

STATEMENT OF THE CHIEF FINANCIAL OFFICER ON RESERVES, ROBUSTNESS OF THE ESTIMATES AND AFFORDABILITY AND PRUDENCE OF CAPITAL INVESTMENTS

Report of the Borough Treasurer

Portfolio Holder: Councillor Abdul Jabbar, Finance and Human Resources

Officer Contact: Steven Mair
Ext. 4900

1 Purpose of Report

- 1.1 To recommend that Council agrees the level of reserves necessary to support the 2012/13 budget and revised Medium Term Financial Strategy

2 Executive Summary

- 2.1 The report is prepared to comply with Section 25 of the Local Government Act 2003; the Authority's Chief Financial Officer (Borough Treasurer) 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 Borough Treasurer's consideration of the affordability and prudence of capital investment

3 Recommendations

- 3.1 The recommendations are that Council:
- a) approves that the General Balances for 2012/13 be set at £15,650k;
 - b) approves that the increase from 2011/12 general reserves be funded from a transfer from earmarked reserves of £1,460k, as set out in the report;
 - c) notes the projected levels for the following two years at £16,839k and £16,764k;
 - d) notes the Borough Treasurer's assurance about the robustness of the estimates and reserves as set out in paragraph 7.1 and what this assurance is based on;

4 Recommended Level of General Balances for the 2012/13 Budget

- 4.1 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 Audit Commission to be at 5% of net expenditure, or an approach based on risk.
- 4.2 The agreed Council approach has been to use a risk based approach identifying 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 guarantees given by the Council
 - Unforeseen events
- 4.3 The calculation to support the 2012/13 budgets is detailed at Appendix 1. It also calculates an indicative recommended level of balances to support the 2013/14 and 2014/15 budgets.
- 4.4 The recommended level of general balances to support the 2012/13 budgets is £15,650k. This is an increase of £1,460k on the present level of maintained general balances of £14,190k retained by the Council.
- 4.5 The detailed assumptions behind the detailed general balances calculation are set out in Appendix 2.
- 4.6 The indicative level of balances for 2013/14 are £16,839k and for 2014/15 £16,764k. The increases for these two financial years reflect the need for the Council to manage its financial risks around known financing changes which include significant reductions in central government support.

5 Earmarked Reserves

- 5.1 The Council has 14 Earmarked Reserves as summarised in Appendix 3 totalling £47,154k. The largest earmarked reserve, the Revenue Grants Reserve, which totals £18,020k is a technical reserve required because of the accounting requirements specified by International Financial Reporting Standards.
- 5.2 A risk assessment has been undertaken of the current earmarked reserves being utilised in the future as detailed in Appendix 3.

5.3 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
- Waste Smoothing Reserve
- Winter Maintenance Reserve
- Children's Reserve
- Partnership Reserve
- Exceptional Items Reserve.

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

- BSF Reserve
- LPSA Reward Grant
- Area Based Grant Reserve
- Special Projects Reserve
- District Partnerships Reserve
- Future Liabilities Reserve

5.5 The review has identified £1,460k from the present earmarked reserves which is available to support the Council's 2012/13 general balances risk analysis. This is from:

- LPSA Reward Grant Reserve
- Future Liabilities Reserve

5 Robustness of the Estimates

5.1 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. The Authority's approach has been since the start of the budget process to assume:

- 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
- Interest rate assumptions – a prudent view of interest rates has been taken in constructing estimates for interest charges in 2012/13. Whilst these estimates are considered to be adequate at this point in time the considerable turbulence within the financial markets may lead to further consideration. Interest rate trends and capital financing operations will be monitored closely throughout the year to facilitate timely action designed to optimise the Authority's position.

- Council Tax income assumptions – the estimates for the Council Tax are based on a collection rate of 97.75%. The position will be monitored during the course of the year.

