

GOVERNANCE COMMITTEE

28 MARCH 2013

REPORT OF HEAD OF CENTRAL SERVICES

AN UPDATE ON THE COUNCIL'S RESERVES

1.0 THE PURPOSE OF THE REPORT

- 1.1 To provide an update to members on the position with the Council's reserves, their purpose and why we hold them with a view to enabling members to make better informed decisions on their use.

2.0 RECOMMENDATIONS

- 2.1 **It is recommended that Members note the report.**

3.0 KEY ISSUES

3.1 Background

- 3.1.1 On 6 December 2012 the Audit Commission published a report called "Striking a Balance: Improving Council's Decision Making on Reserves. The purpose of this report calls for officers to offer elected members clearer and more comprehensive advice, equipping them to make better informed decisions. The report also calls for greater clarity from councils about the reasons for holding reserves. The link to the report on the Commissions web site is: www.audit-commission.gov.uk/strikingabalance

- 3.1.2 The report finds that, between 2007 and 2012, 77% of councils increased their reserves relative to their spending, with 26% more than doubling them. Council reserves grew by £4.5m (36% in real terms) over this period. The Commission found that many councils had been setting money aside as a response to funding reductions and financial uncertainty, but the report says that some of the growth in reserves has been the result of unplanned increases.

- 3.1.3 The report contains questions to help elected members make better informed decisions about reserves.

3.2 Why Hold Reserves?

- 3.2.1 Reserves are an essential part of good financial management. They help councils cope with unpredictable financial pressures and plan for their future spending commitments. The level, purpose and planned use of reserves are important factors for elected members and council officers to consider in developing medium-term financial plans and setting annual budgets.

- 3.2.2 In setting a budget, a council decides what it will spend and how much income it needs from fees, charges and council tax to supplement government funding. A council may choose to fund some of its spending from its reserves, or set aside some of its income to increase reserves for future spending. Whatever it chooses, the decision affects local taxpayers and service users.

- 3.2.3 Having the right level of reserves is important. Where councils hold very low reserves, there may be little resilience to financial surprises and sustained financial challenges. Where reserves are high, councils may hold more than they need.

- 3.2.4 There is no set formula for deciding what level of reserves is appropriate, too low or too high – councils are free to determine the reserves they hold. Elected members are responsible for ensuring that their council's reserves are appropriate for local circumstances, and are accountable to taxpayers for the decisions they make. Chief finance officers have a duty to provide elected members with the advice they need to make good decisions.
- 3.2.5 As Members are aware the current and future financial challenges pose significant, and increasing, risks for councils and present them with competing priorities in their strategy for reserves. They can:
- Use their reserves to offset funding reductions and protect services – although, as reserves are a finite resource, this can only be a short-term strategy – or invest in making changes that reduce the cost of providing services in the long term; or
 - Increase reserves to strengthen resilience against future, uncertain cost pressures
- 3.2.6 When calculating Budget Requirements, relevant authorities are required (by The Local Government Finance Act 1992) to have regard to the level of reserves needed for meeting estimated future expenditure. Reserves can be held as a working balance, for contingency purposes (e.g. for emergencies), or as specific (i.e. "earmarked") funds.
- 3.2.7 The Local Government Act 2003 requires the Responsible Financial Officer to comment on the adequacy of reserves and the robustness of the estimates. A statement is included in the annual budget setting report to Full Council by the Head of Central Services providing an opinion in relation to this.

3.3 The Council's Actual Working Balance & Reserves

- 3.3.1 A clear protocol (covering purposes, utilisation, management, and review) exists for each reserve held, in line with guidance. This is reviewed annually as part of the budget setting approval process and is contained in the Council's Budget Book. The level of working balance an authority agrees is an individual matter for them based on their own unique circumstances, risk profile and risk appetite. It is not appropriate to compare/benchmark against other authorities in order to assess an appropriate level.
- 3.3.2 The target working balance for general expenses of £580k was temporarily increased to £640k when the 2009/10 budget was set to reflect the risks associated with the economic climate and the impact of this on a number of Council budgets, particularly income streams. The calculation for this has been further updated to include a new allowance for the increased risk of losing business rates income up to the safety net margin. This follows changes introduced by the government for the localisation of business rates from 1 April 2013. As such it was approved by the Policy Finance and Administration Committee (PFA) that the working balance be increased to £820k from 2013/14.
- 3.3.3 With regard to the working balance for special expenses (Melton Mowbray) this has been set at £50k for some time, based on prior year's history of spending and supplementary estimates.
- 3.3.4 The Housing Revenue Account (HRA) working balance was last increased from £250k to £500k by PFA at a meeting held on 25 January 2012, with a requirement to review it annually. This was further increased to £750k by the Community & Social Affairs Committee at a meeting held on 22 January 2013. The original increase was needed to reflect the increase in risk of a self-financed HRA, particularly with regard to treasury management activity, as a result of the reform of the HRA and the buying out of the subsidy system. In addition the risks associated with running the HRA as a going concern and ensuring that sustainable, continuous maintenance and improvement of the housing stock is on-going are significant.

