

Council

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25 February 2015

Statement of The Chief Financial Officer on Reserves, Robustness of The Estimates and Affordability and Prudence of Capital Investments

Portfolio Holder: Councillor Jabbar, Cabinet Member for Finance and HR

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Purpose of Report

To recommend that Council agrees the level of balances necessary to support the 2015/16 budget, notes the future action planned and agrees the actions necessary to secure a properly balanced budget and the prudence of capital investments.

Executive Summary

In order to comply with Section 25 of the Local Government Act 2003; the Authority's Chief Financial Officer (the Interim Director of Finance) is required to report on the robustness of the estimates made for the purposes of the budget calculations and the adequacy of the proposed reserves. This information enables a longer-term view of the overall position to be taken. It is also reports on the Interim Director of Finance's consideration of the affordability and prudence of capital investment proposals. The level of general balances to support the budget and appropriate earmarked reserves maintained by the Council are an integral part of its financial resilience.

The Council's external auditors, Grant Thornton, the Audit Commission and the National Audit Office have all issued one or more reports dealing with in essence the very challenging financial future all Councils, including Oldham, are facing and how this is being dealt with. These reports are:

- The Tipping Point publications about financial resilience
- Tough Times
- Financial Sustainability of Local Authorities
- Striking a Balance

Members can be assured that Oldham Council continues to be very well placed to meet these challenges. The Council is preparing a two year revenue budget, a five year approved capital programme and an early closure of accounts allowing early focus on the coming challenges and a robust financial transformation programme.

This does depend in part on the Council maintaining an adequate level of reserves which are set out in this report. In order to enhance this position and the scrutiny of reserves the position for the 2013/14 year-end was considered by the Audit Committee in May 2014 and it is proposed to action the same review again this year after closure of the accounts for 2014/15.

Recommendations

It is recommended that Council:

- a) Approves the General Balances currently calculated for 2015-16 at **£17,704k** financed by an element of the underspend reported for the financial year 2013/14.
- b) Notes that the initial estimate of General Balances to support the 2016-17 and 2017-18 budgets are amounts of **£18,075k and £18,458k** reflecting the budgetary challenges for these financial years.
- c) Notes the intended report to the Audit Committee at the financial year-end to ensure the Council reserves are subject to appropriate scrutiny.
- d) Approves the actions necessary to secure a properly balanced budget as noted in paragraph 4.5.
- e) Approves the actions necessary to ensure the prudence of the capital investments as noted in paragraph 5.4.

Statement of the Chief Financial Officer on Reserves, Robustness of the Estimates and Affordability and Prudence of Capital Investments

1 Background

1.1 In order to comply with Section 25 of the Local Government Act 2003; the Authority's Chief Financial Officer (the Interim Director of Finance) is required to report on the robustness of the estimates made for the purposes of the budget calculations and the adequacy of the proposed reserves. This report addresses this requirement.

2 Recommended Level of General Balances for the 2015-16 Budget

2.1 There are two approaches for deciding the optimum level of the general Contingency Levels for the Council. This is either a percentage of expenditure, which at one stage was recommended by the external auditors to be at 5% of net expenditure, or an approach based on risk.

2.2 The agreed Council approach adopted for a number of years is to use a risk based approach based upon 11 areas of risk:

- Inflation is underestimated in the original estimates
- Interest rates are underestimated
- Changes to grant funding regimes
- Some budgets are only indicative at the time the budget is agreed
- Volatility in some budget headings between years
- Efficiency gains expected in the agreed budget are not achieved
- Unforeseen insurance costs
- Emergencies which can be foreseen which occur on an ad hoc basis
- Changes to budgets where targets are not met
- Financial and Partnership guarantees given by the Council
- Unforeseen events

2.3 The calculation to support the 2015-16 budget is detailed at Appendix 1. It also calculates an indicative recommended level of balances to support the 2016-17 and 2017-18 budgets. These allow for the current pressured state of the Council's finances which by way of example include, as the latest budget monitoring report highlights, pressures in certain services.

2.4 The recommended level of general balances to support the 2015-16 budgets is **£17,704k**, which is an increase of £299k on the 2014-15 recommended level of balances.

2.5 The detailed assumptions supporting the logic of the detailed general balances calculation are set out in Appendix 2.

