

REPORT TO THE EXECUTIVE

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PORTFOLIO	Resources
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Medium-term Financial Strategy – Use of Earmarked Reserves**PURPOSE**

1. To make proposals about the use of the Council's earmarked reserves and the accounting treatment of pensions costs.

RECOMMENDATION

2. That the Council be recommended to agree:
 - 1) That the Capital Support Reserve be closed. A sum of £409,391 be transferred to the Modernisation Reserve and £185,641 transferred to General Balances.
 - 2) That provision be made in the current year's Revenue Budget in the sum of £406,551 to fund the accumulated amount of pension strain at 31st March 2008.
 - 3) That an equivalent amount be withdrawn from the Modernisation Reserve and credited to the Revenue Account to fund this cost.
 - 4) That an amount of £75,000 be transferred out of the provision made in the budget for 2008/09 for Pensions Strain to meet costs of managing the capital programme formerly funded from the Capital Support Reserve.
 - 5) That no amendment be made to the remaining earmarked reserves

REASONS FOR RECOMMENDATION

3.
 - 1) To ensure that the best use is made of earmarked reserves to achieve the Council's overall objectives.
 - 2) To ensure that the Council has sufficient resources to meet the costs arising from the early retirement and redundancy of staff.

SUMMARY OF KEY POINTS

4. The Council has operated a Capital Support Reserve in various forms for many years. The objective of this reserve is to provide funds for capital projects and to pay for revenue costs associated with managing the Council's Capital Programme. At 31st March 2008 there was a balance of £595,032 in the reserve. For the current financial year, the planned use of the reserve amounts to some £75,000 to fund the cost of staff in Finance and Housing. A similar use of the reserve has been made for a number of years.

5. Under the Council's Medium-Term Financial Strategy (MTFS) the stated purpose of holding earmarked reserves is to meet one-off costs. As this is no longer the purpose of the Capital Support reserve then the reserve should be closed with immediate effect. However, in these circumstances, additional provision of £75,000 must be made to fund ongoing costs in the Continuation Budget for this and subsequent years.
6. It will need to be decided what use is to be made of the balance in the reserve. It is proposed that the first call should be to transfer a sum to General Revenue Balances. Members will recall that the MTFS sets the minimum level of balances at £1.1M. However, as at 31st March 2008 the actual figure was only £914,359. This was principally due to shortfalls in income in 2007/08, a fact that was recognised in the various rounds of revenue monitoring that were conducted throughout the year.
7. Because this situation was flagged up early, it was possible to build a recovery plan into the current year's budget. Provision of £100,000 was made in order to start building balances back up to the minimum level. A similar figure has been built into the projections for 2009/10. However, it is clear from the revenue monitoring that has taken place during the current year that income is still falling away in one or two areas. There must therefore be considerable doubt about the Council's ability to restore £100,000 back into revenue balances as planned.
8. If no progress is made on restoring balances this year then there will be greater pressure still on next year's budget. In order to avoid this, it is proposed that £185,641 of the available amount be transferred to revenue balances. This will reduce the risk of a budget shortfall this year and assist in the financial planning process for future years.
9. The Council also operates a Modernisation Reserve. Although this has been used for a variety of purposes, its principal use is to meet one-off redundancy costs. However, recent changes in the accounting policies regarding early retirements means that this needs to be reviewed and the arrangements changed.
10. Employees who are made redundant by the Council are entitled to a redundancy payment. It is this figure that has been funded from the Modernisation Reserve. However, in very many cases the employee will also be entitled to immediate payment of their pension. In determining whether this is the case the Council is bound by pensions regulations determined nationally and has no discretion in the matter. There is a cost to this as the pension will be payable for longer than would have been the case if the employee had worked until normal retirement age. This cost is known as "pension strain", and is recharged to the Council by the Lancashire County Pension Fund.
11. At one time the pension strain was payable by six annual instalments and charged to the continuation budget of the service unit involved over this period. However, it has been agreed with the District Auditor that this practice no longer complies with best accounting practice and in future the full cost must be accounted for at the time the decision to declare the redundancy is taken. The transition to this new approach must be completed by the end of the next financial year.

12. Depending on the circumstances of each individual case, the amount of pension strain can be significant. Accounting for it at the outset therefore represents a major change to previous practice. At 31st March 2008, there was an accumulated liability in the Balance Sheet amounting to £406,551. This amount must now be charged to the Revenue Account in the current and following years. However, this could be achieved immediately by transferring the balance in the Capital Support Reserve as shown below:

Current balance – Modernisation Reserve	£170,283
do. – Capital Support Reserve	£409,391

	£579,674
Less: used to fund outstanding pension strain	£406,551

Balance remaining	£173,123

13. This balance will therefore be available to meet other modernisation costs that may arise such as supporting the work of Team Burnley, or resourcing a future bid for unitary status. However, its main use must be to meet redundancy and pension strain costs that arise in the future. Given the budget pressures that the Council continues to face, further redundancies appear to be unavoidable.
14. At present, redundancies are only declared after an appraisal of costs and benefits has been carried out. They can only be approved if the upfront costs incurred (ie redundancy payment and pension strain) are recouped from the salary savings that result in less than five years. It is not proposed that this arrangement should be changed.
15. Within the revenue budget there is an amount of £291,583 to meet the annualised cost of pension strain referred to in 8. above. Given that the existing liability is to be eliminated, this sum will no longer be required for this purpose. A sum of £75,000 can therefore be reallocated to meet the cost of capital salaries referred to in 5. above. This leaves a sum of £216,583 to pay for the full cost of the two redundancies that have occurred so far this year, and any further redundancies that need to be declared before the end of the current financial year as part of the budget process.
16. A similar arrangement can also be used in the first draft of the continuation budget for 2009/10. A decision can be taken at a later stage in the process as to whether this amount needs to be provided in full, or whether a proportion can be diverted for other uses.
17. As part of the Financial Strategy, it is also required that an annual review is conducted of the remaining earmarked reserves to ensure that they are still required for their stated purpose and there is an adequate balance available to meet the known liabilities. A summary of all such reserves and their proposed usage is attached. No further amendments are proposed.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION
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18. As set out in the report.

POLICY IMPLICATIONS

19. None arise specifically. However, in view of the changing incidence of costs, it may be necessary to review the Redundancy Policy in the future.

DETAILS OF CONSULTATION

20. The report will be considered by the Finance & Performance Scrutiny Panel at their meeting on 8th October 2008. Their views will be reported orally at this meeting.

BACKGROUND PAPERS

Finance File – pensions costs

FURTHER INFORMATION

PLEASE CONTACT:

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ALSO:

Phil Moore, Head of Finance

[appendix](#)