision to be made for the ultimate replacement of the Council's refuse fleet and has a balance of £150k at year end.

VAT Refund:

Reference has been made earlier within this report to the receipt in March 2011 of £1,122k from HMRC. This income, as explained within the introduction to this appendix, has to pass through the Income and Expenditure Account. It does however distort the true operating position.

Following discussion at Leadership Team it was agreed that this refund should be allocated as follows:

Insurance Fund	£100k
Leisure Structural Maintenance Reserve	£185k
Pensions Funding Reserve	£300k
Economic Impact Reserve	£537k

A few notes about these funds:

Insurance Fund Reserve (£100k)

As part of the annual review of insurance premiums with the Council's external insurance provider, Zurich Municipal, it was necessary to increase the excess costs payable before the insurance cover takes effect. In addition notification has recently been received that the former Municipal Mutual Insurance Company is 'unlikely' to have a solvent run off. Watford currently has outstanding registered claims of £347k awaiting resolution with MMI. A minimum Insurance Reserve Fund needs to be maintained.

Leisure Structural Maintenance Reserve (£423k). This is a buildings fund which is earmarked to carry out structural repairs to the two highly successful Leisure Centres. The outsourced contract with SLM does not include future structural maintenance. Should the Council choose to divert these resources then there would be a great danger that the facilities will deteriorate and future income would fall. The two assets have a value in excess of £20m and need to be structurally maintained. As the centres are relatively new, this buildings fund may not be accessed until the end of the four year forecast.

Future Pension Funding Reserve (£1,300k)

This reserve has been earmarked to meet voluntary redundancy, pension strain, and any annual end of year shortfalls into the Pension Fund required by the Herts CC Actuary.

Economic Impact Reserve (£1,250k)

This reserve was originally set up with the expectation that the Council's Budget would be adversely affected by the national downturn in the economy and will therefore be used to support those heads of expenditure such as commercial rent income which will be affected by the economic climate.

A final note about two other reserves:

Invest to Save Reserve (£1,493k)

This reserve will be used to finance one off initiatives such as up front investment to deliver ongoing savings. It has been increased by £200k as part of final accounts closure due to a transfer from the Housing benefit provision.

Capital Fund Reserve (£1,896k)

This reserve will be used to finance projects within the capital programme in order to supplement a shortage of capital receipts and has been increased by £350k as part of final accounts closure due to the revenue account saving as a consequence of capitalising part of the Building Maintenance Programme (and which has been referred to earlier in this report).

Statement of Reserves as at 31st March 2011.

A comprehensive list of the Council's reserves has been attached at **Appendix 5B**.