

<b>REPORT TO</b>	<b>DATE OF MEETING</b>
Governance Committee	28 <sup>th</sup> September 2011

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<b>SUBJECT</b>	<b>PORTFOLIO</b>	<b>AUTHOR</b>	<b>ITEM</b>
SRBC Reserves Review	Finance and Resources	Susan Guinness	9

## SUMMARY AND LINK TO CORPORATE PRIORITIES

The purpose of this report is to update Members on the current levels of Reserves held as at 31 March 2011 and as set out in the Statement of Account for year ending 31 March 2011. This includes both the General Reserve and the amounts set aside in Earmarked Reserves for specific items that will have a financial commitment that is known and can be planned for.

## RECOMMENDATIONS

1. Members note and comment on the contents of the report.

## DETAILS AND REASONING

This report sets out the balance held in the Council's general Reserve and the total amount set aside in Earmarked Reserves. The report has been compiled due to the level of reserves in relation to a previously stated target of 10% minimum level.

### Local Authority General Reserves

The requirement for financial reserves is acknowledged in statute and precepting authorities need to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. There are also a range of safeguards in place that mitigate against local authorities over-committing themselves financially. These include:-

- the balanced budget requirement,
- chief finance officers' duty to report on robustness of estimates and adequacy of reserves,
- legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the chief finance officer / proper officer has responsibility for the administration of those affairs,
- the requirements of the Prudential Code,
- auditor's will consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based.

It should be noted, however, that even though there is a requirement by statute to have regard for the level of reserves CIPFA and the Local Authority Accounting Panel do not accept that there is a case for introducing a general minimum level. Local Authorities, on the advice of their Chief Finance Officer (CFO), should make their own judgements on such matters taking into account all the relevant local circumstances. Therefore there is no prescriptive guidance on either the minimum or maximum level of reserves either in absolute amount or a percentage of budget.

Reserves can be held for three main purposes:

1. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – (this is in the general reserve)
2. A contingency to cushion the impact of unexpected events or emergencies – (this is also in the general reserve).
3. A means of building up funds to meet known or predicted liabilities – (earmarked reserves).

In determining the level of General Reserves the Council should identify and address its financial risk and develop and implement proper arrangements to manage them.

With regard to the use of reserves it is very important to ensure that reserves are only used to finance expenditure of a **one off** nature. The reference to the legislative requirement for the proper administration of financial affairs includes a responsibility to have a balanced budget where re-curring costs are funded within the revenue base budget.

### **Factors that influence the level of reserves**

The decision is the responsibility of the Council on the advice of their CFO with and should be based on the risks identified within the Medium Term Financial Strategy. This is contained within the annual budget report presented to Council Tax Setting Council in February 2011.

In summary the main strategic risks facing the Council are as follows:-

- Comprehensive Spending Review (CSR) 2010 – The recent CSR presented a reduction in Central Government Funding and resulted in a subsequent budget funding gap in the region of £2.0 million.
- In addition to the budget gap the expected 4 year settlement was reduced to a two year period and therefore this has introduced a degree of uncertainty in the medium term with regard to funding in years 2013/14 and 2014/15 in the MTFs.
- Although council has a balanced budget and a sound efficiency agenda with past record of successful delivery, there is still a degree of uncertainty that exists until all budget savings plans have been delivered.
- The Council should also take heed of the forthcoming Local Government Resource Review that also introduces uncertainty into the financial planning process in the medium term.
- The budget setting process for 2012/13 is now underway and this will include finalising the details within the latest Corporate Plan which may create funding demands.
- There are significant changes on the horizon that are very likely to have a financial impact on the Council's budget. These being in respect of Housing Benefits and Business Rates. These two issues are on a national scale and constitute a large proportion of the Council's expenditure and income budgets respectively. Similarly to the issues above the detailed implications are unknown at this time.

## **South Ribble General Fund Reserve**

### **Current Level**

The balance in the General Fund Reserve as at 31 March is £4.048m as set out in the Movement in Reserves Statement in the Statement of Accounts (SOA) 2010/11. This equate to 7.75% of the Council's gross expenditure (Gross expenditure as at 31/03/11 Income and Expenditure Account, Cost of Services – SOA). In effect the total amount in the General Fund Reserve is less than one month's spend.

