



RESERVES STRATEGY 2017/18

Background

1. The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
2. There are other safeguards in place that help to prevent local authorities over-committing themselves financially. These include:
 - The balanced budget requirement (Local Government Finance Act 1992 – section 32 and 43).
 - Head of Finance's duty to report on the robustness of estimates and adequacy of reserves (Local Government Act 2003 section 25) when the Council is considering the budget requirement.
 - Legislative requirement for the Council to make arrangements for the proper administration of their financial affairs and that the Head of Finance has responsibility for the administration of those affairs (section 151 of the Local Government Finance Act 1992).
 - The requirements of Cipfa's Prudential Code – the Code requires the Head of Finance to have full regard to affordability when making recommendations about the Council's Capital Programme. Such consideration includes the level of long term revenue commitments. In considering the affordability of the Council's capital plans, the Head of Finance is required to consider all of the resources available to the Council, estimated for the future, together with the totality of its capital plans and revenue forecasts for the forthcoming year and the following two years. There is a requirement for three year revenue forecasts across the public sector and this is achieved through the Medium Term Financial Plan (MTFP).
 - Wales Audit Office will consider whether the Council has established adequate arrangements to ensure that the Council's financial position is soundly based.
3. These requirements are reinforced by section 114 of the Local Government Finance Act 1988, which requires the Head of Finance to report if there is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the Council will not have the resources to meet its expenditure in a particular financial year.

Current Financial Climate

4. The pressures on public finances currently and for the medium term are intense. Therefore, the ability to retain reserves for unforeseen events and circumstances becomes not only difficult but something that requires careful consideration.
5. The Council's MTFP identifies risks in achieving the required savings to ensure balanced budgets over future years. Specifically working with further reductions in grant funding and trying to keep council tax increases at a reasonable level will see the need for reserves to be managed effectively.

Types of Usable Reserves

6. When reviewing the MTFP and preparing the Council's annual budget the Council needs to consider the establishment and maintenance of resource-backed reserves. The Council maintains reserves to protect against risk, ensure contingencies are in place and to support investment in future projects which are beneficial to the County Borough. The Council manages risk by assessing the potential impacts of future events, based on the likelihood that they may occur and the severity of any impact. Mitigating actions are then identified to reduce the exposure and appropriate plans are put in place.
7. As at 31 March 2016 the Council held the following usable reserves:

	31/03/13 £'000	31/03/14 £'000	31/03/15 £'000	31/03/16 £'000
General Fund Balance	7,018	7,018	7,018	7,018
HRA Balance	6,469	7,932	7,860	6,435
Earmarked General Fund Reserves	18,123	18,064	20,546	21,801
Earmarked HRA Reserves	7,861	5,026	1,421	0
Capital Receipts	17,816	15,036	15,083	14,468
Capital Grants Unapplied	901	1,225	1,459	802
Total	58,188	54,301	53,387	50,524

General Fund Balance

8. The purpose of this reserve is to provide for any unexpected expenditure that cannot be managed within existing budgets. Such expenditure would be one-off and resulting from an extraordinary event. A general reserve should be set at a prudent but not excessive level, as holding high level reserves can impact on resources and performance. Previously, it has been maintained at a level around 5% of the Council's net budget (excluding schools). Appendix 1 details the elements that make up the General Fund balance and the levels of risks attached to each of these elements. These are indicative and may not be exhaustive as new risks emerge.

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Net budget (excl. schools)	154,239	150,604	146,144	145,802	145,675
General Fund Balance as %age of net budget	4.56%	4.66%	4.80%	4.81%	4.82%

HRA Balance

9. This represents funds ring-fenced for use on the Council's own housing stock. The HRA Business Plan has been developed on the basis that a minimum balance of 10% of total HRA expenditure is held to mitigate against risk.

Earmarked General Fund Reserves

10. Unlike general fund balance earmarked reserves have been identified for specific areas of expenditure where there are anticipated costs that can only be estimated. Expenditure relating to earmarked reserves has to specifically relate to the purpose of the reserve. See Appendix 2 which is an extract from the Council's 2015/16 Statement of Accounts and lists the Council's earmarked reserves

Capital Receipts

11. This reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to repay debt. The latest Capital Programme report highlights that an estimated £14.9m of capital receipts funding will be required from 2016/17 onwards.

