



FULL COUNCIL REPORT

Date Written	10 th March 2017
Report Author	Steve Jones
Service Area	Finance
Exempt/Non Exempt	Non Exempt
Committee Date	22 nd March 2017

To: Mayor, Ladies and Gentlemen

Corporate Reserves Policy

1.0 SUMMARY OF THE REPORT

- 1.1 Local Authority responsibilities in respect of financial reserves are governed by statute and in particular the Local Government Finance Act 1992.
- 1.2 The proposed Corporate Reserves Policy is attached as Appendix 1 and encompasses General Reserves, Insurance Fund, Schools Balances and Earmarked Reserves.

2.0 RECOMMENDATIONS that

- 2.1 The Corporate Reserves Policy be approved and introduced for the 2017/18 financial year.

3.0 INTRODUCTION AND BACKGROUND

- 3.1 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.
- 3.2 The level of reserves at any particular point in time (both earmarked and non-earmarked) will inform decisions in respect of proposed utilisation to, for example,

offset budget setting pressures, increase 'one-off' expenditure on corporate priorities or finance planned expenditure.

- 3.3 In a financial environment of continued austerity it is critical that the Council adopts a robust reserves policy for managing, monitoring and reporting all Council reserves and balances.

4.0 CORPORATE RESERVES POLICY

- 4.1 The Corporate Reserves Policy is detailed in Appendix 1 and encompasses the following types of reserves:

- General Reserves
- Insurance Fund
- Schools Balances
- Earmarked Reserves

- 4.2 Compliance with the policy will be monitored by the Chief Finance Officer and the Accountancy Section and reported to Budget Board, Cabinet and Council.

5.0 FINANCIAL IMPLICATION(S)

- 5.1 There are no financial implications associated with this report.

6.0 SINGLE INTEGRATED PLAN AND SUSTAINABILITY IMPACT SUMMARY

- 6.1 The Single Integrated Plan and Sustainability Impact Assessment has been completed and the proposals positively impact on the Financial Sustainability of Public Services.

7.0 EQUALITY IMPACT ASSESSMENT

- 7.1 An Equality Impact Assessment (EqIA) form has been prepared for the purpose of this report. It has been found that a full assessment is not required at this time. The form can be accessed on the Council's website/intranet via the 'Equality Impact Assessment' link.

GARETH CHAPMAN
CHIEF EXECUTIVE

COUNCILLOR PHIL WILLIAMS
CABINET MEMBER FOR GOVERNANCE
AND CORPORATE SERVICES

BACKGROUND PAPERS		
Title of Document(s)	Document(s) Date	Document Location
CIPFA Local Authority Accounting Panel Bulletin 99	July 2014	Finance
School Balances 2014-2016	Cabinet 29 th July 2015	Cabinet agenda and minutes
Local Government Act / Finance Act	1972, 1988, 1992, 2003	Finance
Does the report contain any issue that may impact the Council's Constitution?		No

Consultation has been undertaken with the Corporate Management Team in respect of each proposal(s) and recommendation(s) set out in this report.



CORPORATE RESERVES POLICY

March 2017

1.0 Introduction

- 1.1 The requirement for financial reserves is acknowledged in statute. 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.
- 1.2 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 (under sections 32 and 43 of the Local Government Finance Act 1992, as amended)
 - Chief Finance Officers' duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget requirement
 - The 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 (under section 151 of the Local Government Act 1972)
 - The requirements of the Prudential Code
- 1.3 These requirements are reinforced by section 114 of the Local Government Finance Act 1988 which requires the Chief Finance Officer to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.
- 1.4 Within the existing statutory and regulatory framework it is the responsibility of the Chief Finance Officer to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.
- 1.5 In assisting the Chief Finance Officer in ensuring and supporting effective financial management and increased accountability, the following processes were created and are now embedded within the Council's financial monitoring culture:
 - **The Change Management Board** (supported by the Change Management Steering Group) monitors all Medium Term Financial Plan budget proposals to ensure deliverability of all projects within stated timescales.
 - **The Budget Board** complements both the Change Management Board and effective budget accountability by rigorous scrutiny of monthly budget monitoring statements followed by robust challenging of responsible managers.
- 1.6 The Council's reserves consist of the following:
 - General Reserves
 - Insurance Fund

- Schools Balances
- Earmarked Reserves

2.0 General Reserves

2.1 General Reserves consist of un-hypothecated reserves enabling the Council to respond to unforeseen or unexpected financial liabilities.

