

ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	EXECUTIVE COMMITTEE
DATE:	3 NOVEMBER 2014
SUBJECT:	RESERVES AND BALANCES POLICY
PORTFOLIO HOLDER(S):	COUNCILLOR H E JONES
HEAD OF SERVICE:	RICHARD MICKLEWRIGHT
REPORT AUTHOR:	BETHAN HUGHES OWEN
TEL:	01248 752663
E-MAIL:	Bethanhughesowen@anglesey.gov.uk
LOCAL MEMBERS:	n/a

A - Recommendation/s and reason/s
<p>FINANCIAL RESERVES AND BALANCES POLICY</p> <p>1. Purpose The Isle of Anglesey is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out the governance arrangements for the Use of Reserves and Balances to ensure they provide the Council with the flexibility it needs and also to ensure they are used to add value to the organisation.</p> <p>2. Regulatory Context 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.</p> <p>There is no specified minimum level of reserves that an authority should hold and Section 25 of the Local Government Act 2003 requires the 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.</p> <p>This policy sets out the framework for the use and management of useable reserves, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (CIPFA/LASAAC) and agreed in accounting policies.</p> <p>3. Types of Reserves. Useable revenue reserves can be categorised in two ways:-</p> <ul style="list-style-type: none"> • General reserves which are contingency to cushion the impact of unexpected events or emergencies; and • Earmarked Reserves which are generally built up to meet known or predicted liabilities. <p>Earmarked revenue reserves are usually created and held for one of the five main reasons below:-</p> <ol style="list-style-type: none"> i. Renewals – to enable services to plan and finance an effective programme of vehicle and equipment replacement and planned property maintenance. These reserves are mechanisms to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets. ii. Carry forward of underspend – some services commit expenditure to projects, but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources. iii. Trading accounts - in some instances surpluses are retained for future investment.

- iv. Insurance Reserve - to meet the estimate of future claims to enable the Council to meet the excesses not covered by insurance.
- v. Other earmarked reserves will be set up from time to time to meet known or predicted liabilities, for example future predicted budget demand pressures.

Whilst earmarked reserves are set against a specific purpose, general reserves are funds which do not have any restrictions as to their use. Such reserves can be used to smooth the impact of significant pressures across years, offset the budget requirement in year, and to mitigate the risks of unexpected events or emergencies.

General reserves can also be used to support investments designed to secure greater base budget savings.

4. Managing Reserves

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 is an 'opportunity cost' of holding balances as reserves. For this reason, it is important to set out clearly, and regularly review, the framework through which such reserves are managed.

The management of financial reserves is a key tool of the Council's overall financial strategy, which has two key objectives:-

- Achieving stable and sustainable budgets throughout the medium term; and
- Ensuring resources are effectively focused on priorities.

Underpinning the achievement of these objectives is the recognition of the need to manage risk. This could be increased risks of volatility in planning assumptions as we continue to go through uncertain economic times or the risks to Welsh Government funding as a result of significant future funding reviews. Or it could be that the business seeks to take greater business risks through innovative service delivery to achieve difficult savings targets. The greater the risks, the greater the reserves the Council are likely to need to hold to mitigate against this. It is the appreciation of such risks that must be at the forefront of the Section 151 Officer's mind.

5. Quantifying the Reserves Requirement

Setting the level of general reserves in one of several related decisions in the formulation of the Medium Term Financial Plan (MTFP) and the annual budget. This decision requires account to be taken of the strategic, operational and financial risks facing the Authority. Specifically, the MTFP requires the Council to build up and then maintain general reserves sufficient to cover the key financial risks that it faces.

The Section 151 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 MTFP, together with the Council's financial standing and management.

The key factors are set out below:-

- Budget Assumptions;
- Financial standing and management;
- General cash flow requirements, the outlook for inflation and interest rates;
- The overall financial standing of the Council (level of borrowing, debt outstanding etc);
- Estimates of the level and timing of capital receipts;
- The Council's track record in budget and financial management, including the robustness of its medium term plans;
- The potential range of costs of demand led services;

- The Council's capacity to manage in year budget pressures;
- Planned efficiency savings/ productivity gains;
- The strength of the financial information and reporting arrangements;
- The financial risks inherent in any significant new funding partnerships;
- Major outsourcing arrangements or major capital developments;
- The Council's virement and end of year procedures in relation to budget under/overspends;
- The availability of other funds to deal with major contingencies and the adequacy of provisions;
- The adequacy of the Council's insurance arrangements to cover major unforeseen risks.

An objective evaluation of these factors will be undertaken each year to determine a prudent level of general reserves cover based on an assessment of the above factors. However, the final level of reserves is ultimately subject to the Section 151 Officer's judgement, taking all relevant factors into consideration.

As part of the annual budget recommendation to the Council, the Section 151 Officer, will highlight the amounts that are being set aside for reserves.

6. Building Reserves

Should the Section 151 Officer consider the level of General Reserves require increasing, this will be achieved as part of the budget setting process, establishing an allocation from the annual budget to achieve the desired level of balances.

Contributions to and from General Reserves should be reviewed annually. This will be additional to any amounts needed to replenish reserves that have been consumed in the previous year, to maintain the minimum level of reserves.

