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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>23 May 2023</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/26/23/AP/AE</b>
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<b>Subject:</b>	<b>Reserves Policy - Triennial Review</b>		

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## **1.0 PURPOSE AND SUMMARY**

1.1  For Decision  For Information/Noting

1.2 The purpose of the report is to seek Committee approval for the revised Reserves Policy last reviewed in September 2019.

1.3 The Reserves Policy (Appendix 1) covers 4 main areas:

- a) The statutory parameters and Professional Guidance underpinning the Reserves Policy.
- b) The type of reserves operated by the Council.
- c) The governance of the various funds and reserves.
- d) The arrangements for reporting and review.

1.4 Appendix 2 provides a summary of the movement in the Councils Useable Reserves covering the ten year period 31<sup>st</sup> March 2013 to 31<sup>st</sup> March 2022. The Reserves position as at 31 March, 2023 will be finalised as part of the 2022/23 Annual Accounts. In addition, the recent Service Concession accounting decision will have a significant impact upon the level of Useable reserves in 2023/24.

## **2.0 RECOMMENDATIONS**

2.1 It is recommended that the Committee approve the revised Reserves Policy attached at Appendix 1.

2.2 It is recommended that the Committee note the movement in the Councils Reserves over 2013/22 as set out in Appendix 2.

**Alan Puckrin**  
**Chief Financial Officer**

### **3.0 BACKGROUND AND CONTEXT**

- 3.1 The Policy and Resources Committee agreed to review the Council's Reserves Policy every 3 years with the last review undertaken in September 2019. The impact on Council business caused by Covid-19 has resulted in a nine month delay in the planned 2022 review.
- 3.2 The Council's Reserves Policy draws heavily on CIPFA Bulletin 13- Local Authority Reserves and Balances which superseded LAAP Bulletin 99 in March,2023. In addition, Local Authority (Scotland) Accounting Advisory Committee (LASAAC), have issued mandatory guidance, "The Statutory Basis for Accounting for and Disclosing Reserves" which the Council is required to follow.
- 3.3 Bulletin 13 states "CIPFA considers that local authorities should establish reserves and determine the level of those reserves based on the advice of their Chief Financial Officer. Authorities should make their own judgements on such matters taking into account all the relevant local circumstances. A well-managed authority for example with a prudent approach to budgeting should be able to operate with a level of General Reserves appropriate for the risks (both internal and external) to which it is exposed".
- 3.4 Bulletin 13 also confirms that for statutory purposes there is a single reserve, the General Fund Balance however this can have sub-reserves for 4 purposes in Scotland:
  - A working balance to help cushion the impact of uneven cashflows and avoid unnecessary temporary borrowing
  - A contingency to cushion the impact of unexpected events or emergencies
  - Earmarked Reserves to meet known or predicted requirements (the bulletin gives examples of these)
  - Statutory Reserves (Insurance Fund, Capital Fund and Repairs & Renewals Fund)
- 3.5 The CIPFA Financial Management Code (FM Code) published in 2019 was designed to support good practice in Local Authorities in their financial management and in demonstrating financial sustainability. The FM Code Self-Assessment of the Council's approach to financial management was presented and approved by Policy and Resources Committee January 2023. The Reserves Policy is a key document in assisting the Council with complying to the FM Code.
- 3.6 In January 2023, Policy & Resources Committee approved an accounting change in relation to Service Concession Flexibility. Approval was granted to write off the capital element of the schools PPP investment over a 45 year period. This change in accounting treatment will generate a non cash reserves balance in 2023/24 of £14.748 million. The application of the additional reserves generated has been considered as part of the 2023/24 Budget setting process.
- 3.7 Appendix 1 provides the revised Reserves Policy, the policy has been updated in line with the recently published CIPFA Bulletin 13 – Local Authority Reserves and Balances, only minor changes were required as a result.
- 3.8 Appendix 2 attached illustrates the free reserves, earmarked reserves and statutory reserves position covering March 2013 to March 2022. As can be seen from the appendix, the overall reserves position started to decline from March 2017 mainly due to the removal of the Integrated Joint Board (IJB) reserves from the Authority's Accounts. The March 2022 overall reserves position was 20% less than reserves held in March 2017. It should be noted that the free reserves position at 31 March 2022 was below the recommended balance of £4m, this however has been rectified during 2022/23.

3.9 It should be noted, the Reserves balances in Appendix 2 exclude Integrated Joint Board (IJB) reserves. These are held by the IJB and not covered by the Council's Reserve Policy or reported in the Council's accounts.

#### 4.0 PROPOSALS

4.1 Aside from the move from LAAP99 to CIPFA Bulletin 13 there are no material changes proposed to the Council's Reserves Policy.

#### 5.0 IMPLICATIONS

5.1 The table below shows whether risks and implications apply if the recommendations are agreed:

SUBJECT	YES	NO	N/A
Financial		x	
Legal/Risk		x	
Human Resources		x	
Strategic (LOIP/Corporate Plan)	x		
Equalities & Fairer Scotland Duty			x
Children & Young People's Rights & Wellbeing			x
Environmental & Sustainability			x
Data Protection			x

#### 5.2 Finance

There are no financial implications arising from the proposals in this report however, the level and use of reserves is one of the key strategic finance decisions required by the Council.