2.2 The overarching aim of the Council's Budget Board, created to embed a culture of increased budget accountability throughout all Council services, is as follows:

“To maintain an adequate, healthy General Reserves balance of between 3.5% and 4% of the Council's annual budgeted Net Revenue Expenditure in ensuring the Council continues to remain financially viable.”

2.3 This objective to be formally adopted by the Council allowing the flexibility:

- To adequately respond to the risk of potential budget overspends in volatile service areas
- To address financial implications of increasing demographic pressures
- To respond to the critical requirement for 'one-off' expenditure in meeting corporate priorities
- To respond to governmental and regulatory demands

2.4 It is not considered prudent for the Council to utilise general reserves to support its future revenue budget plans owing to the unacceptable risk and exposure to the Council of an inadequate level of reserves to address potential future revenue budget overspends. In addition the level and adequacy of Council general reserves is also subject to scrutiny by external regulators.

2.5 The level of General Reserves will be reported on the following basis:

- Budget Board – monthly to bi-monthly
- Cabinet – quarterly
- Council – annually

3.0 Insurance Fund

3.1 The Council maintains an Insurance Fund to enable it to respond to any known or potential future insurance liability with the balance reviewed annually by its Insurance Advisor Marsh Limited.

3.2 In addition the Council separately provides for insurance claims obligations at 31st March.

3.3 The adequacy of the Insurance Fund and required service contributions are reflected within the Council's Medium Term Financial Plan and reported to Cabinet and Council as part of the annual budget setting process.

4.0 Schools Balances

- 4.1 This relates to balances held by individual schools in following the Council's Local Management of Schools scheme under Welsh Government regulations. The level and appropriateness of each school's balance is challenged and scrutinised by the Council's Cabinet, Schools Scrutiny Committee, Schools Forum and Budget Board.
- 4.2 Schools balances are governed by statutory thresholds of a maximum £100,000 for Secondary and Special Schools and £50,000 for Nursery and Primary Schools under the School Funding (Wales) Regulations 2010.
- 4.3 Cabinet on 29th July 2015 approved a financial monitoring policy for schools introducing a more robust scrutiny and monitoring framework undertaken by both schools and the Local Education Authority. This consists of the following:
- **Schools Financial Monitoring, Scrutiny and Intervention Policy** to ensure all schools undertake effective financial management and that the Local Authority provides challenge and support. The policy provides for a graduated response to monitoring schools based on a categorisation of financial risk.
 - **Direction of Schools Excess Balances and Clawback Policy** to enable the Local Authority to direct schools to spend excess balances over the statutory thresholds and clawback excess balances when deemed appropriate.
- 4.4 Schools balances will be reported to Cabinet and Council as part of the annual budget setting process.

5.0 Earmarked Reserves

- 5.1 Earmarked Reserves relate to balances held for specific purposes across the range of Council services to meet known or predicted future requirements. These reserves are typically established to address temporary need and considered on a risk basis and should only be created to meet one-off and time limited expenditure.
- 5.2 For each Earmarked Reserve there needs to be a clear protocol setting out:
- The purpose and amount of the reserve
 - How and when the reserve will be utilised
 - The process for the reserve's management and control
 - A process and timescale for review
- 5.3 The creation of a new Earmarked Reserve will be initially considered at Budget Board through the monthly revenue budget monitoring process before recommendation to Cabinet for approval. Cabinet will approve the amount, purpose and estimated timeframe for utilisation through the quarterly revenue budget monitoring process.

- 5.4 The Earmarked Reserve must be utilised for the specific purpose approved by Cabinet and once the estimated timeframe for utilisation has elapsed the balance of the reserve will be transferred to General Reserves unless an extended timeframe is approved by Cabinet.
- 5.5 Through continuous monitoring and review, every realistic opportunity to release earmarked reserves to assist with future budget planning is to be explored with the Chief Finance Officer responsible for in-year monitoring and annual review.
- 5.6 Cabinet will receive quarterly monitoring reports in complementing the existing revenue budget monitoring regime.