

<b>Report to: Cabinet Member for Resources and Performance</b>	<b>Electoral Ward Affected</b> <b>All</b>
<b>7<sup>th</sup> October 2019</b>	
<b>Report submitted by: City Treasurer</b>	
<b>Updated Reserves Policy</b>	

## 1. Summary

- 1.1 An essential part of the financial planning process of the Council is a robust policy on the level and nature of reserves. The policy document attached updates the Council's approach to Reserves within the context of its Medium Term Financial Strategy.

## 2. Decision Required

- 2.1 The Cabinet Member (Resources) to;

1. Agree the updated Reserves Policy; and,
2. Release surplus reserves of £83k into the Revenue Budget forecast.

## 3. Information

### 3.1 Legislative/Regulatory Framework and Role of the Chief Financial Officer

Sections 31A, 32 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

There are also a range of safeguards in place that help to prevent local authorities over-committing themselves financially. These include:

- the balanced budget requirement: - England, sections 31A, 42A of the Local Government Finance Act 1992, as amended
- chief finance officers' duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget requirement (England and Wales)
- the legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the chief finance officer / proper officer has responsibility for the administration of those affairs section 151 of the Local Government Act 1972
- the requirements of the Prudential Code.

These requirements are reinforced by section 114 of the Local Government Finance Act 1988 which requires the chief finance officer in England and Wales to report to Council if there is or 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 authority will not have the resources to meet its expenditure in a particular financial year.

Within the existing statutory and regulatory framework, it is the responsibility of the Chief Financial Officer (the City Treasurer) to advise the Council about the level and nature of reserves to be held. In assessing the adequacy of unallocated general reserves the Chief Financial Officer will take account of the strategic, operational and financial risks facing the authority. The Chief Financial Officer will also ensure that there are clear protocols for their establishment and use.

There are no statutory minimum levels for General Fund Reserves or earmarked reserves. In line with best practice and taking into consideration the Councils challenging Efficiency Plan, the recommended minimum balance for the General Fund Reserves of this Authority is being retained at £1.1m.

In respect of earmarked reserves, the maintenance of earmarked reserves is managed in line with the particular circumstances of individual authorities.

### 3.2 Purpose of Reserves

The Council carries a General Fund Reserve and a number of Earmarked reserves and provisions. These are held for a number of purposes:-

General Fund Reserve	Earmarked Reserves and Provisions
<ul style="list-style-type: none"> <li>• A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing</li> <li>• As a contingency to cushion the impact of unexpected events or emergencies</li> </ul>	<ul style="list-style-type: none"> <li>• Monies set aside for future events or liabilities</li> </ul>
Balance 31 <sup>st</sup> March 2019: £8.878m	Balance 31 <sup>st</sup> March 2019: £21.299m

### 3.3 Reserves Protocol

For each earmarked reserve held by a local authority there should be a clear protocol setting out:

- The reason for/purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the reserve's management and control; and
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

### 3.4 Balance of Reserves as at 31<sup>st</sup> March 2019

The Council's total General Fund Reserve at 31<sup>st</sup> March 2019 was £8.878m and the earmarked reserves totalled £21.299m. These are included within the useable reserves section shown in the table below. The other useable reserves include capital grants unapplied and capital receipts which are only available for financing capital expenditure.

**Table: Reserves Held by the Council**

		<b>At 31 March 2019</b>
		<b>£m</b>
<b>Useable reserves:</b>		
General Fund Reserve	8.9	
Earmarked Reserves	21.3	
Capital reserves: receipts & grants unapplied	6.4	
	<hr/>	36.6
<b>Unusable reserves</b>		35.6
<b>Total Reserves as at 31 March 2019</b>		<b>72.2</b>

### 4. Reserves to be released

4.1 Section 7.1 of the attached Policy recommends the release of the following earmarked reserves which are no longer required:-

- Suspense credits £83k

### 5. Conclusion

5.1 Against a back cloth of future financial uncertainty adequate reserves provide the Council with a cushion which gives flexibility and time to enable sudden changes in resources to be implemented in a phased manner at lowest cost. However, a review of the reserves has enabled two minor reserves to be released into the forecast.

### 6. Impact Statement

6.1 A robust Reserves Policy enables the Council to achieve its Corporate Priorities and Programmes.

### Background Documents:

Background documents open to inspection in accordance with Section 100D of the Local Government Act 1972:

Paper	Date	Contact/Directorate/Ext
-------	------	-------------------------

None

N/A

N/A

**Contact for further information:**

Jackie Wilding,  
City Treasurer

01772 906994

Corporate Services

**Decision Taken: Declarations**

**Cabinet Member (Resources)**

**Update of Reserves Policy**

Original decision required, as set out in the report, approved without amendment.