Capital Grants Unapplied

12. This holds the grants and contributions received towards capital projects for which the Council has met the conditions but has yet to be applied to meet capital expenditure.

Procedure for Use of Reserves

13. A reserve can only be established with the approval of the Executive Board and/or the Head of Finance and should be for a specific and appropriate purpose.
14. The Council's cash limited budgeting system contains provision for "carry forward arrangements" at year end. Subject to members of the Executive Board approval, a service or department which underspends its cash limited budget can normally carry forward the underspending, up to a maximum of 5% of the department's cash limited budget, to the following year.
15. Reserves can only be used once and so should not be held to fund on-going expenditure.
16. As part of the annual budget process the Head of Finance will consider and make recommendation to the Executive Board and Council whether there is a need to include a contribution to the general fund balance or any earmarked reserve.

Monitoring

17. The use of reserves is reported to members on a bi-monthly basis as part of the Council's Budget Monitoring procedures.
18. During the Autumn and as part of an all Member Budget Workshop, the Council's reserves are reviewed on an annual basis to ensure they meet the current and future needs of the Council. As part of the review members consider for each earmarked reserve:
- the reason for/ purpose of the reserve

- how and when the reserve can be used
- its relevance and adequacy

19. Any transfers to or from earmarked reserves are approved by the Executive Board.

Risk Analysis

20. Any recommendations that change the planned use of reserves reported within the annual Revenue Budget report will take account of service needs against the need to retain prudent levels of reserves. There are significant risks which affect the level of reserves to be maintained and the type of risks that have been considered, but which also be kept under review are:

- Future funding gap - the risk that due to the economic conditions, that are likely to be further real terms reductions in levels of revenue support grant and reductions in specific grants.
- Reduced capital receipts and planning related income.
- Increased demand on services which can lead to departmental overspends.
- Lower than expected income
- Uninsured losses from hard to predict events – for example, storms, floods, terrorism. Relief under the Emergency Financial Assistance scheme is payable only when expenditure exceeds a threshold of 0.2% of the Council's budget requirement and will only fund 85% of emergency expenditure above the threshold.
- Uninsured legal liabilities – for example, personal injury claims.
- Inability to deliver planned savings.
- Organisational Restructuring – for example, redundancy and pension costs.
- Long-term contract costs – for example, waste management.
- Repair or replacement of assets – for example, buildings.

Conclusion

21. The Council's current level of reserves is not excessive especially when compared with the average level of reserves held within all local authorities in Wales. The Welsh Government has published local authority data on levels of reserves and these can be accessed on the following link:

<http://gov.wales/topics/localgovernment/finandfunding/whole-government-accounts/publications/whole-government-accounts-reserves/?lang=en>

22. The Council's earmarked reserves have increased within the past few years as the Council has gone through a process of change and during which time underspends against budget has resulted. Tighter budget management means that underspends of this level are not likely and the possibility of overspends against budget becomes a greater risk for the Council.

23. During the year changes may occur in the MTFP which will affect this strategy. Such changes will be monitored by the Head of Finance and reported to the Executive Board.

APPENDIX 1

Key Risk	Impact	Likelihood	Management of Risk	Min £k	Max £k	Req'd £k
Major incident and/or claims – unbudgeted expenditure	Council expected to fund expenditure up to 0.2% of budget requirement	Single Incident up to 0.2% of net budget – Low to Significant Single Incident amounting to over 0.2% of net budget – Very Low		450	3,700	450
Counterparty Failure	Parties may fail to pay amounts back to the Council and therefore impact on revenue budget	Significant	As per TM Strategy deposits only made with institutions with a minimum credit rating of A- and no more than £5m per institution and no longer than 12 months.	1,000	5,000	5,000
Inability to deliver planned savings	In year overspend	High	As part of annual budget process undertake a risk assessment of each saving proposal (see Appendix 2 - HF/12/17). However the following were identified has high risk: <ul style="list-style-type: none"> a) Increase / introduce fees and charges b) No provision for increased demand in services c) Shortfall in income i.e. recycling income Total		357 500 1,014 1,871	357 500 800 1,657
			TOTAL	1,450	10,571	7,107