2.6 The indicative level of balances for 2016-17 are **£18,075k** and for 2017-18 **£18,458k**. The increases for these two financial years reflect the continuing need for the Council to manage its financial risks around known financing changes which include significant reductions in central government support resulting in a challenging savings target for both years on top of efficiencies already achieved.

3 **Earmarked Reserves**

3.1 The Council had 18 Earmarked Reserves as summarised in Appendix 3 totalling £72,186k as at the year-end for 2013-14. Management of these reserves takes place via the monthly monitoring reports during the financial year and at the year-end as part of the closure of accounts.

3.2 A risk assessment has been undertaken of the current earmarked reserves being utilised in the future as detailed in Appendix 3.

3.3 The Earmarked Reserves to meet known or expected liabilities where it is challenging to be specific about the exact financial amount of liability are:

- Insurance Reserve
- Budget Reserve
- Levy Reserve
- Adverse Weather Reserve
- Children's Reserve
- Partnership Reserve
- Exceptional items reserve.
- PFI Reserves
- Fiscal Mitigation Reserve
- Taxation Reserve

3.4 The Earmarked Reserves required for other more specific, including invest to save purposes are:

- BSF Reserve
- Individual Schools Balances
- Special Projects Reserve
- District Partnerships Reserve
- Future Liabilities Reserve
- Revenue Grants Reserve
- Business Units Reserve
- Directorate Reserve

4 **Robustness of the Estimates**

4.1 Key factors in ensuring the robustness of estimates include the initial challenge process to establish the budget options, essential project management for the proposals, monitoring and reporting arrangements and the utilisation of key,

skilled finance staff in drawing up detailed estimates and monitoring proposals going forward. Cross cutting and sound key assumptions are also vital in ensuring proper estimates.

- 4.2 There are a large number of factors which are making the management of the Authority's budget much more challenging from April 2014 than it has been in the past. These include:
- Councils face significant continued financial challenges. Unprecedented reductions in government funding for a sustained period, constrained and possibly more constrained Council Tax increases, a decline in other income, rising costs and growing demand for many services are all challenging Councils' financial management and resilience.
 - the recent changes in council funding with the introduction of local business rates retention and new arrangements for providing council tax support. The impact of these changes, and the level of further funding reductions in 2016/17 and 2017/18, is not yet known for that period, but the financial climate is more volatile with the Council carrying more risk than has ever been the case and funding is assumed to reduce for the foreseeable future.
- 4.3 These current and future financial challenges pose significant, and increasing, risks and require robust financial and budget management along with increased reserves to strengthen resilience against future uncertainty.
- 4.4 The preparation of the estimates has been based on the following base assumptions:
- Pressures and grant fall out - the former have as far as possible been absorbed by Directorates and the latter has likewise as far as possible been matched by corresponding expenditure reductions forecasted in the MTFS.
 - Interest and inflation assumptions - a prudent view of interest rates and inflation has been taken in constructing estimates for 2015/16. Whilst these estimates are considered to be adequate at this point in time the uncertainty within the economy may lead to further consideration.
 - Council Tax income assumptions - the estimates for the Council Tax are based on a collection rate of 96.89% including that to be collected under the Council Tax Reduction Scheme. The position will be monitored during the year but the amount could vary for matters outside the control of the Council.
 - A best estimate of the amount of income to be collected from National Non Domestic Rates based on best estimates covering certain areas

such as the level of appeals expected. This could lead to the amount estimated for collection changing from this point in time.

- 4.5 In order to secure a balanced budget year on year it is essential that the base estimates are built on by:
- All budget changes agreed by the Council being actioned to deliver the estimated savings, or alternatives found to the same net value, by the relevant responsible officers
 - Monthly monitoring of all budgets and reporting on an exceptions basis through the Interim Director of Finance to EMT and Cabinet
 - Action being taken to address future forecast budget shortfalls in advance of the forthcoming financial years. In respect of this the Council's recent and ongoing preparation of a two year budget is an example of enhanced good practise