Yes

~~Original decision required amended and decision as follows:~~

~~I have a personal/prejudicial interest in this matter.~~

.....  
Cabinet Member (Resources & Performance)

Date

**Chief Officer**

I certify that this is an appropriate and accurate record within the terms of the Access to Information Procedure Rules 21.3 of the decision taken by the Cabinet Member.

.....  
Jackie Wilding  
City Treasurer

Date

\*Delete as appropriate

# Preston City Council

# Updated Reserves Policy

## **1 The Reserves Policy**

- 1.1 Setting the level of reserves is one of several related decisions in the formulation of the Council's Medium Term Financial Strategy.
- 1.2 In establishing and approving the Medium Term Financial Strategy, "the Council will ensure that it maintains a prudent level of reserves in line with best practice and relevant guidelines".
- 1.3 Any surplus reserves will be considered in the light of the budget forecast and the risks associated with that forecast.

## **2 Integrated Financial Planning**

- 2.1 The starting point in assessing the minimum level of general reserves is £1.1m which is considered in line with best practice and therefore appropriate for this authority. This base figure will be subject to Annual Review by the City Treasurer in the light of risks within the Medium Term Financial Strategy.

In making a recommendation as to the level of reserves which should be maintained, the City Treasurer considers carefully:-

- The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates, etc.);
  - The authority's track record in budget and financial management including the robustness of the Council's Medium Term Financial Strategy;
  - The authority's capacity to manage in-year budget pressures;
  - The strength of the financial information and reporting arrangements;
  - The adequacy of the authority's insurance arrangements to cover major unforeseen risks.
- 2.2 The Council will not hold significant balances above those required by the Medium Term Financial Strategy.
  - 2.3 The level of earmarked reserves will be reviewed in the preparation of the Medium Term Financial Strategy and again as part of the Closure of Accounts process. The creation of any new earmarked reserves will be subject to Member approval.
  - 2.4 The Council's General Fund Reserves at 31<sup>st</sup> March 2019 was £8.878m.

## **3 Reporting Framework**

- 3.1 Any recommended changes to the level of reserves held will be reported within the Medium Term Financial Strategy or in the consideration of the Annual Accounts and will take account of the strategic, operational and financial risks facing the authority at that time.
- 3.2 In making any recommendation the City Treasurer, will provide Members, (in line with the requirements of the Local Government Act 2003) with an opinion on the

robustness of the budget estimates and on the adequacy of the Council's reserves.

3.3 Any changes to this Policy will require approval by the Executive Member.

## **4 Earmarked Reserves Position (as at 31<sup>st</sup> March 2019)**

4.1 Earmarked reserves are a means of voluntarily and prudently building up funds to meet known future or predicted liabilities. When establishing reserves the Council must adhere to the Code of Practice on Local Authority Accounting (the CODE) and in particular the need to distinguish between reserves (set aside for future liabilities) and provisions (mandatory set asides for actual liabilities existing).

In approving any new earmarked reserves the Council needs to identify the purpose of the reserve, the protocol for its use and the procedures for its management and control. The appendix details the earmarked reserves that can be released to revenue if required.

The Earmarked Reserves as at 31<sup>st</sup> March 2019 are set out in Appendix 1 (Note 1).

4.2 In line with this Policy earmarked reserves have been reviewed:

The original budget 2019/20 approved at Budget Council February 2019 included release of a number of earmarked reserves which are detailed in appendix 1. In addition during 2019/20 the following earmarked reserves have been approved for release:-

i) IT Strategy Reserve

A number of IT projects have been approved by Corporate Management Team. All projects have to be supported by a full business case. Detailed Member reports are produced, in line with the financial procedure rules, if required.

## **5 Other Reserve Funds**

5.1 Details of all other reserves and balances including information regarding purpose, how and when to use and possible release into revenue budget or funding of capital are set out in Appendix 1. These include:-

- Balances Available in Creditor Provisions/Income in Advance
- Capital Reserves
- Pension Reserve
- Financial Instruments Reserve
- Collection Fund Adjustment Account Reserve
- Capital Grants unapplied
- Accumulated Absence Account

## **6 Presentation of the Reserves**

- 6.1 These have been presented in a way which is hopefully in an easy to follow and useful format. The reserves have been identified as usable or unusable. The usable reserves are those which can be applied to fund expenditure although some can only be used to fund capital expenditure. The unusable reserves cannot be used to fund expenditure and are used to hold technical accounting balances required in order to comply with the CIPFA Accounting Code of Practice.

