

**DERBYSHIRE COUNTY COUNCIL**

**CABINET**

**29 January 2013**

**Report of the Director of Finance**

**RESERVES POLICY**  
**(FINANCE AND MANAGEMENT)**

**1 Purpose of the Report**

To approve the Reserves Policy and the transfer of £7.307million from earmarked reserves to the General Reserve.

**2 Information and Analysis**

Good practice suggests that when councils review their medium term financial plans and prepare their annual budgets they should consider the establishment and maintenance of reserves. These can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves.
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves.
- A means of building up funds often referred to as earmarked reserves, to meet known or predicted liabilities.

No changes to the Policy are proposed in this report.

Guidance issued by the Chartered Institute of Public Finance and Accountancy's Local Authority Accounting Panel, highlights the importance for authorities of maintaining appropriate levels of reserve to cover unforeseen external factors. Therefore, it is appropriate to review the Reserves Policy to ensure that the current policy reflects the economic climate in which the Council operates.

The Policy should also ensure that the Council is meeting both its statutory requirements and ensures that it takes a risk assessed approach in maintaining an adequate level of reserves.

The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and 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 the Local Government Finance Act 1992.
- The chief finance officer's duty to report on robustness of estimates and adequacy of reserves when a council is considering its budget requirement.
- 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.

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

The Audit Commission document 'Striking a Balance, improving councils' decision making on reserves', published December 2012, encourages authorities to regularly review the level and nature of their reserves and report those balances to members at the time of budget setting. The use of reserves in the budget process is identified in the Five Year Financial Plan, reported to Cabinet on 24 July 2012, and in the Revenue Budget report to Cabinet.

### **School Balances**

Schools may carry forward from one financial year to the next surplus/deficit in net expenditure relative to the school's budget share for the year.

### **Review of Earmarked Reserves**

In order to establish that they are fit for purpose, the Reserves Policy requires that earmarked reserves balances should be reviewed at least annually.

Earmarked reserves are a means of building up funds to meet known or predicted liabilities. They should be used for the item for which they have been set aside, or be transferred to the General Reserve if it is found they are not required.

A review of earmarked reserves' balances has been undertaken. At the end of 2011-12 earmarked revenue reserves stood at £136.7m of which

£73.0m relates to spending on schools, leaving £63.7m to support and manage council activity. The largest earmarked reserves relate to Insurance Liabilities (£15.1m), Grants (£9.3m), Single Status (£5.2m), PFI Schemes (£3.1m) and Change Management (£3.5m). The table below identifies those balances that are no longer wholly required to be earmarked and either all or a proportion will be returned to the General Reserve. The review included reserves held for Capital schemes.

<b>Earmarked reserve</b>	<b>Department</b>	<b>Current Balance £'000</b>	<b>Return to General Reserve £'000</b>
PSA1 Revenue Grant CEO	Chief Execs	648	648
Earmarked Revenue Reserve	CRD	209	209
Pre 5/6 Surestart	CAYA	1,710	3,000
LAA Underspend 07/08	CAYA	2,110	
PSA1 Revenue Grant CAYA	CAYA	1,808	
CAYA Earmarked Reserve	CAYA	400	
Mapperely/ Countryside	Env Services	9	9
VAT Recovered	Corporate	100	100
Single Status	Corporate	3,341	3,341
<b>Total</b>			<b>7,307</b>

### **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.

### **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.

## **7 OFFICER'S RECOMMENDATION**

To approve the Reserves Policy for the Council and the transfer of £7.307m from earmarked reserves to the General Reserve.

PETER HANDFORD

Director of Finance

County Hall  
MATLOCK

18 January 2013

## **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 1992 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.

Details of all reserves, including in-year movements and year-end balances are contained in the Council's annual 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:

- 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 Five Year Financial Plan. 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***

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 should have no specific limit set on them but they should be reasonable for the purpose held and it must be agreed that they are used for

the item for which they have been set aside and transferred to the General Reserve if it is found they are not required. In order to establish that they are fit for purpose, there will be a review of balances at least annually.

### ***School Reserves***

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

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.