5.2 It is the case that the financial settlements, and the range of new financial circumstances from the local government resource review and other related matters, for the years 2012/13 and onwards, are extremely challenging and planning for this outcome has been extensive and is essential in the future. Whilst considerable pressure exists on Authorities' budgets because of the severely reduced level of resources available for Local Authorities in the future, further advanced forward planning to deliver the future years' budget savings is already in preparation and is absolutely essential

6 Prudence and Affordability

6.1 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.

6.2 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.

7 Budget Recommendations

7.1 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 in paragraph 3.1 a), that all budget options, or in year alternatives, are delivered as planned and monitored as noted in paragraph 5.1 and that steps are taken to prepare for future year budget funding reductions as noted in paragraph 5.2

8 Consultation

8.1 The professional opinion of the Borough Treasurer on the overall adequacy of the total level of reserves is integral to the sign off of the overall agreed budget.

8.2 The earmarked reserves as set aside by the Council at the year-end 2010/11 have been independently verified by the external auditor.

9 Financial Implications

9.1 The review of reserves and provisions has identified that the Council will be able to increase its level of general contingencies to support the 2012/13 balances requirement and identified areas of risk, in line with good practice and the duties of the Borough Treasurer.

9.2 The review of earmarked reserves has identified the following amounts to be reallocated:

- LPSA Reward Grant Reserve, £206k
- Future Liabilities Reserve, £1,254k

10 Legal Services Comments

10.1 N/A

11 Cooperative Agenda

11.1 The adequacy of reserves and balances available underpins the financial strategy of the Council. This therefore ensures that the resources of the Council can be directed to promote the cooperative ethos of the Council.

12 Human Resources Comments

12.1 N/A

13 Risk Assessments

13.1 There is a statutory requirement for the Borough Treasurer to calculate the balances required by the Council to support the annual budget. The methodology utilised as detailed in Appendices 1 and 2 of this report is to assess the required level on the basis of risk.

14 IT Implications

14.1 N/A

15 Property Implications

15.1 N/A.

16 Procurement Implications

16.1 N/A.

17 Environmental and Health & Safety Implications

17.1 N/A

18 Equality, community cohesion and crime implications

18.1 N/A

19 Equality Impact Assessment Completed?

19.1 N/A

20 **Key Decision**

20.1 Yes

21 **Forward Plan Reference**

21.1 PSC – 39 - 11

21 **Background Papers**

22.1 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:

Name of File:

Records held in Borough Treasurer's Department

Officer Name: Mark Stenson

Contact No: Extension 4783

23 **Appendices**

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

General Balances Calculation

Area of Risk	2012-13	Risk Factor	Value	2013-14	Risk Factor	Value	2014-15	Risk Factor	Value
	Budget			Budget			Budget		
	£000		£000	£000		£000	£000		£000
Inflation									
Salaries incl pensions	99,600	1.25%	1,245	110,000	1.00%	1,110	105,000	1.00%	1,050
Premises	15,000	1.00%	150	14,000	1.00%	140	14,000	1.00%	140
Transport	5,000	1.00%	50	4,000	0.50%	20	4,000	0.50%	20
Supplies	80,000	0.50%	400	79,500	0.50%	397	78,500	0.50%	392
Other	20,000	0.50%	100	20,000	0.75%	150	20,000	1.00%	100
	219,600		1,945	227,500		1,817	221,500		1,702
Interest Rates									
Borrowing	200,000	0.50%	1,000	225,000	0.50%	1,125	250,000	0.50%	1,250
Investment	40,000	0.25%	100	30,000	0.25%	75	20,000	0.25%	50
Manchester Airport	Quantum		100	Quantum		100	Quantum		100
			1,200			1,300			1,400
Grants									
TFG	115,146	0.10%	115	112,501	0.19%	216	105,140	0.19%	204
H. Benefit	80,000	0.25%	200	60,000	1.00%	600	50,000	2.00%	1,000
C.T. Benefit	23,000	0.50%	115						
Learning Disability and Health Reform	5,335	1.00%	53	5,000	1.00%	53	5,300	1.00%	53
New Homes Bonus	294	1.70%	5	294	2.30%	7	294	3.40%	10

