

## ISLE OF ANGLESEY COUNTY COUNCIL

<b>REPORT TO:</b>	<b>AUDIT COMMITTEE</b>
<b>DATE:</b>	<b>23 SEPTEMBER 2014</b>
<b>SUBJECT:</b>	<b>RESERVES AND BALANCES</b>
<b>PORTFOLIO HOLDER(S):</b>	<b>COUNCILLOR H E JONES</b>
<b>LEAD OFFICER(S):</b>	<b>RICHARD MICKLEWRIGHT</b>
<b>CONTACT OFFICER:</b>	<b>BETHAN H OWEN</b>
<b>ACTION:</b>	<b>FOR INFORMATION</b>

### 1. Purpose of report

This report outlines the current position on both Revenue Reserves and Capital Reserves.

### 2. Executive Summary

**2.1** The Council, as at 1 April 2014 held £27.27m of Total Useable Reserves, which includes £5.677m General Fund Reserves, £18.4m of Earmarked Revenue Reserves, £1.671m in HRA Reserves and £1.518m in Schools balances. In 2015/16 the Council is looking at making approximately £7m worth of efficiency savings. In future years, if no further savings or efficiencies are identified, the reliance on reserves will mean that the reserves will fall below the minimum level.

**2.2** The Capital Receipt Reserve and the Capital Grants Unapplied are both Capital Reserves. At the 31 March 2014 there were nil balances on both Reserves.

There are two Revenue Reserves earmarked for Capital purpose, the Capital Expenditure Reserve and the Leisure Improvement Grant. At the 31 March 2014 the balance on the Capital Expenditure Reserve was £0.565m, with the balance on the Leisure Improvement Grant being £0.196m.

There is a new capital strategy in place to predict the estimate of the Capital Reserves by the 2014/15 year end. There is no current minimum level of Capital Reserves set.

**2.3** The use of reserves should be governed by a policy agreed by Members and the reliance on reserves to balance the revenue budget in future years should be reduced so that the revenue budget is fully funded from other forms of income.

### 3. Appendices

Appendix 1: The use of Reserves 2013/14.

### 4. Background

**4.1** The use and level of reserves will be an essential part of the Council's financial strategy for the coming year. In response to this, the budget process for future years should focus on delivering a plan which reduces the reliance on reserves and ensures the Council's finances are sustainable.

**4.2** Although the level of general fund reserves is currently sufficient to support the revenue budget for the next year, they are not renewable forms of finance and, at some point, will fall below the current minimum level. The Council needs to use the reserves prudently to ensure that they enable the delivery of a balanced budget in future years, whilst remaining at a level to allow for any risks to be mitigated.

**4.3** There is a Capital Strategy document now in place for the 2015/16 budget round and it is for this reason that a policy that governs the use of reserves is needed to ensure that these balances are used wisely to create maximum flexibility and value for the Council.

## **5. Discussion**

**5.1** Setting the level of general reserves is one of several related decisions in the formulation of the Medium Term Financial Strategy (MTFS) and the annual budget. This decision requires account to be taken of the strategic, operational and financial risks facing the Authority. Specifically, the, MTFS requires the Council to build then maintain general reserves sufficient to cover the key factors that it faces. The S151 Officer will need to consider many factors in determining the precise level of reserves, many of which involve an assessment of the risk of assumptions included in the budget and the MTFS, together with the Council's financial standing and management.

**5.2** The Council recognises the need to hold and maintain reserves but also recognises that, by choosing to hold or increase reserves, the Council is allocating resources away from other potential uses and, as such, there are 'opportunity costs' of holding balances as reserves. For this reason it is important to set out clearly, and regularly review, the framework through where reserves are managed.

**5.3** Sections 32 and 43 of the Local Government Finance Act 1992 require Local Authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

**5.4** There is no specified minimum level of reserves that an authority should hold and Section 25 of the Local Government Act 2004 requires the Chief Financial Officer (Section 151 Officer) to report formally on the adequacy of proposed reserves when setting a budget requirement and to ensure that there are key protocols for their establishment and use.

**5.5** It is prudent financial management to review all reserves periodically in order to ensure that the reserves are adequate, relevant and set at the right level to guard against known future liabilities.

**5.6** As recommended in official guidance, the review of reserves is closely aligned to the formulation of the budget for the forthcoming year and the MTFS, which contains estimates of the use of earmarked reserves and general fund balances.

**5.7** The relevance and adequacy of reserves will be reviewed on an ongoing basis and formally reviewed on an annual basis.

## **6. Legal Powers**

- Sections 32 and 43 of the Local Government Finance Act 1992
- Section 25 of the Local Government Act 2004

## **7. Financial and Value for Money implications**

**7.1** This report details use of reserves and balances for the future and has no direct financial or value for money implications of its own.

**7.2** The balances in this report are subject to approval of the Auditor on the 26<sup>th</sup> September 2014.

## THE USE OF RESERVES 2013/14

<b>EARMARKED RESERVES</b>	<b>Balance as at 01 April 2012 £000</b>	<b>Transfers In 2012/13 £000</b>	<b>Transfers Out 2012/13 £000</b>	<b>Balance as at 31 March 2013 £000</b>	<b>Transfers In 2013/14 £000</b>	<b>Transfers Out 2013/14 £000</b>	<b>Balance as at 31 March 2014 £000</b>
Capital Expenditure	1,000	1,209	-1,209	1,000	904	-1,339	565
Penhesgyn Waste Landfill Site Reserve	886	0	-886	0	2,000	0	2,000
Service Reserves	1,507	1,540	-1,156	1,891	0	-268	1,623
Restricted Services	1,781	4,037	-754	5,064	1,996	-754	6,306
Equal Pay, Single Status and Job Evaluation	1,966	701	0	2,667	0	-311	2,356
Recycling	1,473	302	-986	789	108	-667	230
Performance Management Reserve	1,054	412	-26	1,440	0	0	1,440
Major Repairs Reserve (HRA)	0	860	0	860	0	0	860
Insurance Fund	2,529	0	-178	2,351	184	0	2,535
Other	686	0	-121	565	11	-85	491
<b>TOTAL EARMARKED RESERVES</b>	<b>12,882</b>	<b>9,061</b>	<b>-5,316</b>	<b>16,627</b>	<b>5,203</b>	<b>-3,424</b>	<b>18,406</b>
HRA	247	1,251	-1,016	482	1,232	-43	1,671
Schools	1,252	0	-68	1,184	334	0	1,518
General Fund	5,796	2,775	-2,661	5,910	1,837	-2,070	5,677
<b>TOTAL</b>	<b>20,177</b>	<b>13,363</b>	<b>-9,061</b>	<b>24,479</b>	<b>8,606</b>	<b>-5,813</b>	<b>27,272</b>