## **7 Release of Reserves – Proposals for 2019/20**

- 7.1 At this stage the following reserves (as detailed in Appendix 1) are proposed for release:-

	£000
Suspense A/C	83

The latest forecast provisionally includes the release of the above reserve subject to being approved by the Executive Member (Resources and Performance).





## RESERVES HELD BY THE COUNCIL

## 1. Usable Reserves

Usable reserves are balances available to fund the Council's expenditure. Please note however, usable capital reserves can only fund capital expenditure.

## (i). Earmarked Reserves

Reserve	Purpose	How and When Used	Balance as at 01/04/19 £000	Proposed Use in Year £000	Final Balance 31/03/20 £000	Commentary
Capital Reserves – Direct Revenue Financing	Store of contribution from revenue to capital to help finance future capital projects.	In accordance with the Capital Programme.	265	-28	237	Proposed use in line with the latest capital programme
Building Control	Surpluses generated on Building Control services set aside to support continuing delivery of these services	To reinvest surpluses back into the Building Control Service	66	-15	51	Statutory requirement needs to be reinvested into Building Control
Voluntary Set Aside for Debt Repayment	Set aside for the repayment of debt.	To match income and expenditure including debt repayment. In respect of prudential borrowing schemes.	3,975	473	4,448	This earmarked reserve funds the Councils Vehicle Replacement scheme
IT Fund General Reserve	For the funding of new IT initiatives and development of IT systems.	Used to support spending in support of the ongoing development of IT initiatives	461	41	502	This will be fully committed in current and future years in the delivery of the IT Strategy. Annual contribution from revenue £100k p.a. All IT investments are approved on a business case basis.
Legal & Insurance Matters	Voluntary set aside for any future legal fees that may arise.	To fund one off settlement costs not budgeted for.	756	-28	728	The level of this reserve reflects the exposure the Council has to potential and outstanding legal claims and insurance matters.
Land Charges	Surpluses generated set aside to finance future service. Fundamental principle of the Land Charges.	3 Year accounting period over which costs should equate with charge income	302		302	Statutory requirement needs to be reinvested into Land Charges.
Land Charges New Legislation Reserve	Set aside for potential changes in land charges legislation.	Used to set aside to fund any potential refund claims.	7		7	Needed for any potential refund claims
City Centre Regeneration	Set aside for development agreement/regeneration costs.	Used to set aside for development agreement/regeneration costs.	76		76	To cover legal and consultants costs.

Reserve	Purpose	How and When Used	Balance as at 01/04/19 £000	Proposed Use in Year £000	Final Balance 31/03/20 £000	Commentary
Housing & Council Tax Reserve	Voluntary set aside for completion of Department for Work & Pensions benefit assessment and reform projects.	Used to fund Revenues and Benefit projects	415	-69	346	To cover cost of continuing Welfare reforms transition. New Burdens funding set aside to cover expenditure on Revenue and Benefits projects.
Investment Properties Dilapidations Reserve	Voluntary set aside for dilapidation works	Used to be set aside for property refurbishment when tenancy agreements end.	51		51	To cover one-off refurbishment cost.
Alleygate Maintenance Reserve	Voluntary set aside for maintenance of alleygates.	Used to set aside for future maintenance.	15	-5	10	To cover ongoing maintenance of Alleygates.
Municipal Mutual Insurance Reserve	Voluntary set aside to cover the risk of claw back under the Municipal Mutual Insurance (MMI) Scheme of Arrangement	Used to fund clawback on MMI scheme	274		274	Still required to fund potential future clawback under MMI Scheme of Arrangement.
General Commuted Sums	Commuted sums set aside to cover the future maintenance of an asset which has been adopted by the Authority	Used to fund maintenance costs of assets adopted by the Authority	659		659	
Community Related Assets Reserve	Sums set aside for financing maintenance expenditure associated with the transfer of Community Related Assets from the Homes and Communities Agency endowment	Used to fund maintenance costs of assets associated with the CRA transfer from the Homes & Communities Agency	5,626		5,626	(*see note below)
Localising Council Tax Support	Voluntary set aside of New Burdens funding to support welfare reforms	Used to fund costs relating to new Welfare Reforms	73	-28	45	New Burdens funding from Government.
Business Rates Equalisation Reserve	Voluntary set aside to cover potential future deficits in Business Rate income	Used to fund Preston City Council share of future Collection Fund deficits.	1,776	429	2,205	Used to smooth out the timing differences on the NNDR scheme.
Guild 2032 Reserve	Set aside for Preston Guild, historical event which occurs every 20 years	Will be used to fund expenditure incurred on Preston Guild 2032	1,000		1,000	

