

## RESERVES AND THEIR ADEQUACY

### 1. General Fund General Reserve

- 1.1. The judgement on the adequacy of the general fund general reserve needs to reflect the risk management and financial control processes that are in place, and the residual risk of emergencies or unexpected events. For this purpose identification of the key risks is done in three ways:
  - identification of risks during the financial planning and budget setting process as set out in the main report;
  - risk assessment of the agreed investment and savings proposals in the agreed budget package, and;
  - key risks identified, monitored and managed through the Council's risk management strategy and framework.
- 1.2. The calculation of the potential financial impact of these assessed risks has been undertaken and in the light of this, it is considered that the level of the General Fund un-earmarked balance which ranges from £13.5m at the end of 2016/17 to £16.6m at the end of 2015/16 is appropriate for the general fund general reserve over the three-year financial planning period. The risks set out in Appendix 3c assess a potential financial impact at £12.5m for 2015/16; the Chief Financial Officer therefore regards the range set out above as a prudent level to set aside.
- 1.3. The 2015/16 figure for general balances (£16.6m) represents 6% of the Council's net budget requirement for 2015/16.

### 2. Services Reserve

- 2.1. It is Council policy that service under and over spends are retained by the relevant service subject to approval by the Cabinet in the year-end financial outturn report. This reserve earmarks those funds to either be carried forward to the following financial year or retained.

### 3. Insurance Reserve

- 3.1. The insurance reserve is kept under review by the Head of Audit and Risk Management with the assistance of the Council's insurance adviser. A key variable is the split between this reserve and the level of insurance provision held elsewhere in the balance sheet. The last actuarial review concluded that this reserve was at an appropriate level. The Chief Financial Officer is satisfied that the reserve constitutes adequate protection in respect of the self-insured risk.

### 4. PFI Reserve

- 4.1. The PFI reserve reflects the agreed arrangements following the suspension of services within the PFI contract. The reserve will be used to manage the lifecycle fund requirements for schools.

## **5. Council Infrastructure Reserve**

- 5.1. The Council infrastructure reserve is a key financing resource for the programmes of renewal of assets for the Council, including IT and property. This assists in spreading the costs of core replacement of assets as well as managing asset improvement programmes. It is current policy that revenue and capital underspends in IT and Property are transferred to this reserve for future use.
- 5.2. The infrastructure reserve will remain in place to spread the cost of future infrastructure programmes.

## **6. Transformation Reserve**

- 6.1. The Transformation Reserve will be used to fund redundancy and decommissioning costs and any investment necessary to deliver longer term efficiencies and transformational change.

## **7. Financing Reserve**

- 7.1. The financing reserve is a key tool for managing the impact of financial plans from one year to another. This reserve requires balances to be at different levels, year to year, depending on the demand as identified through previous and current budget plans. This reserve includes an amount set aside for the Sustainable Investment Fund (SIF) which supports invest-to-save projects designed to reduce the Council's CO2 emissions and reduce energy costs.

## **8. Debt Repayment / Capital Reserve**

- 8.1. This reserve is used to set aside money that the Council has for repaying outstanding debt in the future and / or for the purposes of setting aside money earmarked for future capital investment. It is also available to support generally the capital programme.

## **9. Schools Reserve**

- 9.1. The amount in the schools reserve is a consequence of the funding and spending of individual schools. A proportion of it reflects earmarked funding for future schools projects. The current expected level of the reserve at 31 March 2015 of £12m represents 5% of the schools core funding. The overall balance is likely to reduce as more schools opt to become Academies and take their balance with them.
- 9.2. A schools loan scheme is in place (with the agreement of the Schools Forum) which acts like the Council's own Sustainable Investment Fund (SIF) and allows schools to borrow to invest in energy and carbon reducing improvements that can be repaid back to the general schools balances.

## **10. Community Infrastructure and Growth Reserve**

- 10.1. The Council will need to grow its revenue base as government funding continues to reduce, this will be achieved by increasing the Council Tax and

Business Rate base. Resources are likely to be needed to support the community infrastructure and growth in housing and business.

#### **11. Urban Renewal Reserve**

11.1. It will be beneficial for the council to support local businesses so they can share the benefits of growth, this could include supporting town centres and business investment districts, and maintaining retail business.

#### **12. Labour Market Growth and Resilience Reserve**

12.1. It is beneficial for the Council to support people into work and this reserve will support activities which achieve that aim.