Council Tax Freeze Grant	2,125	1.80%	39	2,500	1.00%	25	2,500	1.00%	25
Modesole	661	10.00%	66	661	10.00%	66	661	10.00%	66
Early Intervention Grant	14,722	1.00%	147	850	10.00%	85	850	10.00%	85
Transfer of Health Funding				9,306	3.20%	300	9,306	1.60%	150
			740			1,352			1,593
Estimated Budgets									
Academies Loss	Quantum		500	Quantum		500	Quantum		500
Carbon Emissions	440	5.00%	22	1,000	5.00%	50	1,000	5.00%	50
			522			550			550
Volume Changes									
Collection Fund	97,208	0.25%	243	98,000	0.25%	245	98,500	0.25%	246
Unity	Quantum		100	Quantum		100	Quantum		100
			343			345			346
Efficiency Savings									
2011-12	24,493	15.00%	3,674	24,493	5.00%	1,225	24,493	1.00%	240
2012-13	0	0.00%	0	17,735	11.80%	2,100	17,735	3.90%	700
2013-14	0	0.00%	0	0	0.00%	0	12,978	15.00%	1,950
			3,674			3,325			2,890
Insurance									
MMI	5,000	2.00%	100	5,000	2.00%	100	5,000	2.00%	100
			100			100			100
Emergency Planning									
ICT disaster	Quantum		500	Quantum		500	Quantum		500
Winter Weather	Quantum		500	Quantum		500	Quantum		500
Bellwin	500	10.00%	50	500	10.00%	50	500	10.00%	50
Flooding	Quantum		250	Quantum		250	Quantum		250
Other	Quantum		500	Quantum		500	Quantum		500
			1,800			1,800			1,800

Changes									
Debt Collection	45,000	0.50%	225	45,000	0.50%	225	45,000	0.50%	225
NNDR retention				55,000	2.50%	1,375	55,000	2.50%	1,375
Localisation of Council Tax				2,350	20.00%	470	2,350	15.00%	353
Introduction of Universal Credit				Quantum		250	Quantum		500
			225			2,320			2,453
Financial Guarantees									
PFI 2	Quantum		500	Quantum		250	Quantum		250
PFI 4	10,000	5.00%	500	10,000	5.00%	500	10,000	5.00%	500
Mouchel	Quantum		1,000	Quantum		500	Quantum		500
Metrolink	Quantum		750	Quantum		500	Quantum		500
Pensions	Quantum		500	Quantum		500	Quantum		500
Groundwork	800	20.00%	160	800	10.00%	80	800	10.00%	80
Limeside	6,000	1.00%	60	6,000	1.00%	60	6,000	1.00%	60
Fitton Hill	20,000	1.00%	200	20,000	1.00%	200	20,000	1.00%	200
Coliseum	100	10.00%	10	100	10.00%	10	100	10.00%	10
OEE	2,300	10.00%	230	2,300	10.00%	230	2,300	10.00%	230
Grant Claw back	Quantum		100	Quantum		100	Quantum		100
			4,010			2,930			2,930
Other									
General	Quantum		1,091	Quantum		1,000	Quantum		1,000
			1,091			1,000			1,000
TOTAL			15,650			16,839			16,764