Reserve	Purpose	How and When Used	Balance as at 01/04/19 £000	Proposed Use in Year £000	Final Balance 31/03/20 £000	Commentary
Counter Fraud Reserve	Set aside of DWP & Government grants received in relation to counter fraud work	Will be used to fund expenditure on counter fraud	100	-64	36	
Arts & Cultural Strategy Reserve	Voluntary set aside to fund investment in the Arts & Cultural offer of the City	Used to fund Arts & Cultural schemes	26	-3	23	
Individual Electoral Registration Reserve	Set aside of Government Grant to fund Individual Electoral Register (IER)	Used to fund expenditure for implementing IER	119	-12	107	
City Deal Reserve	Set aside of Community Provision relating to City Deal	Funds to be released in line with additional housing in Preston	2,878	65	2,943	Funds to be released to Revenue in line with house build timescales
Vehicle Maintenance Reserve	Voluntary set aside to fund vehicle maintenance costs	To fund one-off vehicle maintenance costs	50		50	
Cemetery & Crematorium Reserve	Voluntary set aside to fund future costs of major works on the Cemetery and Crematorium	To fund future costs	325	53	378	
Public Health Initiatives	Income received in advance for Public Health Initiatives & Welfare Reforms.	Used to fund Public Health initiatives	6	-6	0	
Riversway Maintenance Reserve	Voluntary set aside to fund future maintenance on the dock gates	To fund future costs	25		25	
Community Infrastructure Levy Admin	Set aside of the 5% admin fee allowable under CIL regulation 123 to fund activities concerned with monitoring and reporting on CIL activity.	To fund costs relating to future CIL activity.	417	-54	363	Funds released to revenue to fund the CIL Officer post.
Efficiency Planning Reserve	Set aside to fund one off costs of the implementation of the next three years savings plan.	To fund costs relating to implementing future savings.	1,043		1,043	

Reserve	Purpose	How and When Used	Balance as at 01/04/19 £000	Proposed Use in Year £000	Final Balance 31/03/20 £000	Commentary
Housing Zone Reserve	Set aside of Government Grant to support house building on large designated sites within the City	To fund future costs	47	-5	42	
Planning Appeals/Enquiry Reserve	Voluntary set aside to fund future planning appeals and enquiries.	To fund future costs	150		150	
Self Insurance Reserve	Voluntary set aside to cover risks that the Council haven't externally insured.	To fund future costs	234		234	
Triennial Review Reserve	Set aside until the next triennial review in anticipation of future pension fund fluctuations	To fund future costs	82		82	Anticipated as a result of the leisure transfer
<b>Total Earmarked Reserves</b>			<b>21,299</b>	<b>744</b>	<b>22,043</b>	

\* Note, money received was for ongoing maintenance of assets transferred from the Homes and Communities Agency. Members should be aware the funds are not restricted and therefore available use. However it should be noted that when funds are exhausted additional costs associated with maintenance of the Community Related Assets will have to be found from revenue resources. Budget Council have previously agreed to fund the shortfall on redundancy costs . In addition a guild contingency reserve was established which contributed to the 2012 Guild and £1m contribution to the 2032 Guild earmarked reserve.

## (ii). General Fund Reserve

Reserve	Purpose	How and When Used	Balance as at 01/04/19	Use in Year	Final Balance 31/03/20	Possible Release to Revenue?
General Fund	An unallocated general working balance reserve fund to help cushion the impact of uneven costs of running council day to day services or the impact of unexpected events or emergencies	In line with the annual budget and medium term forecast as approved by Council, taking in to account strategic, operational and financial risks facing the council over the medium term.	8,878	-1,129	7,749	The latest MTFS shows the use of this reserve over the next five year period.
<b>Total General Fund Reserves</b>			<b>8,878</b>	<b>-1,129</b>	<b>7,749</b>	

#### (iv). Capital Reserves

Capital reserves are not available for revenue purposes.