Earmarked reserves will be established on a 'needs basis' in line with the planned or anticipated requirements, and will be subject to Committee approval, usually as part of an annual reserves report that goes as part of the year end.

For each such reserve the Council will define:-

- The purpose of the reserve;
- How and when the reserve can be used;
- Procedures for management and control of the reserve;
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy. This will generally take place at year end.

7. Capital Reserves

The capital programme for 2014/15 fully utilises all available reserves down to the minimum level. The future expectation of capital receipts for strategic asset sales has not yet been built into the capital programme.

Good asset management strategies have included in them the replenishment of assets following on from strategic asset sales, so that there will be assets of a strategic value on the balance sheet for future years.

The capital receipts from such strategic assets sales are a valuable source of capital financing but equally a proportion of these proceeds needs to be reinvested for either revenue return or for investment in other assets that, over time, will increase in value and form part of future years' capital financing.

As such, 25% of all strategic asset capital receipts should be ear-marked for reinvestment, either for investment to produce future financing sources financing or to create a revenue income stream. A Capital Investment reserve will be created and, on receipt of proceeds of sales, a proportion will be added to this reserve. Capital schemes that either proposes reinvestment in assets or revenue income streams will be considered for funding from this earmarked reserve, to complement the current capital programme schemes funded by general capital receipts reserves.

Similarly, the capital funds allocated to Compulsory Purchase Orders will be replenished from the capital receipts on the sale of the acquired properties. This will then form the basis of a rolling fund for the compulsory purchase orders issued.

Use of Reserves

Reserves can only be used once, and so should not normally be used to finance recurring planned spending – for example they would not normally be used to ‘balance the budget’.

Where reserves are used to support the delivery of the budget in any one year, for example to smooth funding fluctuations or pressures across years, the Council should ensure the reserves are replenished in the following year if necessary.

Where the Council has used general reserves for investment purposes to generate savings, these would also generally be paid back by the end of the following financial year. In exceptional cases, such as minimising the impact upon services to customers and citizens, more time would be allowed for replenishment, up to a maximum of four years, in line with the medium term planning cycle.

Use of General Reserves will be subject to the Section 151 Officer and, in some cases, the Executive Committee approval. The creation of earmarked reserves will also be subject to the approval of the Section 151 Officer, once this level of approval has been given, drawdowns against the reserve can be made subject to the criteria being met.

In extreme circumstances, where general reserves have been exhausted due to unforeseen spending pressures within a given financial year, the Council would be able to draw down from its earmarked reserves to provide short term resources, but this would not be sustainable, and balances would need to be restored.

Earmarked reserves that have been used to meet a specific liability would not be replenished, having served the purpose for which they were originally established.

8. Service Reserves

Service reserves are created when services underspend their annual budgets and carry forward the difference to be spent in subsequent years. Some services are in deficit to the extent that past overspending has not yet been paid back.

In early 2009 this approach was tightened by limiting the carry forward to 1% of budget, except where a commitment has been approved in advance. The Executive agreed to this approach to be applied to carry forwards as at 31 March 2010 and for future years. This approach led to a balance of £1.89m in aggregate across services as at 31 March 2013, reducing as commitments unwind. The position includes an unallocated service reserve contingency of £2.4m which will reduce the value of service reserves by top-slicing individual balances on a pro-rata basis after allowing for identified commitments. This adjustment was never followed through.

Individual service reserves are now to be combined to create one Corporate Service Reserve, where individual services at year end will be able to put in proposals /bid for the use of the funds held within the Reserve. A copy of the proposal/bid form is attached.

The use of this Corporate Service Reserve will be subject to the approval of the Section 151 Officer and, in some cases, the Portfolio Holder for Finance or the Executive. Once this approval has been given the draw down against the reserve can be made.

B - What other options did you consider and why did you reject them and/or opt for this option?

There have been several options before the Executive in the past few years, however, these have never been fully followed through. The service departments are currently unaware of the level of their reserves which has been a source of some confusion and unutilised use of the reserves. This option will allow for a corporate decision on the use of the reserves and provide departments with a formal process to be able to use the reserves.

C - Why is this a decision for the Executive?

CH - Is this decision consistent with policy approved by the full Council?

Yes

D - Is this decision within the budget approved by the Council?

Yes

DD - Who did you consult? What did they say?

	Who did you consult?	What did they say?
1	Chief Executive / Strategic Leadership Team (SLT) (mandatory)	
2	Finance / Section 151 (mandatory)	This is the Report of the Section 151 Officer
3	Legal / Monitoring Officer (mandatory)	
4	Human Resources (HR)	
5	Property	
6	Information Communication Technology (ICT)	
7	Scrutiny	
8	Local Members	
9	Any external bodies / other/s	

E - Risks and any mitigation (if relevant)

1	Economic	
2	Anti-poverty	
3	Crime and Disorder	
4	Environmental	
5	Equalities	
6	Outcome Agreements	
7	Other	

F - Appendices:

Appendix 1 : Bid Form
Appendix 2 : The proposed Corporate reserve and other balances

FF - Background papers (please contact the author of the Report for any further information):

Closure of Accounts 2014/15
Bid Form – New Reserve/Existing or Increase to Existing Reserve

An Earmarked Reserve is money set aside to cover specified expenditure in future years on a named project or major initiative (and **not** to cover routine recurrent expenditure). Reserves must not be set up merely to cover what would otherwise be an underspend to your Profit Centre/Service Area. They must relate to resources set aside to cover specific future expenditure that would not otherwise proceed unless money is set aside. The current position on all Earmarked Reserves can be seen by contacting your Finance Support Teams. All Bids for new/existing reserves and for increases to existing reserves are subject to approval by the Section 151 Officer.