Eleven Areas of Risk for Oldham Council

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". 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; the risk assessment covers the higher range.</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 anticipated to increase and 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. General predictions indicated that they would rise in either late 2010 or early 2011. This has not yet happened and the 2012/13 budgets have been prepared on the present levels of interest paid by the Council. It is assumed that 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 in the past year.</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.</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 2010 indicates an overall reduction in general and specific grant funding to Councils over a 4 year period. The actual information provided has only given certainty for two years. • Changes to the present housing benefit regime include the introduction of the Universal Credit. • The risk of claw back during the audit process for the housing benefit subsidy claim. • Devolution of Council Tax Benefit to Councils by 2013/14 in conjunction with a 10% overall reduction in the present funding level. • The transfer of certain responsibilities to local authorities currently provided for by the health service • The revision from 2013/14 of the Local Government finance system <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</p> <p>The impact of the Carbon Reduction Scheme is not yet totally clear, but it is estimated that there will be a cost the Council. Data has already been supplied so the impact should become clearer over time.</p>

5	Volatility in some budget headings between years	<p>There are long standing areas of risk where the Council budgets for the middle of the range, but might find the out-turn for a year at the higher end.</p> <p>In respect of the Collection Fund there is a risk that the collection of cash including arrears falls leading to increased pressure and a deficit position.</p> <p>In respect of housing benefit volume payments to Unity, there is a risk that changes to the system leads to a claim for additional costs.</p>
6	Efficiency gains expected in the agreed budget are not achieved	<p>The budget includes an assumption that the Council will deliver ambitious efficiency savings; the risk is that they may be delivered at a slower rate.</p> <p>Based upon 2009/10 to 2011/12 experience the achievement of the efficiency programme in monetary terms has shown full achievement. In the next three financial years from 2012/13 there are further challenging efficiency and budget savings required. These savings requirements 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 current assessment of the Council is that this scheme will be activated resulting in cost to the Council.</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</p>

		<p>insurance arrangements however the value of claims is capped at £52,500.</p> <p>One other uncertainty is around the impact of unsuccessful prosecutions led by the Council. Should claims be received it will impact on the overall insurance costs to be paid by the Council including future premiums.</p>
8	Emergencies which can be foreseen which can occur on an ad hoc basis	<p>Were disasters to occur, the Council would need 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>
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 costs which are not foreseen when the budget is prepared.</p> <p>It is also anticipated that proposed changes to Business Rate distribution, Housing Benefit Administration and Council Tax Benefit Administration from 2013/14 will increase the financial risks of the Council.</p>
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"> • On PFI 2 there are issues about the non performance of the contractor against the original contract. The Council decision to insist the contract conditions are met includes an element of financial risk.

		<ul style="list-style-type: none"> • On PFI 4 the Council had to reengineer the scheme to get agreement and underwrite additional financial risk. • Mouchel is the majority shareholder in Unity, the Council's Strategic Service Delivery Partner. Indications in the financial press indicate the company has a number of challenges. Should Mouchel face further challenges extra unbudgeted costs could be incurred. • Metrolink has resulted in all the AGMA authorities guaranteeing the additional costs above the DFT grant of £244m. This project is reaching a critical phase • In respect of staff previously employed by the Council but transferred to other organisations the Council has agreed to underwrite the pension costs. • The Council guarantees to cash flow the salary costs of Groundwork Oldham and Rochdale. This risk has been up rated for 2012/13 • When the housing stock transfer took place on the Limeside estate the Council agreed to underwrite environmental liabilities of £6m. • When the housing stock transfer took place on the Fitton Hill estate the Council agreed to underwrite environmental liabilities of £20m. • On the Coliseum Theatre the Council has underwritten an overdraft of £100k • The Council needs to consider its options to wind up OEE which could result in a potential financial liability.
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

Earmarked Reserve	Balance	Assessment of Current Risk
	£000	
Schools PFI & BSF Reserve	1,017	This reserve is required to equalise out between years the costs estimated to be incurred by the Council on the 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.
Insurance Reserve	8,950	<p>This includes:</p> <ul style="list-style-type: none"> • Any claims arising out of the dissolution of MMI should it not achieve a solvent run-off. The view taken at the 2010/11 closure of accounts was that this was likely and an amount should be set aside in the reserve. The key court cases to decide whether MMI is still solvent have not yet been resolved to determine liability. The financial viability of the Company as per the official accounts continues to decline. The view remains that it is sensible to set aside an amount to cover the Scheme of Arrangement should it be activated. • For any claims made dating back to 1974, when the external insurance arrangements of the Council are not clear, the assumption is that the Council will bear the full cost of any claim made. • Claims relating to asbestos 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. • Other claims against the Council not covered by Insurance

