

Report for: Corporate Committee

Item number: 9

Title: Overview of Key Finance Terms

Report authorised by : Tracie Evans – Chief Operating Officer

Lead Officer: Neville Murton – Lead Finance Officer

Ward(s) affected: ALL

**Report for Key/
Non Key Decision:**

1. Describe the issue under consideration

- 1.1. At its last meeting the Corporate Committee requested further information and guidance on the meaning of some key financial terms in particular:
- Balances;
 - General Reserves; and
 - Earmarked Reserves.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

- 3.1. That Corporate Committee note the report and information.

4. Background information

Balances

- 4.1. In accordance with the principles of double entry book-keeping every financial transaction requires a debit (+) and credit(-) entry, of equal value, in an organisations ledger. This ensures that the financial records are always '***in balance***'. The differences between the debit entries and credit entries within an individual account represents the '***account balances***'.
- 4.2. Perhaps, rather confusingly, the financial reserves of the authority (see below) are sometimes referred colloquially to as ***balances*** reflecting the fact that the reserve account has a balance on it, which is included in the organisations year-end Balance Sheet.

Reserves

- 4.3. As part of its statutory budget setting process the Council prepares information relating to its financial reserves – its Reserves Policy.
- 4.4. Appendix A sets out the latest Reserves Policy and this includes the key information requested by the Corporate Committee. It sets out the different types of reserves and sets out the purposes that the council's earmarked reserves are held for.

5. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

- 5.1. The Assistant Director of Corporate Governance confirms there are no legal implications arising from this report.
- 5.2. No additional statutory officer comments are required as this report is for information only.

6. Use of Appendices

Appendix 1 – Reserves Policy (2015/16)

7. Local Government (Access to Information) Act 1985

- 7.1. The following background papers were used in the preparation of this report:
 - 2015/16 Budget Setting papers.
- 7.2. For access to the background papers or any further information please contact Neville Murton –Lead Finance Officer.

Haringey Council - Reserves policy

Background

1. Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to consider the level of reserves when setting a budget requirement. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Section 151 Officer) to report formally on the adequacy of proposed reserves when setting a budget requirement. The accounting treatment for reserves is set out in the Code of Practice on Local Authority Accounting.
2. CIPFA has issued Local Authority Accounting Panel (LAAP) Bulletin No.55, Guidance Note on Local Authority Reserves and Balances and LAAP Bulletin 99 (Local Authority Reserves and Provisions). Compliance with the guidance is recommended in CIPFA's Statement on the Role of the Chief Financial Officer in Local Government.
3. This note sets out the Council's policy for compliance with the statutory regime and relevant non-statutory guidance.

Overview

4. The Council's overall approach to reserves will be defined by the system of internal control. The system of internal control is set out, and its effectiveness reviewed, in the Annual Governance Statement. Key elements of the internal control environment are objective setting and monitoring, policy and decision-making, compliance with statute and procedure rules, risk management, achieving value for money, financial management and performance management.
5. The Council will maintain:
 - a general fund general reserve;
 - a housing revenue account (HRA) general reserve; and
 - a number of earmarked reserves.
6. Additionally the Council is required to maintain **unusable** reserves to comply with accounting requirements although, as the term suggests, these reserves are not available to fund expenditure.

General fund general reserve

7. The purpose of the general reserve is to manage the impact of emergencies or unexpected events. Without such a reserve, the financial impact of such events could cause a potential financial deficit in the general fund, which would be severely disruptive to the effective operation of the authority. The reserve should mitigate against immediate service reductions if there were any unforeseen financial impacts.
8. The level of the general reserve is a matter for the Council to determine having had regard to the advice of the S151 Officer. The level of the reserve will be a matter of judgement which will take account of the specific risks identified through the various corporate processes. It will also take account of the extent to which specific risks are supported through earmarked reserves. The level will be expressed as a cash sum over the period of the general fund medium-term financial strategy. The level will also be expressed as a percentage of the general funding requirement (to provide an indication of financial context).

HRA general reserve

9. The purpose of the HRA general reserve is similar to the general fund general reserve above except applied to the ring-fenced HRA.

Earmarked reserves

10. The purpose of earmarked reserves is to enable sums to be set aside for specific purposes or in respect of potential or contingent liabilities where the creation of a provision is not required or permitted.
11. The Council will maintain the following earmarked reserves:
- i. Services reserve: includes the net unspent balance of service and other budgets where the Cabinet has agreed that such sums could be carried-forward for use in subsequent years;
 - ii. Insurance reserve: funds set aside to meet internally-insured liabilities where the creation of a provision is not required or permitted;
 - iii. PFI Lifecycle reserve: funds set aside from specific PFI grant given by the government to meet payments to be made to service the debt relating to the Council's secondary schools PFI project; this reserve will be required to manage lifecycle funds during the suspended services period;
 - iv. Council infrastructure reserve: specific funds set aside for the planned maintenance and renewal of the Council's infrastructure including for IT and Property programmes;
 - v. Transformation reserve: will be used to fund investment needs identified through the Medium Term Financial Planning process. It will also be used to fund redundancy and decommissioning costs and the investment necessary to deliver longer term efficiencies and change;
 - vi. Financing reserve: a reserve to enable multiple-year medium-term financial strategies in the context of the annual budgeting and accounting cycle;
 - vii. Debt repayment / capital reserve: 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 capital investment;
 - viii. Major repairs reserve (HRA): the balance on this reserve represents the amount unspent of the major repairs allocation (MRA) and will be used to meet housing capital expenditure in future years;
 - ix. Schools' reserve: the net unspent balance of delegated funds managed by schools;
 - x. Community Infrastructure and Growth reserve – the council will need to grow its revenue base as government funding reduces, 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;
 - xi. Urban Renewal reserve: it would be beneficial for the council to support local businesses so they can share the benefits of the growth, this could

include supporting town centres and business investment districts, and maintaining retail business.

- xii. Labour Market Growth and Resilience – this will be used to support initiatives which assist people with returning to and remaining in work.
- xiii. Collection Fund Equalisation Reserve – this reserve deals 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.
- xiv. Public Health Reserve – the Council assumed responsibility for certain Public Health functions from April 2013 supported through a new Public Health grant; this reserve will be used to manage any over or underspends against this grant which is restricted to Public health expenditure.
- xv. Unspent Grants Reserve – 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.
- xvi. NHS Social Care Agreement reserve - 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.
- xvii. Smoothing Reserve (HRA) – this is used to accumulate changes in asset values within the HRA that must, under accounting rules, be charged against the revenue costs of the HRA. The reserve will assist the impact of volatile movements from one year to another.