Service Area		Division/Section	
State bid amount and whether it is for a <u>new</u> reserve or an Increase to an <u>existing</u> reserve		£	
Proposed By (state name and position / job title)		Profit Centre	
Title of Bid			
<u>Detail of Bid</u>			
<p>Please provide information in support of your application to enable the Section 151 Officer to consider fairly. Please State:</p> <p>i) If Reserve is to be financed by ring-fenced grant and, if so, any conditions attached.</p> <p>ii) Expected date/timescale that related expenditure will be incurred.</p> <p>iii) Consequences, if any, to the Council and / or impact on Service Delivery if Bid is not approved.</p>			

All Bids must be approved in principal by your Head of Service. **Please email your completed Bid form to your Finance Support Team by Friday 4th April** – who will notify you whether or not it has been approved.

THE PROPOSED CORPORATE RESERVE AND OTHER BALANCES

RESERVE TYPE	Directorate	Reserves	£
Capital Purpose	Corporate	Revenue Contributions Unappl'd	565,429.24
Insurance Fund	Corporate	Insurance (Catastrophe) Reserve	2,534,121.13
Job Evaluation & EP	Corporate	Job Evaluation	2,356,062.11
Major Repairs HRA	Community Services	HRA Major Repairs Reserve	860,410.00
Other	Corporate	Long Term Events Reserve (4229)	27,079.26
Other	Lifelong Learning	School Days Reserve	-66,860.00
Other	Social Services	Section 117 Reserve	256,841.97
Other	Corporate	Insurance Training	19,757.95
Other	Lifelong Learning	Museum Purchase Fund	12,610.12
Other	Sustainable Development	Leisure Improvement Reserve	196,179.24
Other	Corporate	Appropriation Account	49,630.05
Penhesgyn	Sustainable Development	Penhesgyn Site Management Reserve	2,000,000.00
Performance Management	Corporate	I C T Pig 10/11	645,357.96
Performance Management	Corporate	Unallocated lag 10/11	793,893.77
Recycling	Sustainable Development	Waste Reserve/Recycling	228,899.42
Recycling	Sustainable Development	Recycling Process Income	0.00
Restricted	Corporate	Cost Of Change	624,294.28
Restricted	Corporate	Sickness Co-Ordinator	-10,818.19
Restricted	Sustainable Development	South Stack Trinity House Reserve	11,140.00
Restricted	Corporate	Capacity Fund Clawback	10,818.19
Restricted	Lifelong Learning	R&M Scheme Primary	-79,231.83
Restricted	Corporate	School Breakfast Set Up Costs	39,597.23
Restricted	Lifelong Learning	Sick/Ads Scheme-Primary	99,122.27
Restricted	Corporate	Risk Managment	72,233.50
Restricted	Sustainable Development	Licence Reserve	23,000.00
Restricted	Community Services	Mobile Cctv Earmarked Reserve	12,339.80
Restricted	Sustainable Development	Highway Airport 0607 Earmarked	14,742.91
Restricted	Community Services	Child Protection Board Reserve	24,038.21
Restricted	Sustainable Development	NWW Treatment Plant	1,029,350.82
Restricted	Sustainable Development	Energy Island Economic Dev Reserve	201,641.01
Restricted	Sustainable Development	Proprty Restricted Reserve 2011/12	126,865.52
Restricted	Social Services	Wellington St - Ss	66,466.68
Restricted	Lifelong Learning	Schools Rationalisation	589,559.00
Restricted	Corporate	New Ledger Team	268,257.69
Restricted	Sustainable Development	Developer Contribution Highways	149,550.00
Restricted	Corporate	DCE Performance Improvement	78,145.15
Restricted	Community Services	Supporting People	1,929,565.94
Restricted	Community Services	HRA Earmarked Reserves	156,469.55
Restricted	Lifelong Learning	ELWA Post 16 Funding Reserve	527,414.48
Restricted	Lifelong Learning	Bwrdd Adfer Reserve	40,693.66
Restricted	Sustainable Development	Planning and Public Protection Reserve	66,453.47
Restricted	Sustainable Development	Highways Restricted Grants Reserve	117340.03
Restricted	Sustainable Development	Economic Development Restricted Reserve	67738.13
Restricted	Community Services/HR	Practice Teachers	20963.31
Restricted	Corporate	Webcasting	14,934.00
Restricted	Community Services /HR	SCWDP	13,528.17
Service Reserves	Corporate Reserves	Corporate Reserves	1,621,657.14
			18,407,282.34