Medium Term Financial Strategy 2010/2015 APPENDIX 2B

As at 30th June 2011

Reserves & Balances position at 31 March 2011
(these figures are after financing revenue expenditure in 2010/2011 but before financing the revised MTFS shortfalls highlighted in Appendix 1A).

General Fund Balance **£1,350,000**
(this balance should remain untouched. It represents approximately 8.8% of our Net Revenue Expenditure and is effectively our ultimate fall back contingency should budget problems occur).

Earmarked Reserves **£2,337,000**
It is necessary to distinguish between those reserves which can be accessed and those that are earmarked for specific purposes. **Appendix 2A** details those that are essentially earmarked with the two largest being the Charter Place Tenants and CPZ Reserves.

Future Committed Reserves **£3,196,000**
There are a number of reserves which it would be short sighted and unwise to use purely to sustain current service operating costs. The history of poorly run authorities is littered with instances where no planning for the future has occurred. A financially resilient authority anticipates the need to finance future, significant one off costs. These future, committed reserves include:

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.

Local Development Framework Reserve (£313k). The LDF Reserve is required for extensive consultation being carried out over the next two years.

Future Pension Funding Reserve (£900k)
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. The actual balance at 31st March 2011 is £1,300k but there will be payments/ commitments out of this account of circa £400k in 2011/2012.

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.

Vehicle Replacement Reserve (£150k). 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.

Development Sites-Decontamination Reserve (£1,310k).
The Council has a programme of development projects where it is possible that decontamination works will be required. In addition, as part of the Housing Stock disposal, there were 4 sites which were transferred to the Housing Trust (Foxhill, Raphael Drive, Croxley View, and Chesham Way) for which insurance cover for contamination was not available—due to its likelihood.

General Reserves **£5,723,000**

These reserves include the residue of the former specific grant regime and which will probably be progressively drawn down for specific one off initiatives.
The use of these reserves could include the following:

- financing one off initiatives such as up front investment in order to deliver ongoing savings
- financing projects within the capital programme in order to supplement a shortage of capital receipts
- subsidising annual revenue budgets by financing any deficits through the use of reserves

It should be noted that the use of reserves to finance a deficit within annual budgets can only be a temporary expedient as it will be necessary at some point to identify efficiency savings or alternative sources of financing in order to plug the gap.

A few supplementary notes about some of the general reserves include:

The Invest to Save (£1,493k) and Capital Fund Reserve (£1,896k) are capable of any use but were primarily set up in order to finance the first two bullet points above.

The Economic Impact Reserve (£1,250k) is the reserve that will be drawn down first to cover any deficits in the annual revenue budgets. During 2010/2011 it was used to finance the revenue shortfall/ over spend of £341k. It also however was topped up by a VAT refund from HMRC.