		<p>The amount to include in the Insurance Reserve at the year-end is calculated via an Actuarial report which is currently being produced for 2011/12. The amount could increase or decrease at the year-end dependent upon the outcome of this report. The risk for 2011/12 is that the level of insurance claims made against the Council has increased on the previous financial year. Latest figures indicate a 22% increase in the number of claims year on year.</p>
LPSA Reward Grant	1,217	<p>The 2011/12 agreed budget of the Council assumes that £1,011k of this earmarked reserve will be utilised. The Medium Term Financial Strategy assumes no contribution from this Reserve in 2012/13. This leaves a balance of £206k to support the 2012/13 budget process.</p> <p>It is recommended that £206k of the present reserve be transferred to support the Council's general balances for the 2012/13 financial year.</p>
Area Based Grant Reserve	667	<p>This represents the amount of grant at the year-end which was under spent as at 31st March 2011. It is planned that the £170k of the balance will be utilised in 2011/12 and the remaining £497k will be carried forward to support future initiatives in 2012/13 and future years.</p>
<p>Budget Reserve. There are six constituent parts to this reserve:</p> <p>a) People, Communities and Society under spend of £1,509k</p> <p>b) Royton Town Hall funding of £59k set aside for building improvements.</p>	2,674	<p>The budget report agreed by full Council on 23rd February 2011 agreed to two savings options in relation to Adult Social Care setting aside specific funding totalling £1m as an Earmarked Reserve. At the year-end it was possible to set aside a further £509k to supplement this amount. The full amount has been utilised to support the Adult Social Care budget in 2011/12.</p> <p>This scheme has been commissioned in 2011/12 on internal works to the building and the earmarked reserve is awaiting transfer to the Directorate.</p>

<p>c) Members training funding of £10k set aside from under spend</p> <p>d) Web based outplace support funding of £46k carried forward to be spent in 2011/12</p> <p>e) Carry forward of £500k from the Performance Improvement and District Partnership under spend.</p> <p>f) ICT contingency fund of £550k due to decision to defer future ICT refreshes.</p>		<p>The balance will be fully utilised in 2011/12. The budget report agreed by full Council on 23rd February 2011 agreed to this carry forward from a 2010/11 under spend as a specific earmarked reserve. This amount has been utilised as part of the 2011/12 budget</p> <p>The balance has been fully utilised in 2011/12.</p> <p>The budget report agreed by full Council on 23rd February 2011 agreed that this amount would be set aside as an earmarked reserve. The full £500k is in the process of being transferred to support the 2011/12 budget.</p> <p>This earmarked reserve was set aside to support any unforeseen ICT expenditure as a result of the 2011/12 budget decision to postpone the ICT refresh for a number of financial years and only replace equipment when required. It is planned to carry the reserve forward into 2012/13.</p>
Special Projects Reserve	3,069	<p>The Council had already committed expenditure in 2010/11 to fund agreed projects from this Reserve. At month 4 it was agreed that £65k be released to support the employment of graduates. Further to this the Cabinet at its meeting on 1st August 2011 agreed to release a further £230k from this earmarked reserve to fund special projects of the Town Centre Investment Strategy and the Property Efficiency Team. At its meeting on 31st October 2011 the Cabinet agreed to release a further £293k to fund modern apprenticeship costs and the Repositioning Oldham project. There remains an amount to fund future invest to save projects such as the New Operating Model for the Council and the further Town Centre redevelopment. The detailed project costs to be funded from this Reserve are being developed.</p>