5 Prudence and Affordability

- 5.1 The current prudential borrowing regime places a duty on the Chief Financial Officer to ensure that the financial impact of decisions to incur additional borrowing over and above that supported by Government are affordable both in the immediate and over the longer term.
- 5.2 However given the changes in local government finance introduced in 2006/07 there is no longer any direct relationship between supported borrowing and the revenue support for it. Consideration of all new capital schemes and their revenue impact is therefore undertaken alongside other revenue issues to ensure that resources are allocated appropriately.
- 5.3 The impact of the Council's current investment plan and total capital programme, as set out elsewhere on this agenda is financed within capital estimates as far as appropriate i.e. utilising grant etc. with the balance being funded through the revenue estimates, with future years being addressed through the MTFS.
- 5.4 Given the scope of the current investment programme and the challenging financial circumstances, Council has ensured that there is sufficient revenue budget to meet the capital commitments and it is essential that this remains so going forward. Subject to that, the capital estimates are considered prudent and affordable while supporting the aspirations and ambition of the Council.

6 "Striking a balance" and other reports on Financial Resilience

- 6.1 On 6th December 2012 the Audit Commission produced a report into their research on the level of reserves held by councils. The report recognised that there is no set formula for deciding what level of reserves is appropriate. It stated that having the right level of reserves was important and where reserves were low there could be very little resilience to financial shocks and sustained

financial challenges. It also stated that where reserves are high, councils may hold more funds than they need.

6.2 It was recognised there are significant financial challenges facing councils going forward with reductions in government funding and the delegation of business rates and council tax support. The effect of these is to increase the financial challenges facing council's going forward.

6.3 One conclusion from this report was that councils needed to consider their present decision making in a number of areas:

- Undertaking an annual review to ensure reserves align with medium term financial plans.
- Clarity about what earmarked reserves are for.
- Ensuring earmarked reserves held to mitigate financial risk reflect an up to-date assessment of risk.
- The advice of the Interim Director of Finance to Members on the level of reserves to be held includes a summary of the issues to be considered.
- Monitoring the level and use of reserves over recent years, and comparing the council's approach to other organisations facing similar circumstances.
- Budget monitoring and forecasting give elected members greater awareness of likely year-end movements on reserves
- Significant or unexpected variations to budget are dealt with.

6.4 To progress this issue in more detail the matter has been reported to the Audit Committee with the submission of a detailed report from the Interim Director of Finance on the key questions in Striking the Balance which were considered prior to the Statement of Final Accounts for 2012-13 and 2013-14 being approved. It is proposed to submit a further report in May 2015 to enable continuous independent review of earmarked reserves to be undertaken over a regular period by the Council.

6.5 There have been other reports produced on local authorities which have reviewed the financial resilience of local authorities. The conclusion has been that the majority of local authorities have coped well but a minority are experiencing financial stress which has been reported in the press. These reports also highlight that the overall future financial environment is going to be very challenging and they expect an increased number of authorities to experience financial stress. These are expected to get even more challenging in 2016-17 and 2017-18 for this Council.

7 Options and Alternatives

7.1 The Council has a statutory duty to have regard to the Chief Financial Officer's report on the robustness of the estimates and the adequacy of proposed financial reserves when making decisions.

8 Preferred Option - Budget Recommendations

- 8.1 The robustness of the estimates and the adequacy of the reserves are satisfactory. However this is only the case provided that action is taken to ensure that the balances are set at the level recommended), that all budget options, or in year alternatives, are delivered as planned and monitored as noted in paragraph 4.5 and that the capital programme is financed as noted in paragraphs 5.3 and 5.4.

9 Consultation

- 9.1 The professional opinion of the Interim Director of Finance on the overall adequacy of the total level of reserves is integral to the sign off of the overall agreed budget.
- 9.2 The earmarked reserves as set aside by the Council at the year-end 2013-14 have been independently verified by the external auditor.
- 9.3 In order to ensure that the organisation undertakes an appropriate independent review of its reserves it is proposed that the Audit Committee consider a detailed annual report in May of each financial year from the Interim Director of Finance on the Audit Commission publication "Striking a Balance" reviewing the detailed questions it is recommended are considered by the organisation.

10 Financial Implications

- 10.1 The review of reserves and provisions has identified that the Council will be required to maintain its level of general contingencies to support the 2015/16 balances requirement and identified areas of risk, in line with good practice and the duties of the Interim Director of Finance.

11 Legal Services Comments

- 11.1 N/R

12 Cooperative Agenda

- 12.1 The adequacy of reserves and balances enables the Council to support its aims and objectives and also take forward the co-operative ethos of the Council.

