

DERBYSHIRE COUNTY COUNCIL

CABINET

15 July 2014

Report of the Director of Finance

RESERVES POLICY
(STRATEGIC POLICY AND BUDGET)

1 Purpose of the Report

To note and approve:

- the Reserves Policy
- the transfer of Earmarked Reserves no longer required to the General Reserve balance;
- the transfer of revenue contributions to the capital programme, or earmark them in reserve where spend has not yet occurred.

2 Information and Analysis

The Council's Reserves Policy ensures that the Council is meeting both its statutory requirements and that it takes a risk assessed approach to maintaining an adequate level of reserves.

Section 43 of the Local Government Finance Act 1992 requires precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. There are also a range of safeguards in place that help to prevent local authorities over-committing themselves financially. These include:

- The balanced budget requirement as set out in section 43 of the Local Government Finance Act 1992.
- The chief finance officer's duty to report on robustness of estimates and adequacy of reserves when the Council is considering its budget requirement as set out in Section 27 of the Local Government Act 2003.
- Legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the chief finance officer has responsibility for the administration of those affairs as set out in Section 151 of the Local Government Act 1972.

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These requirements are reinforced by section 114 of the Local Government and Finance Act 1988 which requires the chief finance officer to report to Council if there is or likely to be unlawful expenditure or an unbalanced budget.

The Reserves Policy was last approved by Cabinet on 1 October 2013. There are no proposed changes to the policy. The policy is shown in Appendix One.

Earmarked Reserves

To ensure that Earmarked Reserves are fit for purpose, the Reserves Policy requires balances should be reviewed quarterly and formally reported to Cabinet at least annually.

Earmarked reserves are a means of building up funds to meet known or predicted liabilities. Funds should be used for the item for which they have been set aside, or be transferred in whole or in part, to the General Reserve if it is found they are no longer required.

At the end of 2013-14, total earmarked reserves were £205.144m. The analysis has identified £1.665m of Earmarked Reserve balances which are no longer required. It is proposed that these amounts are transferred to the General Reserve. Details of these reserves are:

- £0.165m Registrars– Corporate
- £1.500m –Savings on IT contracts

Department	Balance at 31-03-14 £m	Transfer to General Reserve £m	Revised Balance at 31-03-14 £m
Adult Care	10.000	1.500	8.500
Corporate Resources	16.312	0.000	16.312
Chief Executives	6.302	0.000	6.302
Children and Younger Adults	27.828	0.000	27.828
Corporate	49.596	0.165	49.431
Health and Community Services	0.922	0.000	0.922
Economy, Transport and Environment	25.045	0.000	25.045
Total Excluding Schools	136.005	0.000	134.340
School Balances & DSG	69.139	0.000	69.139
All Earmarked Reserves	205.144	1.665	203.479

The remaining balance of Earmarked Reserves of £203.479m has been analysed into the specified categories as outlined in the revised Reserves Policy and are shown below:

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	Grants £m	Committed Liabilities £m	Funding a Capital Scheme £m	Other £m	Not Controlled by Council £m	Total £m
Adult Care	0.000	0.500	0.000	8.000	0.000	8.500
Corporate Resources	0.000	4.066	0.000	10.059	2.188	16.313
Chief Executives	0.000	0.476	0.000	5.826	0.000	6.302
Children and Young Adults	0.725	5.903	3.070	17.506	69.763	96.967
Corporate	2.334	0.504	0.000	29.618	16.975	49.431
Health and Community Services	0.388	0.100	0.000	0.434	0.000	0.922
Economy, Transport and Environment	2.344	4.183	4.366	14.152	0.000	25.044
Total	5.791	15.732	7.436	85.595	88.925	203.479

General Reserve

The Council's General Reserve balance as at 31 March 2014 was £43.077m; however the Council has a number of commitments against the balance. These commitments are identified in detail in the Five Year Plan Report on this agenda.

The principal use of reserves over the medium term is in support of Adult Care expenditure on demographic and other cost pressures (£11m) and in the planned use of reserves to support the budget in general (£11.6m) over the planning period. It is only by maintaining a close control over expenditure and maintaining a proactive approach to reserves management that they are available to meet the current demands associated with achieving required budget reductions.

Reserves will be adjusted as shown over the forthcoming five years:

	General Reserve £m
Balance at 31 March 2014	43.077
Future years planned budget support	-14.126
Planned Balance as at 31-03-19	28.951

3 Considerations

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality of opportunity, human rights, personnel, environmental, health, property and transport considerations.

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4 Key Decision

No.

5 Call-in

Is it required that call-in be waived in respect of the decisions proposed in the report? – No

6 Background Papers

Chartered Institute of Public Finance and Accountancy

- LAAP Bulletin 77

Derbyshire's Local Management Scheme for financing schools.

Papers held in Technical Section, Corporate Finance Room 208, County Hall

7 OFFICER'S RECOMMENDATIONS

That Cabinet approves:

- (i) the transfer of £1.665m from Earmarked Reserves to the General Reserve;
- (ii) the Reserves Policy.

PETER HANDFORD

Director of Finance

17 June 2014

RESERVES POLICY

Introduction

This policy establishes a framework within which decisions will be made regarding the level of reserves held by the Council and the purposes for which they will be used and maintained.