##### One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

##### Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

#### 5.3 Legal/Risk

Aside from the need to comply with statutory and regulatory requirements there are no legal issues arising from this report.

#### 5.4 Human Resources

There are no Human Resources implications from this report.

## **5.5 Strategic**

Reserves help support a number of the strategic objectives of the Council and as such the policy forms a key part of the consideration of the Council's Budget.

## **6.0 CONSULTATION**

6.1 The proposed policy is supported by the Corporate Management Team.

## **7.0 BACKGROUND PAPERS**

7.1 CIPFA Bulletin 13 – Local Authority Reserves and Balances

# **Reserves Policy**

**April 2023**

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## **1.0 Introduction**

- 1.1 It is requirement as good financial practice that the Council has a documented and approved Financial Reserve Policy.
- 1.2 CIPFA Bulletin 13 published in March 2023 provides advice in respect of Local Authority Reserves and Balances.
- 1.3 The following Policy reflects the key messages from the CIPFA Bulletin and outlines the practical application within Inverclyde Council.

## **2.0 CIPFA Bulletin 13 – Main Messages**

- 2.1 In Scotland there are explicit statutory powers under Schedule 3 of the Local Government (Scotland) Act 1975 permitting Local Authorities to establish a Renewal and Repair Fund, an Insurance Fund and Capital Fund alongside a requirement to maintain a General Fund Reserve.
- 2.2 Within the General Fund Reserve, Scottish Local Authorities are allowed to earmark specific parts for specific purposes.
- 2.3 It is the duty of the Chief Financial Officer to report on the robustness of estimates and adequacy of reserves as part of his statutory duty. This requirement also needs to take account of the requirements of CIPFA's Prudential Code in respect of affordability when making recommendations about the Council's future Capital Programme.
- 2.4 The CIPFA Bulletin makes it clear it is not the responsibility of External Auditors to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general. It is the responsibility of the Chief Financial Officer to advise the Local Authority about the level of reserves they should hold and ensure clear protocols are in place for the establishment and use of reserves.
- 2.5 It is the Chief Financial Officer's responsibility to assess the appropriate level of reserves and ensure the reserves are not only adequate but necessary. In order to assess the adequacy of reserves, the Chief Financial Officer will consider strategic, operational, and financial risks facing the Authority when setting the budget.
- 2.6 Whilst not prescribing a generally acceptable minimal level of reserves the CIPFA Bulletin makes it clear that reserves should not be held without a clear purpose. This purpose however does include "a contingency to cushion the impact of unexpected events or emergencies".
- 2.7 Over and above the resource backed reserves outlined in paragraph 2.1 there are other reserves which are not resource backed which appear in the annual accounts.
- 2.8 In the case of Earmarked Reserves then there should be a clear protocol setting out the purpose of the reserve, how and when the reserve can be used and a process for review of the reserve to ensure continuing relevance and adequacy. The protocol for Inverclyde Council is shown in Annex 1.
- 2.9 The CIPFA Bulletin concludes that "it is not normally prudent for reserves to be deployed to Finance recurrent expenditure" and "where such action is taken it should be made explicit and an explanation given as to how such expenditure will be funded in the medium to long term"

### **3.0 Types of Reserves Operated by Inverclyde Council**

#### **3.1 General Fund Reserve**

The General Fund Reserve can be held for four main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid temporary borrowing.
- A contingency to cushion the impact of unexpected events or emergencies.
- Earmarked reserves to meet known or predicted requirements.
- Reserves covered by Statute

The Local Authority General Fund Reserve is split into a non Earmarked portion and Earmarked Reserves. The former is often referred to as the “Free Reserve” and it is held for unforeseen emergencies and contingencies. Council policy is that Free Reserves should not be lower than 2% of annual turnover where turnover is defined as General Revenue Grant Income and Council Tax Budgeted Income. Earmarked Reserves are sums of money retained for specific purposes.

Paragraphs 3.2-3.4 provide further information on the 3 specific Reserves permitted by statute.

#### **3.2 Repairs and Renewals Fund**

The Repairs and Renewals Fund contains funds which have been set aside for specific maintenance purposes sometimes arising from a commuted sum given to the Council as part of an asset transfer deal. Such cases include the Council taking on the maintenance of Greenock Cut, the Railway Bridge at Inverkip, the maintenance of some landscaping areas adjacent to the A8 in Port Glasgow Town Centre, investment in all-weather pitches and the former Housing Repairs and Renewals Fund which has been set aside to meet unavoidable contamination costs on former HRA sites.

#### **3.3 Capital Fund**

A Capital Fund receives income arising from the sale of Capital assets and can be used to incur Capital expenditure or assist meeting the principal repayments of loans charges.

#### **3.4 Insurance Fund**

The Council maintains an Insurance Fund as income and expenditure in relation to Insurance claims does not fall evenly on an annual basis. Given the long term nature of some Insurance claims then it is important that the Council has an appropriate balance to meet these claims some of which could relate to events which happened decades ago. The Council receives advice on the appropriate level of Insurance Fund via a triennial actuarial valuation.