APPENDIX 2

	2014/15			2015/16			
	Balance at	Transfers	Balance at	Transfers	Transfers	Balance at	
	1.4.2014	Out	31.3.2015	Out	In	31.3.2016	
	£'000	£'000	£'000	£'000	£'000	£'000	
General Fund:							
Balances held by schools	1,841	(345)	1,064	2,560	(687)	707	2,580
Service Reserves	2,076	(805)	56	1,327	(819)	202	710
Insurance Reserve	1,529	0	0	1,529	0	873	2,402
Legal Liabilities Reserve	437	0	74	511	(26)	0	485
Winter Maintenance Reserve	300	0	0	300	0	0	300
Early Voluntary Retirement Reserve (EVR)	94	0	0	94	0	0	94
Transitional EVR Reserve	1,000	0	500	1,500	(505)	500	1,495
Reshaping Services Reserve	1,913	(100)	720	2,533	(721)	250	2,062
Invest To Save Reserve	361	0	0	361	(300)	0	61
Capital Reserve	1,618	0	700	2,318	(1,200)	2,885	4,003
Repairs and Maintenance Reserve	150	0	0	150	0	100	250
Pay Review	921	(921)	0	0	0	0	0
ITeC Reserve	581	0	0	581	(71)	0	510
IT Development	42	0	0	42	0	0	42
Customer Access	78	(46)	0	32	(17)	0	15
Local Development Plan Reserve	293	(21)	0	272	(69)	0	203
Waste Strategy Reserve	95	0	0	95	0	0	95
Carbon Emission Reserve	44	0	33	77	0	468	545
Pontcysyllte Aqueduct	8	0	0	8	(8)	0	0
Cremation Plant Replacement Reserve	23	0	0	23	0	0	23
Section 106/278 Reserve	514	0	0	514	0	0	514
North Wales Regional Transformation	22	(13)	0	9	(9)	0	0
Miscellaneous	31	(3)	17	45	(8)	16	53
Grant Reserves	4,093	(204)	1,776	5,665	(1,145)	839	5,359
Total	18,064	(2,458)	4,940	20,546	(5,585)	6,840	21,801
HRA:							
Housing Repairs	1,421	0	0	1,421	(1,421)	0	0
Housing Capital Reserve	3,605	(3,605)	0	0	0	0	0
Total	5,026	(3,605)	0	1,421	(1,421)	0	0

Service Reserves - represents service underspends as part of the Council's carry forward arrangements for use in subsequent years.

Insurance Reserve - the reserve is held to fund any future liabilities such as MMI (note 42) and claims that exceed budget.

Legal Liabilities Reserve - amount set aside to provide for any future legal liabilities.

Winter Maintenance Reserve - amount set aside to cover costs due to unforeseen adverse weather conditions.

Early Voluntary Retirement & Transitional EVR Reserve - to fund early retirements and redundancy costs following reshaping services.

Reshaping Services Reserve - an amount set aside to aid the transformation process to realise future savings for the Council.

Invest To Save Reserve - provision for the investment in various plans to realise permanent financial savings.

Capital Reserve - represents resources already committed to finance part of the Council's five year Non-HRA Capital Programme.

Repairs and Maintenance Reserve - to respond to future uneven expenditure patterns.

ITeC Reserve - ITeC provides information technology training for the benefit of the local economy and the reserve has been established to respond to future uneven expenditure patterns.

IT Development & Customer Access - to fund various IT enhancements and Self Service ICT development.

Local Development Plan (LDP) Reserve - to fund costs associated with the adoption of the LDP by 2016/17.

Waste Strategy Reserve - amount set aside to mitigate the impact of proposed reduction in the Waste Management grant.

Carbon Emission Reserve - to partly fund the carbon reduction plan programme of works to reduce carbon emissions.

Pontcysyllte Aqueduct - to support essential work along the World Heritage site such as repairs and any remedial works raised by UNESCO.

Cremation Plant Replacement Reserve - to partly fund the cost of mercury abatement.

Section 106/278 Reserve - represents income from contractors which have no conditions attached but which have been set aside to fund various infrastructure projects.

North Wales Regional Transformation - represents underspend on contribution made to fund North Wales Regional projects carried forward for use in subsequent years.

Miscellaneous - to meet a variety of other commitments including crematorium donations and school brass band.

Grant Reserves - represent income from Government grants received which have no conditions attached but which have been set aside for use in the provision of specific services.

Housing Repairs - is a separate record of income and expenditure relating to the repairs and maintenance of the Council's own housing stock.

Housing Capital Reserve - represents resources already committed to finance part of the HRA Business plan.