Waste Smoothing Levy	1,929	With the developments on the disposal of Waste in the Greater Manchester Area it is anticipated that the Waste Levy from the Greater Manchester Waste Disposal Authority will increase in future years at a much higher rate of inflation than the retail price index. The agreed strategy was for each Council to create a Waste Smoothing Levy to minimise the charge on the General Fund. The Waste Smoothing Levy Reserve reflects the Council's commitment to do this. The 2012/13 budget strategy assumes 50% of this reserve is utilised in 2012/13.
Winter Maintenance Reserve	350	The annual routine budget for winter maintenance assumes that the weather conditions for the year reflect a normal winter. There are occasions when particularly adverse weather conditions are faced and the financial consequences cannot be avoided. The Winter Maintenance Reserve is thus held to minimise the risk of a potential overspend in those circumstances which would then impact on general Council budget.
Children's Reserve	400	This reserve was set up so the Council could respond quickly to a serious incident in an appropriate manner within Children's 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	365	This money has been utilised in 2011/12 to support projects recommended by District Partnerships.
Partnership Reserve	254	<p>The Council has the following partnerships requiring to be wound up as companies. The estimated cost of this is £50k per company.</p> <ul style="list-style-type: none"> • OEE • OEDA • Southlink <p>The Council also has minority stakes in three companies; C1OL, OPP and Meridian which require specialist advice to ensure the Council obtains its value as a minority shareholder not in control of these companies.</p>