13 Human Resources Comments

- 13.1 N/R

14 Risk Assessments

- 14.1 There is a statutory requirement for the Interim Director of Finance to calculate the balances required by the Council to support the annual budget. The

methodology utilised as detailed in Appendix 1 and 2 of this report is to assess the required level on the basis of risk.

15 IT Implications

15.1 N/R

16 Property Implications

16.1 N/R.

17 Procurement Implications

17.1 N/R.

18 Environmental and Health & Safety Implications

18.1 N/R

19 Equality, community cohesion and crime implications

19.1 N/R

20 Equality Impact Assessment Completed?

20.1 N/R

21 Key Decision

21.1 Yes

22 Forward Plan Reference

22.1 CFHR-20-14.

23 Background Papers

23.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background papers are provided in Appendices 1 to 3 to the report
Officer Name:	Mark Stenson
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24 **Appendices**

- 24.1 Appendix 1 General Balances Calculation
- Appendix 2 Eleven Areas of Risk for Oldham Council
- Appendix 3 Earmarked Reserves

General Balances Calculation

Appendix 1

Area of Risk	2015-16	Risk Factor	Value	2016-17	Risk Factor	Value	2017-18	Risk Factor	Value
	Budget			Budget			Budget		
	£000		£000	£000		£000	£000		£000
Inflation									
Salaries incl pensions	81,564	0.75%	612	81,700	1.00%	817	81,700	1.00%	817
Premises	8,585	0.50%	43	8,610	1.00%	86	8,610	1.00%	86
Transport	6,000	0.50%	30	5,997	0.50%	30	5,997	0.50%	30
Supplies	47,458	0.50%	237	49,128	0.50%	246	49,128	0.50%	246
PFI	19,203	0.50%	96	19,203	0.50%	96	19,092	0.50%	95
Other	Quantum		100	Quantum		150	Quantum		150
			1,118			1,425			1,424
Interest Rates									
Changes in rates	Quantum		500	Quantum		500	Quantum		500
			500			500			500
Grants									
Revenue Support Grant (RSG)	50,879	0.50%	254	33,275	0.50%	164	20,475	0.50%	100
H. Benefit	1,529	1.00%	15	1,378	2.00%	28	1,241	3.00%	37
New Homes Bonus	2,275	5.00%	112	2,000	7.50%	150	1,500	7.50%	112
Business Rates	29,987	1.00%	300	30,587	1.00%	305	31,198	1.00%	312
Public Health	14,915	0.50%	75	14,915	0.50%	75	14,915	0.50%	75
Better care Fund/ NHS reform	16,036	1.09%	174	16,036	1.09%	174	16,036	1.09%	174
Education Support Grant	3,126	1.00%	31	2,266	2.00%	45	2,111	3.00%	63
			961			941			873

Estimated Budgets									
Academies Loss	Quantum		500	Quantum		500	Quantum		500
Carbon Emissions	Quantum		25	Quantum		25	Quantum		25
			525			525			525
Volume Changes									
Adult Services	Quantum		500	Quantum		500	Quantum		500
Unity	Quantum		100	Quantum		100	Quantum		100
			600			600			600
Budget Savings									
2015-16	35,299	19.26%	6,800	35,299	2.00%	705	35,299	1.00%	353
2016-17	0	0.00%	0	29,489	19.26%	5,679	29,489	2.00%	590
2017-18	0	0.00%	0	0	0.00%	0	29,302	19.26%	5,643
			6,800			6,384			6,586
Insurance									
Medical	Quantum		100	Quantum		100	Quantum		100
			100			100			100
Emergency Planning									
ICT disaster	Quantum		500	Quantum		500	Quantum		500
Winter Weather	Quantum		400	Quantum		400	Quantum		400
Flooding	Quantum		100	Quantum		100	Quantum		100
Offices	Quantum		200	Quantum		200	Quantum		200
Emergency Planning	Quantum		400	Quantum		400	Quantum		400
Unforeseen disaster	Quantum		400	Quantum		400	Quantum		400
			2,000			2,000			2,000
Changes									
Debt Collection	Quantum		100	Quantum		100	Quantum		100
NNDR Appeals	Quantum		500	Quantum		750	Quantum		750
Introduction of Universal Credit	Quantum		250	Quantum		250	Quantum		250
			850			1,100			1,100