Reserve	Purpose	How and When Used	Balance as at 01/04/19	Movement in year	Final Balance 31/03/20	Possible Release to Revenue?
<b>Capital Receipts Reserve</b>						
Affordable Housing & Regeneration Project	To fund Affordable Housing & Regeneration capital schemes	These receipts can only be used for capital purposes and are already forecast to finance capital expenditure in the future.	717	-221	496	There will be receipts in year however they will be used to fund the Capital Programme
Capital Receipts R/T/B	Capital Receipts R/T/B	These receipts can only be used for capital purposes and are already forecast to finance capital expenditure in the future.	20	-20	0	There will be receipts in year however they will be used to fund the Capital Programme
Capital Receipts (Investment Property & Vehicles)	Capital receipts from sale of Council owned properties and vehicles	These receipts can only be used for capital purposes and are already forecast to finance capital expenditure in the future.	104	-104	0	There May be receipts in year however they will be used to fund the Capital Programme
Asbestos	To fund any future Asbestos liability	As part of the Housing Stock Transfer the Council provided an asbestos warranty. These receipts are committed to this ongoing liability details of which are set out in the detailed contract.	3,664	-100	3,564	The Council continues to monitor CGAs progress with asbestos removal. At Budget Council February 2018 Members took the decision to contribute £100k pa from this reserve to finance the 5 year capital programme.

Reserve	Purpose	How and When Used	Balance as at 01/04/19	Movement in year	Final Balance 31/03/20	Possible Release to Revenue?
Repayment of Housing Grants	To fund capital expenditure	Prior to the Comprehensive Spending Review the Council received a Capital Housing Grant allocation from Central Government. These receipts are repayments of housing grants previous been given out by the Council for home repairs work and disabled facilities alterations.	7	0	7	Already forecast for release in the Capital Programme
		<b>Sub Total capital Receipts</b>	<b>4,512</b>	<b>-445</b>	<b>4,067</b>	
Capital Grant Unapplied Reserve	Holds the grants and contributions received towards capital projects but where the expenditure is still to be incurred	Capital grant or contributions that have been recognised as income in the accounts, but expenditure has not been incurred. Used to finance capital expenditure when it does occur.	1,909	-164	1,745	This reserve includes Section 106 and Community Infrastructure Levy (CIL) contributions. Use of this reserve will be in line with the Council's Capital Programme.
<b>Total Capital Reserve Funds</b>			<b>6,421</b>	<b>-609</b>	<b>5,812</b>	

## **2. Unusable Reserves**

The Council holds a number of unusable reserves which absorb the difference between the statutory arrangements for funding expenditure and accounting for the expenditure in line with regulations and proper accounting practice. Unusable reserves cannot be used to fund expenditure e.g. cannot fund revenue spend on services or capital spend on projects.

### **(i). Revaluation Reserve**

The Revaluation reserve contains the net gains made from increases in the value of the Council's assets (Property, Plant, Equipment and Intangible Assets) not yet realised through sales. The gain will only be realised and shown as income in the Council's accounts following sale of the asset. The balance of the Revaluation reserve as at 31 March 2019 is **£59.2m**.

### **(ii). Capital Adjustment Account**

A store of capital resources from Revenue, Capital Receipts and the provision for the payment of debt set aside to meet past expenditure. The balance of the Capital Adjustment Account as at 31 March 2019 is **£67.1m**.

### **(iii). Deferred Capital Receipts**

Deferred Capital Receipts are amounts that are to be received in instalments over an agreed period of time. They arise from mortgages on the sale of Council Houses. These can only be used for financing new capital expenditure when the actual receipt is received. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve. The balance of the Deferred Capital Receipts Reserve as at 31 March 2019 is **£1k**.

### **(iv). Pensions Reserve**

In line with International Accounting Standard 19 (IAS 19) Employee Benefits the Council's commitment to make future payments must be disclosed in the accounts at the time the employees earn their future entitlement to the benefits. The balance on the Pension Reserve as at 31 March 2019 is **£89.5m** deficit. The Pension liability balance reported in the balance sheet matches off exactly to the deficit balance held in the Pensions Reserve.

### **(v). Financial Instruments Reserve**

The Financial Instruments Adjustment Account is held in accordance with the Code of Practice to write down over time the premiums paid on early debt repayment in order to spread the burden on Council Tax. The deficit balance as at 31 March 2019 is **£0.46m**. This is a technical adjustment and has no impact on the overall financial position of the Council.

### **(vi). Collection Fund Adjustment Account Reserve**

The Collection Fund adjustment account allows for differences between income included in the Income and Expenditure account and the amount required by regulation to be credited to the General Fund. The balance on the account of **£0.146m** deficit represents the Council's share of the Collection Fund deficit.

### **(vii). Available for Sale Financial Instruments Reserve**

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices, or otherwise do not have fixed or determinable payments. The deficit balance as at 31 March 2019 is **£0**. This is a technical adjustment and has no impact on the overall financial position of the Council.

### **(viii). Accumulated Absence Account**

The Accumulated Absence account absorbs the differences that would otherwise arise on the general Fund balance from accruing for compensated absences earned but not taken in the year eg annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account. The balance as at 31 March 2019 is **£0.145m**.