
Report To:	Policy & Resources Committee	Date:	20 September 2016
Report By:	Chief Financial Officer	Report No:	FIN/76/16/AP/LA
Contact Officer:	Alan Puckrin	Contact No:	01475 712223
Subject:	Inverclyde Council – Reserves Policy		

1.0 PURPOSE

- 1.1 The purpose of this report is to present the proposed Reserves Policy for Inverclyde Council to Committee for consideration as part of the agreed triennial review.

2.0 SUMMARY

- 2.1 The Policy & Resources Committee has agreed to review its Reserves Policy on a 3 yearly basis with the last review being undertaken in August 2013. The Council's Reserves Policy drew heavily on LAAP Bulletin 77 produced in November 2008 which provides guidance and advice in respect of Local Authority reserves and balances. This LAAP Bulletin was updated in July 2014 to LAAP Bulletin 99, however the main requirements are unchanged.
- 2.2 The Reserves Policy covers 4 main areas:
- a) The statutory parameters and Professional Guidance underpinning the Reserves Policy.
 - b) The types of reserves operated by the Council.
 - c) The proposals for governance of the various funds and reserves.
 - d) The arrangements for reporting and review.
- 2.3 Appendix 1 is an extract from the Unaudited Annual Accounts for the year ending March 2016 which shows the latest position of the Council's Usable Reserves whilst Appendix 2 provides a summary of the movement in the Council's Usable Reserves in the 6 year period from the 31 March 2010 to the 31 March 2016. From this it can be seen that the Council's Usable Reserves have effectively doubled from £29.5 million to £58.8 million over the 6 year period.
- 2.4 The last Local Government Overview Report highlighted that Inverclyde Council had proportionately the highest level of Usable Reserves of any Council in Scotland but equally showed that the vast majority of the Council's Usable Reserves were earmarked for specific uses.
- 2.5 As has been recently reported the Council is facing a period of unprecedented financial pressure. In addition the recent EU Referendum and the potential for further constitutional uncertainty adds a significant degree of risk to the Council's finances in the short to medium term. In this context the Council's prudent approach to Budget Management should continue and as a result no material changes are proposed to the previously approved Reserves Policy.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee note the latest position in respect of the Council's Usable Reserves.
- 3.2 It is recommended that the Committee approve the Reserves Policy attached at Appendix 3.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 The Policy & Resources Committee has previously agreed to review its Reserves Policy on a 3 yearly basis with the last review being undertaken in August 2013.
- 4.2 The Council's Reserves Policy drew heavily on LAAP Bulletin 77 produced in November 2008 which provided guidance on Local Authority reserves and balances. LAAP Bulletin 99 replaced this in July 2014 but the main requirements remain unchanged.
- 4.3 It is important that the Committee note that within LAAP 99 it states "CIPFA and the Local Accounting Panel consider that local authorities should establish reserves including the level of these reserves based on the advice of their Chief Financial Officer. Authorities should make their own judgements on such matters taking into account 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".
- 4.4 The Council's external auditors have commented on the level of usable reserves held by the Council and have asked that Members keep the level of reserves under regular review. This does take place both as part of the formal Revenue Budget process but also throughout the year via revenue reports to the Policy & Resources Committee and the 6 monthly Financial Strategy updates.

5.0 CURRENT POSITION

- 5.1 Appendix 1 is an extract from the Unaudited Annual Accounts for 2015/16. From this it can be seen that the current level of Usable Reserves as at 31 March 2016 is £58.831 million. It is important to note that of this sum 85% is earmarked for specific use. A report elsewhere on the agenda regarding the Budget Strategy highlights the potential for a further £5.1 million of the Non Earmarked Reserves to be earmarked to address the 2017/19 budget position which if agreed would reduce the Non Earmarked Reserves to marginally below the 2% minimum approved level.
- 5.2 The Council's Usable Reserves have built up significantly over the last 5 to 6 years as illustrated in Appendix 2. From this it is clear that the major growth has been within Earmarked Reserves which has more than doubled from £18.074 million at the 31 March 2010 to £40.297 million at the 31 March 2016. The use of Earmarked Reserves has significantly helped the Council in terms of delivering medium to long term strategies and funding one off costs which allows the Council smooth its core Revenue Budget requirement.
- 5.3 Members receive regular reports in terms of the short to medium term financial position of the Council and the Full Council received a presentation from the Chief Financial Officer on 2 June 2016 highlighting a range of scenarios in terms of the financial position over 2017/20. Subsequent to this the UK has voted to leave the European Union and this has also raised potential constitutional issues in respect of Scotland. Both these matters provide further layers of significant financial uncertainty for the Council.
- 5.4 The clear financial advice whether it be for individuals, businesses or public sector organisations is that at times of significant uncertainty then steps should be taken to ensure that resources are in place to address any financial shocks which may occur. Therefore in this context, the Council's increasing level of reserves and prudent approach to financial management provides a robust base from which to meet the undoubted challenges ahead.
- 5.5 In light of all the above it is not proposed to materially change the Reserves Policy from that approved in August 2013 and Appendix 3 contains the proposed Policy for Committee consideration.

