

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** (formerly 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. **Capital 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 Reserve:** 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. **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.
- xvii. **Budget Resilience Reserve:** this reserve will be used to manage in-year budget risks due to service budget overspends and non delivery/delay of planned savings.

Management and control

- 12. The schools reserve, the insurance reserve, and the PFI Lifecycle reserve are clearly defined and require no further authority for the financing of relevant expenditure.
- 13. The use of all other reserves requires budgetary approval in the normal way.
- 14. All reserves are reviewed as part of the budget preparation, financial management and closing processes.

Reporting and review

15. The Council will consider a report from the S151 Officer on the adequacy of the reserves in the annual budget-setting process. The report will contain estimates of reserves where necessary. The Corporate Committee will consider actual reserves when approving the statement of accounts each year.
16. The Council will review the reserves policy on an annual basis.

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 is maintained at £15m during 2018/19 is appropriate.
- 1.3. The risks set out in Annex 3c assess a potential financial impact at £21.6m for 2018/19; the Chief Finance Officer (CFO) regards the range set out above as being sufficient to cover the potential risks. However it is clear that there is only a small margin for error and the CFO is therefore specifically highlighting the need for robust budget management in 2018/19 including the efficient delivery of agreed savings.
- 1.4. The 2018/19 figure for general balances (£15m) represents 6% of the Council's net budget requirement for 2018/19.

2. Earmarked Reserves

Services Reserve

- 2.1. It is Council policy that residual 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.

Insurance Reserve

- 2.2. 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 Chief Finance Officer is satisfied that the reserve constitutes adequate protection in respect of the self-insured risk.

PFI Reserve

- 2.3. 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 secondary schools covered by the PFI scheme.

Council Infrastructure Reserve

- 2.4. 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.

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

Transformation Reserve

- 2.6. The Transformation Reserve will be used to fund investment necessary to deliver longer term efficiencies and transformational change.

Financing Reserve

- 2.7. The financing reserve is a 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.

Debt Repayment / Capital Reserve

- 2.8. 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.

Schools Reserve

- 2.9. 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 overall balance is likely to reduce as we move towards a national funding formula.

- 2.10. 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.

Community Infrastructure and Growth Reserve

- 2.11. 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.

Urban Renewal Reserve

- 2.12. 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.

Labour Market Growth and Resilience Reserve

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

Collection Fund Equalisation Reserve

- 2.14. 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.

Public Health Reserve

- 2.15. 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.

Unspent Grants Reserve

- 2.16. 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.

HRA reserve

- 2.17. 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 impact of the change in the governments rent policy which has reduced the resources available to meet future expenditure needs..
- 2.18. The HRA will need to generate additional and substantial contributions to the reserve to fund Housing capital expenditure in the future. The Chief Finance Officer considers the plans set out in the HRA MTFP for the next ten years financial planning period to be at a prudent level.

HRA Major Repairs Reserve

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

HRA Smoothing Reserve

- 2.20. 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.

Budget Resilience Reserve

- 2.21. This reserve will be used to manage in-year budget risks due to service budget overspends and non delivery/delay of planned savings.

3. Overall

- 3.1. 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.

Projected Reserves Position (At Period 10 - 2017/18)

Description	17/18 Opening Balance	2017/18 Movements		17/18 Projected Yr End Balance
		To reserve	From reserve	
General Fund Reserve	(14,907,049)	(8,950,000)	8,782,000	(15,075,049)
General Fund Reserves	(14,907,049)	(8,950,000)	8,782,000	(15,075,049)
Earmarked Reserves:				
Service Reserves	(8,313,890)	-	1,942,977	(6,370,913)
Unspent Grants Reserve	(3,513,016)	-	523,163	(2,989,853)
Transformation Reserve	(10,339,378)	-	4,593,390	(5,745,988)
Insurance Reserve	(4,861,761)	-	-	(4,861,761)
PFI Lifecycle Reserve	(9,015,905)	-	-	(9,015,905)
IT Infrastructure Reserve	(837,858)	-	-	(837,858)
Accommodation Strategy Reserve	(442,229)	-	-	(442,229)
Financing Reserve	(879,801)	-	-	(879,801)
Debt Repayment Reserve	(5,103,241)	-	94,000	(5,009,241)
Community Infrastructure Reserve	(3,000,000)	-	-	(3,000,000)
Urban Renewal Reserve	(284,038)	-	-	(284,038)
Labour Market Growth Resilience Reserve	(1,578,323)	-	787,900	(790,423)
Risk Reserve	(400,000)	-	-	(400,000)
General Fund Earmarked Reserves	(48,569,439)	-	7,941,430	(40,628,009)
Schools Reserve	(7,876,354)	-	-	(7,876,354)
Schools Reserves	(7,876,354)	-	-	(7,876,354)
Housing Revenue Account Balance	(30,556,699)	(6,339,511)	-	(36,896,210)
Earmarked Reserves:				
Homes for Haringey	(629,362)	-	300,000	(329,362)
Smoothing Reserve	(6,339,511)	-	6,339,511	-
HRA Earmarked Reserves	(6,968,873)	-	6,639,511	(329,362)

Adequacy of Reserves - Risk Assessment 2018/19			
<p>Three key assessment areas:</p> <ol style="list-style-type: none"> 1. Identification of risks during the financial planning and budget setting process as set out in the main report; 2. Risk assessment of the agreed investment and savings proposals in the proposed budget package, and; 3. key risks identified, monitored and managed through the Council's risk management strategy in the corporate risk register. 			
	Net Budget Exposure	Risk	Residual Impact
	£m	%	£m
1. Budget Process			
Priority 1 - Children's	55	A High level risk assessment (10%) has been applied to the budget amount potentially at risk	15.7
Priority 2 - Adults	92		
Priority 5 - Temp. Accommod.	11		
2. Savings Proposals			
- Delivery Programme	16	High risk (33%) on savings proposals for 2018/19	5.3
3. Corporate Risk Register	5	Low risk (2.5%) assessment on variety of risks within the corporate risk register	0.1
4. Unidentified Risks		Estimated	0.5
Total Risks			21.6
Less Budget Resilience Reserve			7.2
Less un-earmarked (General) reserves for the above			15.1
Available after risks			0.7