Financial Guarantees									
Contractual Disputes	Quantum		1,000	Quantum		1,000	Quantum		1,000
Capital Programme	Quantum		1,000	Quantum		1,000	Quantum		1,000
Preceptors re levies	Quantum		500	Quantum		750	Quantum		1,000
Pensions	Quantum		500	Quantum		500	Quantum		500
Grant Claw back	Quantum		250	Quantum		250	Quantum		250
			3,250			3,500			3,750
Other									
General	Quantum		1000	Quantum		1000	Quantum		1000
			1000			1000			1000
TOTAL			17,704			18,075			18,458

Eleven Areas of Risk for Oldham Council

Appendix 2

Number	Area of Risk	Analysis of Risk
1	Inflation is underestimated in the original agreed estimates	<p>There are two issues. Firstly, there may be some items of expenditure-fuel costs for example-where any estimate of inflation is a “best guess “and the future market rate is difficult to predict given price volatility. The risk assessment puts a figure to the higher level of inflation that would seem to be unreasonable to include in a budget, but might come to pass. Secondly, information is less accurate for years 2 and 3</p> <p>At the present time the level of inflation for the past financial years has been certain for areas such as salaries with minimal wage increases. Certain other costs have increased at a higher rate than estimated. Going forward into the next three financial years the inflationary pressures are very difficult to estimate and the dynamics may change with increased pressure on wage costs as against commodities such as fuel. The calculation of a recommended balance reflects this.</p>
2	Interest rates are underestimated	<p>This is similar to 1 above, but for a specific area of risk.</p> <p>Interest rates at the present levels for borrowing money are at a very low level. The general predictions are that increases may take place either at a point in 2015-16. Allowing for borrowing profiles the 2015-16 budgets have been prepared on the present levels of interest paid by the Council. A small change in the interest rates could have a significant impact on the Council’s budget in respect of the amount paid. Predictions of when accurate interest rate rises will occur have proved to be challenging for a number of years and continue to be volatile.</p> <p>In respect of the return achieved by the Council on money it has placed on the money market then the return as budgeted for is at a historically low level. There is also an added pressure that safe havens for the Council to</p>

		<p>invest surplus cash have reduced in past years.</p> <p>There is the specific risk to consider here of the continued volatile banking market and the consequential risk to Councils of the security of their investments</p>
3	Changes to grant funding regimes	<p>The Government system for allocating grants can appear short-term and a “best guess” has to be offered in lieu of hard facts. Currently there are a number of issues with the general regime:</p> <ul style="list-style-type: none"> • The Comprehensive Spending Review, Autumn Statement, Chancellors Budget and future predictions of government spending indicates an overall continual reduction in general and specific grant funding to Council’s over a further 4 year period. The actual information provided has only provided to-date certainty for 2015-16. • Changes to the present housing benefit regime include the continual introduction of the Universal Credit. • The continuing transfer of certain responsibilities to local authorities currently provided for by the health service. • Potential changes to specific grant funding which is being absorbed in revenue support grant after a number of financial years. <p>There are also issues for the Council highlighted in its final accounts as contingent liabilities around potential grant claw back on specific projects as detailed in the contingent liabilities section of the audited final accounts.</p>
4	Some budgets are only indicative at the time the budget is agreed	<p>There are some initiatives that are known will happen, but are not sufficiently advanced to accurately cost.</p> <p>The impact of the current trend where a number of schools currently administered by the Council who may wish to become an independent Academy is unknown and the impact this has on previously notified grant funding.</p>

5	Volatility in some budget headings between years	<p>There are long standing areas of risk where the Council budget for the middle of the range, but might find the out-turn for a year at the higher end.</p> <p>In respect of Adult Services there is a continuing risk with recent changes that the increase in unforeseen demand resulting in increased pressure and a overspend position.</p> <p>In respect of housing benefit on payments there is a risk that changes to the system such as the introduction of Universal Credit leads to a claim for additional costs.</p>
6	Budget savings expected in the agreed budget are not achieved	<p>The budget includes an assumption that the Council will deliver ambitious savings; the risk is that they may be delivered at a slower rate.</p> <p>Based upon 2009-10 to 2014-15 experience the achievement of the budget savings programme in monetary terms has shown full achievement. In the next three to five financial years from 2015-16 there are further challenging budget savings required. These savings requirement mean it is prudent to retain some reserves should these targets not be achieved.</p>
7	Unforeseen Insurance Costs	<p>Acts of God can result in higher insurance traffic than had been anticipated.</p> <p>Oldham Council would seem to be appropriately covered on this aspect re the general assessment in that it has been based on a detailed yearly Actuarial Review. It also has included a reserve to meet the costs of MMI claims should the Scheme of Arrangement be activated. The assessment of the Council that the scheme would be activated proved to be accurate</p>