#### **3.5 Integrated Joint Board**

Following the Public Bodies (Joint Working) Act 2014 the Council no longer accounts for Social Work reserves and these no longer appear in the Council’s Annual Accounts. Decisions in respect of the use of these reserves will be taken by the Integration Joint Board.

### **4.0 Governance of Reserves**

4.1 It is important that there is clarity on the rules and responsibilities in respect of governance of the Council’s Funds and Reserves. Taking each in turn then the governance arrangements are:-



- a) General Fund Reserve -
  - i. Level of Free Reserves agreed as part of the Reserve Policy and reviewed no less frequently than 3 yearly by the Policy & Resources Committee.
  - ii. Projected Balance of Free Reserves reported to each cycle of the Policy & Resources Committee.
  - iii. Reported six monthly to the full Council as part of the review of the Finance Strategy.
  - iv. Decisions on the use of Free Reserves will be undertaken during the annual Revenue Budget setting process.
  
- b) Earmarked Reserves –
  - i. Creation of Earmarked Reserves approved as part of the annual Revenue Budget setting process. Outwith the Budget process the creation of an Earmarked Reserve requires the approval of the relevant Service Committee and the Policy & Resources Committee.
  - ii. Update in respect of Earmarked Reserves given to each Service Committee.
  - iii. Update in respect of Earmarked Reserves reported each reporting cycle to the Corporate Management Team.
  - iv. Management of Earmarked Reserves covered by a Guidance Note (See Annex 1)
  
- c) Repairs and Renewal Fund –
  - i. New liabilities to the Repairs and Renewal Fund require Policy & Resources approval.
  - ii. Budgets can be allocated to Services from the Fund as part of the budget process and monitored via the normal budget monitoring process.
  - iii. Update in respect of the Repairs and Renewal Fund provided as part of the six monthly review of the Finance Strategy.
  
- d) Capital Fund –
  - i. All receipts from sales of assets are paid into the Capital Fund unless otherwise approved by the Policy & Resources Committee.
  - ii. Decisions to utilise the Capital Fund approved by the Policy and Resources Committee.
  - iii. Capital Fund update reported as part of the Finance Strategy on a six monthly basis.
  
- e) Insurance Fund –
  - i. Insurance Fund Balance reviewed and reported as part of the Annual Accounts.
  - ii. Annual report in respect of the Insurance Fund reported to the Policy & Resources Committee.
  - iii. Outcome of the triennial actuarial review is reported to the Policy & Resources Committee.
  - iv. An Insurance Fund update reported as part of the Finance Strategy on a six monthly basis.

## 5.0 Reporting & Review

- 5.1 The Reserve Policy requires to be reviewed and approved no less frequently than three yearly and by the Policy & Resources Committee.

- 5.2 In the event that the Council's Non-earmarked General Fund Reserve fall below the 2% level, then the Chief Financial Officer should report no later than the next meeting of the Policy & Resources Committee explaining the reasons for this shortfall and the options available to rectify the situation.

Alan Puckrin  
Chief Financial Officer  
April 2023

## Earmarked Reserves Protocol

### 1/ Earmarked Reserve (EMR) establishment

- a) The usual vehicle for taking decisions around EMRs is the Budget and officers should therefore ensure that requests to establish an EMR outwith this process are by exception. In every case which uses this exception route the establishment of the EMR will require a report to Corporate Management Team, then a report to the Service Committee and final approval by the Policy & Resources Committee.

### 2/ Supporting Documentation

- a) For each EMR a standard pro forma requires to be completed outlining the detail of what the EMR is required for plus the amount requested, expected outcomes, milestones, phasing and areas of spend. The completed pro forma will require to be approved by the relevant Corporate Director and Finance Manager.
- b) The same process will be required for the carry forward of any year end balances where an EMR covers more than one year.

### 3/ Managing Delivery & Spend

- a) When establishing an EMR and each year thereafter, monthly phasing of spend will require to be agreed with Finance Services. Performance against this phasing will be reported to CMT/Committee each Committee cycle.
- b) In order to avoid the carry forward of immaterial sums and to minimise the number of EMRs in existence at any one time, any EMR with an uncommitted sum of less than £20,000 at the end of the financial year will be closed and the balance written back to the General Fund. In the event there is residual spend in the next financial year then this will require to be contained by the Committee.

**Movement in Council Reserves -2013-2022**

	Total	Non Earmarked	EMR	Statutory
<u>Position at:</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
31.3.22	48.067	3.719	35.390	8.958
31.3.21	53.362	4.890	39.087	9.385
31.3.20	46.671	5.305	32.678	8.688
31.3.19	44.945	5.199	29.669	10.077
31.3.18	53.995	6.665	36.621	10.709
31.3.17	60.774	6.481	44.743	9.550
31.3.16	58.831	8.783	40.297	9.751
31.3.15	54.400	4.988	40.003	9.409
31.3.14	50.834	4.793	38.097	7.944
31.3.13	52.916	5.540	39.713	7.663