### **Review**

The members of South Ribble review the level of reserves twice in the annual accounting cycle, that is, as part of the budget setting process and also at year end. In previous years a 10% minimum level of reserves has been considered to be appropriate and no upper limit stated. Bearing in mind the fact that the current financial climate has changed from pervious years, coupled with the risks identified in the MTFS, it may be an appropriate time to stop using this straight forward measure.

### **Future Level**

With regard to the anticipated future levels of reserves the MTFS also contains planned withdrawals from the General Fund and Earmarked Reserves in future years. The attached Appendix One contains an extract from the MTFS. It should be noted that this will be reviewed and updated as part of the budget setting process for 2012/13 currently being undertaken.

### **Earmarked Reserves**

Earmarked Reserves are funds that are set aside for a specific event in the future that has financial implications for the Council. As these events are know they can be planned for and the financial implication accommodated in advance in a prudent manner. This prevents an unrealistic burden falling on the revenue budget within year. Appendix One also provides a list of all our Earmarked Reserves and the anticipated balances for future levels as contained within the MTFS.

Each earmarked reserve is backed up with a budget holders spending plan to ensure that such reserves are used for their intended purpose and reviewed to ensure continuing relevance and adequacy.

## WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

<b>FINANCIAL</b>	There are no financial implications as a result of this report.		
<b>LEGAL</b>	There are no legal implications as a result of the recommendation of this report.		
<b>RISK</b>	The full risk assessment forms part of the background papers to this report. The main points for consideration are summarised here:-		
<b>OTHER (see below)</b>			
<i>Asset Management</i>	<i>Corporate Plans and Policies</i>	<i>Crime and Disorder</i>	<i>Efficiency Savings/Value for Money</i>
<i>Equality, Diversity and Community Cohesion</i>	<i>Freedom of Information/ Data Protection</i>	<i>Health and Safety</i>	<i>Health Inequalities</i>
<i>Human Rights Act 1998</i>	<i>Implementing Electronic Government</i>	<i>Staffing, Training and Development</i>	<i>Sustainability</i>

## BACKGROUND DOCUMENTS -

Financial Strategy, Budget and Council Tax 2011/12 to Cabinet – 16<sup>th</sup> February 2011

Budget Out-turn Report to Governance Committee – 28<sup>th</sup> June 2011

Statement of Accounts 2010/11 to Governance Committee– 28<sup>th</sup> September 2011

**Summary of Revenue Reserves & Balances as at 31 March 2011**

<b>Revenue Reserves</b>	<b>Actual Balance 31 March 2011 £'000</b>	<b>Projected Balance 31 March 2012 £'000</b>	<b>Projected Balance 31 March 2013 £'000</b>	<b>Projected Balance 31 March 2014 £'000</b>	<b>Projected Balance 31 March 2015 £'000</b>
General Fund	4,014	3,583	3,250	3,183	3,183
Collection Fund Surplus	34	34	34	34	34
<b>Total General Fund Reserves</b>	<b>4,048</b>	<b>3,617</b>	<b>3,284</b>	<b>3,217</b>	<b>3,217</b>
<b><i>Earmarked Reserves:</i></b>					
Area Committees	14	0	0	0	0
Asset Management	2,203	1,527	704	655	1,000
Borough Council Elections	120	30	60	90	120
Building Control	0	0	0	0	0
Housing Needs Survey	13	21	0	13	0
ICT Strategy	1,446	1,227	944	660	797
Local Development Framework	232	232	232	232	232
Performance Reward Grant	181	100	0	0	0
Public Open Space funds	1,889	1,830	1,771	1,712	1,653
Single Status/Restructure costs	523	222	96	0	0
Vehicles & Plant Replacement	112	92	72	52	32
Leisure Sites Repair & Maint.	162	162	162	162	162
Other Earmarked Reserves	555	488	367	367	0
<b>Total Earmarked Reserves</b>	<b>7,450</b>	<b>5,931</b>	<b>4,408</b>	<b>3,943</b>	<b>3,996</b>
<b>Total Reserves</b>	<b>11,498</b>	<b>9,548</b>	<b>7,692</b>	<b>7,160</b>	<b>7,213</b>

(Source: Budget Out-turn Report 2010/11 – Governance Committee 28<sup>th</sup> June 2011)