		<p>and sensible prudent accounting has negated any financial impact from the initial levy. The matter will now be subject to continual review.</p> <p>The uncertainty going forward is associated with the current economic climate and adverse weather conditions, which it is anticipated, will increase the number of claims made against the Council. On the present Insurance arrangements however the value of claims is individually capped at £52,500 for liability claims and £100,000 for premises.</p> <p>With the transfer of Public Health functions a new risk now exists to the Council around whether insurance cover can be obtained from the present insurance arrangements in respect of medical malpractice.</p>
8	Emergencies which can be foreseen which can occur on an ad hoc basis	<p>Were disasters to occur, the Council needs to have a reserve in place to pick up costs that will fall on the Council. A disaster such as one involving ICT could occur on a one-off basis.</p> <p>The Council area does also cover higher grounds including Saddleworth, which if weather conditions are extreme can lead to additional unbudgeted costs such as snow clearance in winter.</p> <p>There was also an incident in the Borough in 2012-13 that highlighted the need for the Council to maintain financial flexibility within its general balances.</p>
9	Changes to budgets where targets are not met.	<p>Change necessarily means doing things in a way for which we have no evidence. The assumptions made maybe wrong.</p> <p>This is the most difficult area to predict but there will be unforeseen costs which are not foreseen when the budget is prepared.</p> <p>It is also anticipated that Housing Benefit will increase the financial risks of</p>

		the Council. The impact of the transfer of Business Rates is also becoming apparent with a high risk that this element of the Collection Fund could report a deficit.
10	Financial and Partnership guarantees given by the Council	<p>There are a number of obligations and risks to the Council around its financial guarantees which have been given to a wide variety of organisations and projects:</p> <ul style="list-style-type: none"> • In a complex organisation there are contractual disputes for claims against the Council. • The Council has an ambitious capital programme that could result in future budgetary pressures of a revenue manner if all schemes do not progress. • On the Levying bodies there is a desire from contributing Districts to keep levy increases as low as possible. This will increase the financial stress on these organisations and ultimately it is the Districts who would assist if there is a shortfall. • In respect of staff previously employed by the Council but transferred to other organisations the Council has agreed to underwrite the pension costs. • Grant clawback could occur whereby the Council is the accountable body for a grant.
11	Unforeseen Events	This covers matters not considered in 1-10 but it is considered prudent to hold an amount in the General Balances.

Earmarked Reserves as at 31/03/2014

Appendix 3

Earmarked Reserve	Balance	Assessment of Current Risk
	£000	
BSF Reserve	2,361	This reserve is required to equalise out between years the costs estimated to be incurred by the Council on the School PFI contracts already let. It is anticipated that over the next few years the money set aside in this Reserve will increase to offset the increases in the Unitary Charge on the project to the revenue account in the later financial years of the PFI contract. The grant to support the PFI remains static throughout the period of the scheme whilst costs increase.
Individual School Balances	7,802	This earmarked reserve consists of the individual school balances as at 31/03/2014 held by schools under their delegated budgets.
Insurance Reserve	9,502	<p>This includes:</p> <ul style="list-style-type: none"> • Any claims made prior to 1974 when the external insurance arrangements of the Council are not clear and the assumption is that the Council will bear the full cost of any claim made. • Claims relating to asbestos related matters which are not covered by external insurance premiums. These claims are expected to reach their peak in the next ten years. • Derelict buildings classed as heritage buildings where the Council's Insurers will only provide insurance cover on a debris only basis. Should there be a fire then it is possible the Council will have to replace at full cost without insurance cover in place. • Other claims against the Council not covered by the terms and conditions of the Insurance Policy. A recent trend has been for insurance companies to get more challenging around whether coverage is in place.