<p>Future Liabilities Reserve. There are eleven constituent parts to this reserve:</p> <ol style="list-style-type: none"> 1) Chadderton Baths remediation or demolition works where an amount of £100k was set aside. 2) Land Charges where the Council has received income in previous years where a ruling has indicated a number of individuals are entitled to a refund. An amount of £250k was set aside. 3) Housing Benefit Subsidy Claw back where the Council was exposed to unforeseen reductions in the grant around changes to the local housing allowance introduced from 1st April 2010. An amount of £300k was set aside 	<p>4,642</p>	<p>It was anticipated when the accounts for 2010/11 were closed that this amount would be required. An EDRS report produced in March 2011 identified that, due to health and safety requirements, demolition work was required in 2011/12 for which no budget existed. The latest plans are that a third party will lease the building from the Council. The amount set aside in the original Reserve is no longer required.</p> <p>It is recommended that £100k of the present reserve be transferred to support the Council's general balances for the financial year 2012/13</p> <p>A claim was received in 2010/11 from a firm of external solicitors for an amount in excess of £60k. The amount set aside assumed more claims would be received and is the best estimate of the full amount the Council will have to ultimately pay. Due to an ongoing claim nearing settlement, at its meeting on 31st October 2011 Cabinet agreed to release £25k of this reserve. A further £45k has also been released to pay a separate claim. The remainder of the earmarked reserve is still required.</p> <p>Work with one provider of social housing identified an unbudgeted outstanding call on Council resources totalling £100k for 2011/12 due to changes in national legislation under which changes to the housing subsidy arrangements for the local housing allowance became operative from 1st April 2010. This estimated liability has reduced from the 12th May 2011 date when the final accounts for 2010/11 were prepared. There are continuing changes to housing benefit which are increasing the Council's risk of having to finance expenditure previously fully funded from housing benefit subsidy particularly during the external audit process. The external audit of the 2011/12 subsidy will take place after the Council has closed its accounts. It is considered prudent to retain £180k of this reserve to offset this risk.</p> <p>It is recommended that £120k of the present reserve be transferred to support the</p>
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<p>4) Legal Fees and possible compensation for an alleged claim against the Council for inadequate care. An amount of £120k was set aside.</p> <p>5) Dilapidations arising out of property rationalisation with the expected transfer of staff from leased properties to those owned by the Council. An amount of £100k was set aside.</p> <p>6) Council Tax Committals. Work to review Council Tax arrears with Unity identified a backlog of cases which were not being subject to further action following bailiff enforcement. An amount of £50k was set aside to meet these costs.</p> <p>7) Treasury Management. Given the volatility of interest rates in the current economic climate an amount of £300k was set aside.</p> <p>8) Airport Sinking Fund. This relates to the refinancing of the debt by</p>		<p>Council's general balances for the financial year 2012/13.</p> <p>This case is still outstanding and the legal fees will be incurred in 2012/13.</p> <p>The Council has an agreed asset management strategy to reduce its usage of leased buildings and transfer staff into Council owned buildings. To vacate buildings there may be a £100k charge to the Council for dilapidations in 2012/13.</p> <p>There is a backlog of cases on Council Tax and NNDR arrears for a number of persistent debtors over a number of years who are classed as having the ability to pay but who have no intention of doing so. There has been money set aside to clear this backlog estimated to be in excess of 200 cases so formal Court Action can be taken in 2011/12. This amount will be fully utilised in 2011/12.</p> <p>The money markets are extremely volatile which results in it being extremely challenging to accurately forecast the expenditure which will be incurred on capital finance and the interest to be earned from short term investments. This money will enable the Borough Treasurer to ensure the impact on the Council's revenue account in a turbulent year from unforeseen shocks is minimised. A number of other local authorities have set up a reserve of this type.</p> <p>The refinancing of the debt to Manchester Airport has led to the situation whereby the Council is receiving a higher rate of interest than it pays on the loan. However</p>
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<p>MAG. An amount of £1,045k was set aside.</p> <p>9) Unforeseen by-elections result in additional unbudgeted expenditure to the Council. An amount of £144k was set aside.</p> <p>10) Culverts and Drainage. There is a backlog of work required around this area to prevent a number of roads collapsing. An amount of £500k was set aside to undertake this work.</p> <p>11) Provision to offset full year cost of agreed 2011/12 budget proposals delayed by consultation where an amount of £1,734k was set aside.</p>		<p>Manchester Airport is now an independent commercial entity operating in an area where profits are influenced by the general health of the economy. The profitability of the company has already been affected by unforeseen events in the past 18 months such as the volcanic ash cloud. Should Manchester Airport not be in a position to repay its loans then there would be an unbudgeted cost to the Council. This sinking fund will ensure the Council can minimise the impact on its revenue account from an unforeseen worsening in the Manchester Airport Group position.</p> <p>The Council has no control over when by-elections occur. They result in unbudgeted cost to the Council. This amount of money is set aside to minimise the impact in any one year of an unforeseen overspend.</p> <p>Cabinet, at its meeting on 1st August 2011, has already agreed that £75k of the money set aside in this reserve be utilised for emergency works in Failsworth.</p> <p>At the point the Council closed its financial accounts for 2010/11 on 12th May 2011 it was recognised that the level of budget reductions made were challenging. It was therefore considered prudent to set aside an amount within this future liabilities reserve to manage this financial risk rather than reduce general balances which would have to be replenished during the 2012/13 budget cycle. The Council also had an agreed balances strategy which, on a risk based approach agreed at Cabinet/Council, identified a potential significant increase in the level of balances on a risk analysis for 2012/13 and 2013/14. The latest budget monitor report to Cabinet indicates a forecast balanced budget for the year. This indicates at this point in time the achievement of savings identified as budget options supported by earmarked reserves for unforeseen items has been successful.</p> <p>It is recommended that £1,034k of the present reserve be transferred to support</p>
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		general balances for 2012/13. This would leave £700k to meet unforeseen events in 2012/13 and help assist ensure the Council delivers a balanced budget.
Exceptional Items Reserve	3,600	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 efficiency proposals for 2012/13, the impact of the local government resource review 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.
Revenue Grants Reserve	18,020	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 are 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.
TOTAL EARMARKED RESERVES	47,154	