6.0 IMPLICATIONS

6.1 Finance

The current level of Usable Reserves means the Council can use internal “Cash Backed Reserves” which helps reduce capital financing costs. As the Reserves reduce in the medium term then this will require the Council to borrow more to fund its capital debt which will increase loans charges. These costs have been factored into the loans charges projections included in the Treasury Strategy.

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (if Applicable)	Other Comments
N/A					

6.2 Legal

There are no legal implications arising from this report.

6.3 Human Resources

There are no HR implications arising from this report.

6.4 Equalities

Has an Equality Impact Assessment been carried out?

Yes See attached appendix

No This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required.

6.5 Repopulation

A significant proportion of the proposed use of Earmarked Reserves will make Inverclyde a more attractive place for prospective and current residents whilst an element is targeted to stimulate economic activity. Both these factors will have a positive impact on the Council’s repopulation agenda.

7.0 CONSULTATIONS

7.1 This report has been approved by the Corporate Management Team.

8.0 LIST OF BACKGROUND PAPERS

8.1 LAAP Bulletin 99 (July 2014) – Local Authority Reserves and Balances.

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement (MiRS). The major part of the General Fund balance shown in the MiRS has been earmarked and effectively committed to fund specific projects in future years. The amounts set aside for earmarked reserves are shown in the following table:

	31 March 2016 £000	31 March 2015 £000
Modernisation Fund	323	308
School Estate Management Plan	5,701	2,942
Contribution to Riverside Inverclyde	1,690	1,858
Miscellaneous Community Health & Social Care Partnership Reserves	326	996
Fostering & Adoption	682	1,143
Miscellaneous Policy and Resources Committee Reserves	790	724
Miscellaneous Environment & Regeneration Committee Reserves	3,120	1,861
Renewal of Clune Park Area	1,910	1,835
Asset Management Plan	1,320	1,578
Support for Owners	921	713
Flooding Works	1,863	1,863
Roads Asset Management Plan	0	2,165
Early Retiral / Voluntary Severance Reserve	2,571	3,562
Capital Funded from Current Revenue	5,965	3,623
Integrated Care Fund	704	0
Miscellaneous Education & Communities Reserves	1,295	999
Vehicle Replacement Programme	208	255
Equal Pay	4,561	4,668
Youth Employment	70	151
Deferred Income - Health & Social Care	116	407
Repopulating/Promoting Inverclyde	385	606
Beacon Arts Centre	129	1,950
Temporary Use of Reserves - Revenue Budget	2,000	3,298
Welfare Reforms	1,027	1,007
Loans Charges Reserve	2,152	1,200
Roads Defects & Drainage Works	468	291
Total Earmarked Reserves	40,297	40,003
Non-earmarked balance	8,783	4,988
Total General Fund Balance	49,080	44,991
Capital Receipts Reserve	396	0
Capital Fund	2,318	2,590
Repairs & Renewal Fund	3,185	2,959
Insurance Fund	3,852	3,860
Total Usable Reserves	58,831	54,400

Use of Council's Share of the £250 million

<u>Position at:</u>	<u>Total £m</u>	<u>Non Earmarked £m</u>	<u>EMR £m</u>	<u>Statutory £m</u>
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
31.3.12	47.538	6.124	34.588	6.826
31.3.11	36.439	4.249	24.949	7.241
31.3.10	29.522	4.200	18.074	7.248

Reserves Policy

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 Local Authority Accounting Practice (LAAP) Bulletin 99 published in July 2014 provides advice from CIPFA in respect of Local Authority Reserves and Balances.
- 1.3 The following Policy reflects the key messages from the LAAP Bulletin and also outlines the practical application within Inverclyde Council.

2.0 LAAP Bulletin 99 – 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 CIPFAs Prudential Code in respect of affordability when making recommendations about the Council's future Capital Programme.
- 2.4 The LAAP Bulletin makes it clear it is not responsibility of External Auditors to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.
- 2.5 Whilst not prescribing a generally acceptable minimal level of reserves the LAAP 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".
- 2.6 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.
- 2.7 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.
- 2.8 The LAAP 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 is split into an non Earmarked portion and Earmarked Reserves. The former is often referred to as the "Free Reserve" and it 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.

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 and the former Housing Repairs and Renewals Fund which has been set aside to meet unavoidable contamination costs on former HRA sites. In addition the Council has been allocating funding from the Revenue Budget for future repairs of its 2G/3G Pitch estate.

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.

4.0 **Governance 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 as follows:-

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 Financial Strategy.

b) Earmarked Reserves –

- i. Creation of Earmarked Reserves approved by the Policy and 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 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 Financial 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 Financial 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.

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% of limit 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
July 2016

Earmarked Reserves Protocol

1/ Earmarked Reserve (EMR) establishment

- a) The event which necessitates the creation of an EMR is the financial year end and as such there is no requirement for regular requests throughout the year to establish EMRs.
- b) The correct 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 CMT, then a report to the Service Committee and 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 outstanding 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.

Finance Services
July 2016