		The amount to include in the Insurance Reserve at the year-end is calculated via an Actuarial report which is currently being produced for the end of the financial year 2014-15. The amount could increase or decrease at the year-end as reported dependent upon the output of this Actuarial Review.
Budget Reserve	3,751	This reserve has been set aside to support the delivery of the 2014-15 budget which has some challenging targets and will support the delivery of a balanced budget.
Special Projects Reserve	5,775	This reserve has been set aside to support projects within the Council which includes: <ul style="list-style-type: none"> • Hotel Futures • Town Centre Investment Strategy • Invest to Save • Replacement of Equipment • Old Town Hall (£1M reserve agreed in 2014-15).
Levy Reserve	2,425	The two levying authorities have for 2014-15 and are anticipated for 2015-16 to set a budget which requires them to use earmarked reserves to underpin their on-going expenditure. It is therefore envisaged that future levy increases after this date could be in excess of normal inflation. This reserve has been set aside to smooth the impact of future levy increases on the Council budget.
Adverse Weather Reserve	1,082	This reserve is set aside to support unplanned expenditure as a result of an unforeseen weather event such as flooding or severe winter weather when the base budget provision is not adequate to meet the costs incurred within the financial year.
Children's Reserve	1,300	This reserve was set up so the Council could respond quickly to a serious incident in an appropriate manner within Children Services. The money was set aside in recognition of the risks in reducing the Council's capacity to

		respond in an extreme case.
District Partnerships Reserve	942	This money will be utilised in 2014-15 to support projects already agreed and recommended by District Partnerships for financial support in prior years.
Partnership Reserve	54	This reserve is set aside to close down the council's inactive companies whereby no exit strategy was considered a number of years ago when they were set up.
Future Liabilities Reserve	5,628	This reserve has been set up to cover the costs of expected liabilities whereby the actual cost is not known to prevent an unbudgeted charge to the Council's revenue account in a financial year.
Exceptional Items Reserve	1,794	This is an amount of money set aside to meet any exceptional costs of the Council. These can arise from a number of sources, and this pressure will increase considerably in future years. It can include the budget proposals, the impact of the local government finance settlements and the increasingly severe financial pressure on the Council's budget. It is undoubtedly the case that there will be a need to increase this reserve in future years because of the financial risk that is being passed to the Council from changes in central government financial support.
Revenue Grants Reserve	5,301	This is a reserve created under the accounting requirements of International Financial Reporting Standards. It relates to grants received often in relation to education which is paid over to the Council in the financial year but with grant conditions giving the flexibility for the expenditure to be incurred by the end of the Academic Year. Previously these grants would have been classed as receipts in advance in the final accounts. The money must be spent in accordance with the specific grant conditions.
PFI Reserve	5,983	This reserve is required to equalise out between years the costs estimated to be incurred by the Council on the non PFI and LIFT contracts already let. It is

		anticipated that over the next few years the money set aside in this Reserve will increase to offset the increases in the Unitary Charge on the project to the revenue account in the later financial years of the PFI contract. The grant to support the PFI remains static throughout the period of the scheme whilst costs increase.
Fiscal Mitigation Reserve	13,912	The financial environment in which the Council operates has changed from the beginning of the 1 st April 2013. Instead of having certainty around the amount of income it will receive in relation to Business Rates the risk of underperformance will be shared with the Department of Communities and Local Government. Should there be less income collected than previously estimated then a proportion of the loss falls on the Council and will impact on the overall amount of resources available for future budgets. It is also the case that the cost of change will be considerable given the budget reductions required from the Council in the next three years. This reserve reduces the risk to the council of reducing resources due to matters outside its control and will finance some of the costs of change the Council is likely to face. A sum of £10M of this reserve has been used to support a 2015/16 budget proposal.
Business Units	330	In 2012-13 the Council agreed to the creation of a number of Business Units. This reserve is the amount of agreed carry forwards as specified under their Financial Procedure Rules for efficiencies generated in that financial year.
Taxation	439	There is from time to time unforeseen tax liabilities to the Council imposed from the audits undertaken by HMRC. This reserve has been set aside to meet these unforeseen costs.
Directorate	3,805	This is a reserve created following discussions at EMT whereby requests from services to finance future expenditure on key council priorities have been agreed.