#### **13. Collection Fund Equalisation Reserve**

13.1. This reserve will deal with the volatility around the collection of Council Tax and Business Rates leading to annual surpluses and deficits in the Collection Fund; this reserve is designed to equalise these fluctuations.

#### **14. Public Health Reserve**

14.1. This reserve will be used to manage any over or underspends against the Council's Public Health Grant which is ring-fenced for Public health expenditure purposes.

#### **15. Unspent Grants Reserve**

15.1. Where revenue grants have no conditions or where the conditions are met and expenditure has yet to take place it is recommended practice to hold these sums in an earmarked reserve to meet the future expenditure.

#### **16. NHS Social Care Agreement reserve**

16.1. This reserve holds the balance relating to the social care agreement with the NHS where the Cabinet has agreed that sums could be carried-forward for use in subsequent years.

#### **17. HRA reserve**

17.1. The judgement on the adequacy of the HRA general reserve needs to reflect the risk management and financial control processes that are in place, and the residual risk of emergencies or unexpected events. The risk evaluation has taken into account the move to self-financing.

17.2. The HRA will need to generate additional and substantial contributions to the reserve to fund Housing capital expenditure in the future. The Chief Financial Officer considers the plans set out in the HRA MTFP for the next three years financial planning period to be at a prudent level.

#### **18. HRA Major Repairs Reserve**

18.1. The balance on this reserve represents the amount unspent of the major repairs allocation (MRA) and will be used for future housing capital spend.

## 19. HRA Smoothing Reserve

19.1. This reserve is used to accumulate and manage changes in asset values within the HRA that must, under accounting rules, be charged against the revenue costs of the HRA.

## 20. Overall

20.1. The estimates of the reserves position, including earmarked and un-earmarked reserves for the General Fund, Schools and the HRA are detailed in the following table. It should be noted however, that by the nature of these reserves, the timing of when draw down may be required is uncertain and thus unless specific timeframes have been identified no draw down is assumed.

	Actuals at 31.3.2014 £million	Forecast to 31.3.2015 £million	Forecast to 31.3.2016 £million	Forecast to 31.3.2017 £million	Forecast to 31.3.2018 £million
<b>Non-earmarked</b>					
General Fund Balance	20.8	20.8	16.6	13.5	16.5
<b>Total Non-earmarked Reserves</b>	<b>20.8</b>	<b>20.8</b>	<b>16.6</b>	<b>13.5</b>	<b>16.5</b>
<b>Earmarked</b>					
Services Reserve	10.3	7.9	5.0	5.0	5.0
Insurance Reserve	9.0	9.0	9.0	9.0	9.0
PFI Lifecycle Reserve	9.5	9.8	10.0	10.0	10.0
IT Infrastructure Reserve	2.5	2.5	2.5	2.5	2.5
Accommodation Strategy Reserve	0.6	0.6	0.6	0.6	0.6
Transformation Reserve	8.0	1.0	0.0	0.0	0.0
Financing Reserve	14.9	14.9	14.9	14.9	14.9
Debt Repayment/Capital Reserve	5.1	5.1	5.1	5.1	5.1
Community Infrastructure Reserve	3.0	3.0	3.0	3.0	3.0
Urban Renewal Reserve	2.5	2.5	2.1	2.1	2.1
Public Health Reserve	0.5	0.7	1.0	1.0	1.0
Unspent Grants Reserve	3.4	2.8	2.0	2.0	2.0
Collection Fund Equalisation Reserve	8.4	8.4	7.2	7.5	7.5
Labour Market Growth Resilience Reserve	2.0	2.0	2.0	2.0	2.0
NHS Social Care Agreement Reserve	0.5	-	-	-	-
<b>Total Earmarked Reserves</b>	<b>80.2</b>	<b>70.2</b>	<b>64.4</b>	<b>64.8</b>	<b>64.8</b>
<b>Other Reserves</b>					
HRA Balance	26.6	24.1	31.5	23.1	19.0
HRA Smoothing Reserve	4.2	4.2	4.2	4.2	4.2
Major Repairs (HRA)	1.8	1.8	1.8	1.8	1.8
Schools Reserve	11.7	12.0	12.0	11.0	10.0
<b>Total Other Reserves</b>	<b>44.4</b>	<b>42.2</b>	<b>49.6</b>	<b>40.2</b>	<b>35.1</b>

**Total**

<b>145.4</b>	<b>133.2</b>	<b>130.6</b>	<b>118.4</b>	<b>116.4</b>
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