

Reserves and their Adequacy

1. General Fund General Reserve

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.

The calculation of the potential financial impact of these assessed risks has been done and in the light of this, it is regarded that £10.5m is an appropriate target level for the general fund general reserve over the three-year financial planning period. The risks set out in Appendix 6.2 assess a potential financial impact at £10.3m; the Director of Corporate Resources therefore regards the £10.5m figure as a prudent level to set aside.

The £10.5m target for general balances represents 4% of the Council's net budget requirement for 2011/12.

2. Services Reserve

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 be carried forward to the following financial year.

3. Insurance Reserve

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 Director of Corporate Resources is satisfied that the reserve constitutes adequate protection in respect of the self-insured risk. This self-insurance reserve is in addition to the separately procured insurance with a consortium of other London boroughs.

4. PFI Reserve

The PFI reserve reflects the new arrangements following the suspension of services within the PFI contract. The opening figure reflects the remaining element after taking into account the pre-payment previously included elsewhere in the balance sheet. The reserve will be used to manage the lifecycle fund requirements for

schools in the suspended services period during the Building Schools for the Future investment programme.

5. Infrastructure Reserve

The infrastructure reserve is a key financing resource for the programmes of renewal of assets for 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 these services are transferred to this reserve for future use.

The infrastructure reserve will remain in place to spread the cost of future infrastructure renewal programmes.

6. Transition Reserve

The Transition Reserve is specifically earmarked for the costs associated with the Council's restructuring and savings programme.

This Reserve is to fund the associated transition costs of redundancies, decommissioning, and investment necessary to deliver longer term efficiencies and change. Given the scale of the transition programme there will be up to 1000 staff redundancies with an estimated cost of some £25m relating to the 2011-12 savings proposals. The Council is currently seeking government approval to capitalise this cost but to date has only received confirmation for £0.8m. The Director of Corporate Resources considers that all of this reserve should be earmarked for redundancy costs.

It should be noted that as a result of the Council's voluntary redundancy programme it is probable that some £5million of the reserve will have been applied by 31st March 2011 and all of the reserve will be used by 31st March 2012.

7. Financing Reserve

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 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. Subject to the approval of Cabinet through a separate report on the agenda this fund will be increased by up to £0.5m through a reallocation of funding within the Financing Reserve. The overall balance on the financing reserve at 1 April 2011 is estimated to be £4.0m.

8. Debt Repayment / Capital Reserve

This reserve has previously been 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 had been considered to be used to fund the impairment from the non-recovery of deposits in Icelandic banks, however, central government have allowed this to be capitalised over twenty years so this amount remains uncommitted. It has also been available to support the

capital programme. However, given the scale of the redundancy costs the Council is to incur, this reserve will now be utilised and applied to these costs.

9. HRA reserve

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 government reduction in funding for the decent homes programme is indicative of the risks that this reserve is intended to support. Furthermore, the government proposals to reform the existing Housing subsidy arrangements from April 2012 will require a complete review of the MTFP over the next twelve months.

In the light of this, £5m is regarded as an appropriate target level for the HRA general reserve over the three-year financial planning period. The 2011/12 budget is balanced with no planned call the reserves. However, there is a target of £3.4m of on-going revenue savings to be identified for 2011/12. The Director of Corporate Resources therefore considers this reserve target to be a prudent level. This represents approximately 5% of the HRA turnover for 2011/12, broadly the same as last year.

10. HRA Major Repairs Reserve

The balance on this reserve represents the amount unspent of the major repairs allocation (MRA) and will be used for future housing capital spend. This has been inflated in recent years as the government has allowed Decent Homes funding to be brought forward. However, as reported above, the structure of the HRA is likely to change from April 2012 and all HRA finances will therefore need to be reviewed over the next twelve months.

11. Schools Reserve

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 £3.5m represents 1.7% of the schools core funding. The projection for 2011/12 will not be finalised until individual schools budgets are calculated, which is subject to the pupil count data. A loan scheme has been introduced with the agreement of the school's 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.

12. Overall

The estimates of the reserves position, including earmarked and un-earmarked reserves for both the general fund and the HRA are detailed in the table below.

Reserve	Notes	Actual as at 31.03.2010 £million	Projected as at 31.03.2011 £million	Projected as at 31.03.2012 £million
Non-earmarked				
General Fund Balance	1	10.5	10.5	10.5
Total Non-earmarked Reserves		10.5	10.5	10.5
Earmarked				
Service Reserve	2	0.9	-	-
Insurance Reserve	3	8.6	8.6	8.6
PFI Reserve	4	6.0	6.0	6.0
Infrastructure Reserve	5	1.6	1.6	1.6
Transition Reserve	6	10.2	5.0	-
Financing Reserve	7	7.7	4.0	3.8
Debt Repayment/Capital Reserve	8	17.4	15.1	-
Total Earmarked Reserves		52.4	40.3	20.0
Other Reserves				
HRA	9	7.8	4.8	5.0
Major Repairs (HRA)	10	0.8	-	-
Schools	11	4.4	3.5	3.0
Total Other Reserves		13.0	8.3	8.0
Total		75.9	59.1	38.5