Sections 32 and 43 of the Local Government Finance Act 2003 require local authorities to have regard to the level of resources needed to meet estimated future expenditure when calculating the annual budget requirement.

Definitions

Reserves are sums of money held by the Council to meet future expenditure. There are two principal types of reserves:

- (a) General - non-specific reserves which are kept to meet short term, unforeseeable expenditure and to enable significant changes in resources or expenditure to be properly managed over the period of the Council's Five Year Financial Plan (FYFP). The Council's general revenue reserves are held in the General Reserve Balance.
- (b) Earmarked reserves which are held for specific purposes and which are established either by statute or at the discretion of the Council.

A summary of all reserves, including in year movements and year-end balances are contained in the Council's Statement of Accounts.

General Reserve Balance

The Council will maintain an adequate level of General Reserve Balance to:

- Provide a working balance to cushion the impact of uneven cash flows and avoid unnecessary short term borrowing;
- Provide a contingency to cushion the impact of unexpected events or emergencies
- Plan for potential major items of expenditure.

The appropriate level of reserves for this purpose will be determined by the Council's FYFP, which will be reviewed annually and will be subject to approval by a meeting of the Council's Cabinet. However, the Council will not maintain levels of General Reserve balances that are excessive compared with appropriate minimum levels. In this context, "excessive" will be assessed and reviewed annually in the FYFP with regard to:

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- The projected level of General Reserve balance at the end of the FYFP, less the appropriate minimum level;
- The annual planned use of reserves in each year of the FYFP;
- The impact of sudden large changes in annual use of balances on services or Council Tax levels.

The adequacy of the General Reserve Balance will be determined by assessing the financial risks associated with meeting continuing obligations to provide services. The risk assessment will be reviewed annually.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance about the factors which should be taken into account in determining the overall level of reserves and balances. These are:

- Assumptions regarding inflation;
- Estimates of the level and timing of capital receipts;
- Treatment of demand-led pressures;
- Treatment of savings;
- Risks inherent in any new partnerships;
- Financial standing of the Authority (i.e. level of borrowing, debt outstanding, etc)
- The Authority's track record in budget management;
- The Authority's capacity to manage in year budget pressures;
- The Authority's virements and year-end procedures in relation to under and over-spends;
- The adequacy of insurance arrangements.
- An assessment of external risks
- Impact of major unforeseen events; and
- Likely level of Government support following major unforeseen events.

The General Reserve Balance will be reviewed and projections on future balances will be made at key points during the financial year, namely as part of the budget setting process and update of the Five Year Financial Plan.

In exceptional circumstances, the actual level of the Council's balance may fall below the level which is considered appropriate. This is consistent with the need to provide to meet short-term unforeseen expenditure. However, the actual level will be monitored against balances outlined in the *FYFP*. The plan will set out the level of planned balances, as well as confirming acceptable thresholds above or below the balance. If the balance falls outside of the planned tolerance levels, a plan will be agreed by the Council to restore balances to the appropriate level.

Earmarked Reserves

Departments may establish earmarked reserves from within their cash-limited budgets to properly reflect on-going financial commitments, fund future service

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developments or expenditure of an uneven nature. Earmarked reserves are not available to the Council for use in its budget and Council Tax setting process. They are required for specific purposes and are a means of building up funds to meet known or predicted liabilities. These reserves have no upper threshold on them; however, individually their limit and purpose must be approved before they are created using the following approval limits:

- Up to £20,000 – Strategic Director in consultation with Director of Finance
- Between £20,000 and £100,000 – Approval by Cabinet Member
- Above £100,000 – Approval by Cabinet

Balances carried forward from previous year's underspend will be allocated to a departmental reserve and proposals for their use will be subject to final approval by the Cabinet Member.

Balances should be reasonable for the purpose held and must be used for the item for which they have been set aside, if circumstances arise to which the reserve is no longer required for its original purpose, they should be transferred to the General Reserve. In order to establish that they are fit for purpose, there will be a review of balances on a quarterly basis, the outcomes of which will be formally reported to Cabinet at least annually.

Earmarked reserves will be analysed into the following categories:

- **Grants** – Any reserve that was created through the receipt of a grant to which its use is restricted to the degree that if it is not used for that purpose then the Council would become liable to repay the grant.
- **Committed Liabilities** – Genuine liabilities that are known and current to the Council (this does not include holding a balance to cover possible future liabilities).
- **RCCO required** – These are items where the reserve is held to meet the funding required by the capital programme.
- **Not Controlled by Council** – predominantly this is money which is controlled by schools, however also includes resources held on behalf of partnerships and other Councils.
- **Contribution to General Reserve** – These balances are no longer required for their original purpose and are available to be returned to the General Reserve Balance.
- **Other** – all other earmarked reserve balances, most likely to be balances held for potential future liabilities.

School Reserves

School balances are held for two main reasons; as a contingency against financial risks and to meet planned commitments in future years.

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Schools are encouraged to retain, where possible, a modest balance towards future liabilities and potential need for replacement of equipment. In order to allow the local authority to monitor schools' financial positions, governing bodies will be asked to report to the local authority on the use which the schools intend to make of surplus balances. The local authority will focus particularly on those schools which have built up significant excessive uncommitted balances and/or where some level of redistribution would support improved provision across a local area.