It has been previously agreed that, should there be a surplus over the HRA working balance then this is available to support the requirements of the HRA business plan.

- 3.3.5 In addition to the working balance the Council maintains general reserves for general and special expenses. It has been the policy to utilise these reserves for funding non-recurring items of capital and revenue expenditure that meet the Council's priorities.
- 3.3.6 Due to the previous low level of the General Reserve Special Expenses a budget was previously set that enabled funds to be transferred into this reserve on an annual basis in order to build the reserve up to a level that would provide funding for capital schemes or revenue items of a non recurring nature. As a result of this policy this reserve now has a more healthy balance and is available to support projects of this nature.
- 3.3.7 A Statement of the Council's usable i.e. cashable Revenue and Capital Reserves including Provisions for Bad Debts is attached at Appendix A and are as reported to Full Council on 6 February 2013 as part of the revenue budget setting report. This statement shows the actual balance brought forward at 1 April 2012 and the estimated addition to/or withdrawal from each reserve anticipated during 2012-13 and 2013-14. Included in this statement are a number of reserves that are being held for specific purposes and a brief description of the purpose and future intention with regard to each reserve and provision held by the Council is set out in Appendix B. This is in line with guidance contained in CIPFA's LAAP (Local Authority Accounting Panel) Bulletin 55.
- 3.3.8 In addition to the usable reserves discussed above the Council also holds a number of unusable reserves as shown on its Balance Sheet within the annual Statement of Accounts. This second category of non-cashable reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would become available to provide services if the assets are sold. Also included are reserves that hold timing differences shown in the movement of reserves statement line within the annual accounts "adjustments between accounting basis and funding basis under regulation" (for example the capital adjustment account). They are essentially reserves of an accounting nature only as required by CIPFA's Code of Practice on Local Authority Accounting in the UK.

4.0 POLICY & CORPORATE IMPLICATIONS

- 4.1 There is no further policy and corporate implications directly arising as a result of this report other than those set out above.

5.0 FINANCIAL & OTHER RESOURCE IMPLICATIONS

- 5.1 The position on the Council's reserves is reported to Full Council annually in February as part of the budget setting process. A mid-year position on a number of reserves is reported quarterly to the Policy, Finance & Administration Committee as part of the Items for Approval report as a result of requests for funding approval being made to PFA under Financial Procedure Rules and notification of items approved under delegated authority.
- 5.2 The position on the Council's Housing Revenue Account (HRA) working balance is reported to CSA annually in January as part of the budget/rent setting process for the HRA and quarterly as part of the Council's quarterly budget monitoring procedures.

6.0 LEGAL IMPLICATIONS/POWERS

- 6.1 Any legal implications arising from a movement in reserves will have been addressed during the budget approval process. Other legal implications have been addressed in paragraphs 3.2.6 and 3.2.7 above.

7.0 **COMMUNITY SAFETY**

7.1 There are no direct community safety implications resulting from this report.

8.0 **EQUALITIES**

8.1 There are no direct equalities implications resulting from this report.

9.0 **RISKS**

9.1 The Council has a working balance which is annually reviewed and calculated on a risk based approach. This working balance is there to provide for any variations in actual net expenditure against budget that could not have been anticipated at this stage. The detailed calculations are contained in the Council's MTFS.

10.0 **CLIMATE CHANGE**

10.1 There are no direct climate change implications resulting from this report.

11.0 **CONSULTATION**

11.1 Any proposed adjustments to reserves are made in consultation with budget holders and the Management Team where appropriate.

12.0 **WARDS AFFECTED**

12.1 All wards are affected.

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Date: 4th February 2013

Appendices: Appendix A – Statement of Revenue & Capital Reserves
Appendix B – Statement of Revenue & Capital Reserves – Purpose & Future Intentions

Background Papers: Audit Commission Report: Striking a Balance: Improving Council's Decision Making on Reserves

Reference: X: C'tee, Council & Sub-C'tees/Governance/2012-13/28-03-13/DG-An Update on the Council's Reserves