

## REVIEW OF RESERVES 2015/16

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### WHAT BENEFITS WILL THESE PROPOSALS BRING TO COPELAND RESIDENTS

The report is part of the suite of budget reports to enable Copeland Borough Council to set a balanced budget for 2015/16 taking account of available Reserve funds. This report details the Section 151 officer's review of Reserves currently held by the Council.

### WHY HAS THIS REPORT COME TO THE EXECUTIVE?

This is a policy recommendation to full Council for approval as part of 2015/16 Budget consideration on 26<sup>th</sup> February 2015.

Executive are asked to recommend to Council:

- (i) Retaining the General Fund Risk Based Reserve at £2m (paragraph 2.7)
- (ii) The release of £5.178m from the unallocated general fund to allow the creation of a Business Rate Safety Net earmarked reserve (paragraph 3.2)
- (iii) Note the proposed use of general unallocated reserves in 2015/16 (paragraph 3.5) to fund the budget deficit in 2015/16 pending the identification of further savings. The final amount required will be determined during the budget process.
- (iv) Approve the movement on earmarked reserves set out in paragraph 4.8
- (v) Approve the use of earmarked reserves totalling £184k (£176k Revenue; £8k Capital) as set out in paragraph 4.9.

## 1. INTRODUCTION

1.1 Revenue reserves play a key role in the management of the Council's budget. They are used as a contingency against risk, to fund new policy initiatives and to support the Council's revenue and capital budgets when needed.

1.2 This report deals with the review of Reserves which is carried out annually. The Section 151 officer is responsible for advising on the adequacy of reserve levels. In assessing this adequacy, account is taken of professional guidance, together with the strategic, operational and financial risks facing the authority. Account is also taken of the key financial assumptions underpinning the budget and financial strategy within the context of the authority's broader financial management arrangements. It should be noted that there is no specified percentage or limit set by the Government or any other

body on the appropriate level of reserves to be held. It is for each authority to set guidelines for its own limits as advised by the Section 151 officer.

- 1.3 Recommendations on changes to the level of earmarked reserves held or changes to the annual utilisation of those reserves must be submitted to the Executive for approval. The approval for the use of the General Fund or changes to amounts to be taken from the General Fund must be approved by Council.
- 1.4 General Fund Reserves is an accumulation of surpluses / deficits on overall revenue spending. The level of reserves held is linked to a risk assessment of the financial position of the authority. Reserves may not be overcommitted. If potential calls on a reserve exceed its available balance then this must be addressed through the budget monitoring process.

## **2 THE GENERAL FUND RISK-BASED RESERVE**

- 2.1 The use of a risk-based approach determines the appropriate level of reserves in relation to risks and specific circumstances facing the Council. Therefore, the risk led element of the General Fund balance provides cover for material risks and uncertainties that arise that cannot be covered by the approved budget or existing reserves, and for emergencies. It does not provide funds for additional investment, rather it is there to ensure the approved budget can be delivered if specific material risks materialise.
- 2.2 The s151 officer recommends a level for the risk-based element of the General Fund as part of the budget setting process each year. Budgets will be produced on the basis that the General Fund balance will be maintained at least at the recommended level throughout the period covered by the Medium-term Financial Strategy and can be sustained at this level in the longer-term.
- 2.3 If the balance on the General Fund is projected to fall below the recommended risk-based level, then priority will be placed on restoring the balance in subsequent budget and out-turn recommendations. Temporary dips below the target may be acceptable provided that there is a robust plan to restore reserve balances to the target level.
- 2.4 Risk Management is a strategic tool and is an essential part of effective and efficient management and planning. Risk can be classified as either strategic risks that impact on the medium to long term objectives of the Council or operational risks that are associated with the day – to day activities of the Council. The Council has a duty to have in place arrangements for managing risks. Risk Management covers the whole spectrum of risks and not just those associated with finance, health & safety, business continuity and insurance. It also includes risks associated with service provision, effectiveness and continuity, reputation, compliance with legislation and environment.
- 2.5 Risk Management strengthens the ability of the Council to achieve its corporate objectives and priorities and enhance the value of services provided. It provides a strategic tool in planning and decision making. The council recognizes the increasing importance of managing risk given the changing external environment and the Risk

Management Strategy and Strategic Risk Register is updated regularly and considered by the Audit and Governance Committee on a quarterly basis.

2.6 The main high level risks set out in the strategic risk register are:

- Securing Financial Viability,
- Lack of capacity, resources and capability to deliver the change programme
- Inability to make necessary decisions in a timely way
- Meeting statutory responsibilities during a time of budgetary change
- NNDR & the Growth Strategy
- Maintaining robustness and integrity of business systems

The assessment of risk is dependent on the Councils appetite to risk and the preference that it has for dealing with the individual risk. The 4 T's of risk management that the council uses are Treat; Tolerate; Terminate or Transfer.

2.7 With increasing uncertainty on our funding and resource levels the identification and management of our strategic risks is vital for the council. The General Fund Risk Based Balance was set at £2m as part of the budget setting process in February 2014, and was based on a number of risks that the Council at that time were either experiencing or anticipating. Given the continuing changing environment the s151 officer has reviewed and reassessed the level that the general fund risk based reserve level and determined the level is to be maintained at £2m given the increasing uncertainty over future funding levels.

2.8 An assessment of the financial implications of the Risk Based Reserves is set out in **Appendix 1**

2.9 The movement on the General Fund Risk Based Reserve is set out in **Appendix 2**

### **3 THE GENERAL FUND UNALLOCATED BALANCE**

3.1 General Fund Reserves is an accumulation of surpluses / deficits on overall revenue spending. The unallocated balance is the amount that is left unallocated once the Risk Based element of £2m (see para 2) is set aside and the Earmarked Reserves (see para 4) have been set aside.

3.2 The authority received a general fund grant for Business Rates under the new localised system introduced in 2014/15. This is an amount to bring the authority back up to its baseline line assessment, which due to timing issues will not be required in year but in the future to match against loss of Business rate income. This is not the Council's funds but is paid over to the Government and so is not available to meet any of the Councils spending needs. It is therefore proposed that this funding of £5,178,072 be transferred to a specific earmarked reserve from the unallocated General Fund (also see paragraph 4.8 (v)).

- 3.3 An earmarked reserve (see paragraph 4.8 (ii) ) details the Compensation payments for community assets (right to bid) reserve, totalling £20k that can be released back to unallocated General Fund as it is longer required.
- 3.4 It is proposed to allocate a sum of £100,000 from the unallocated general reserve as a contingency reserve for potential costs relating to the new mayor. The exact amount required will not be known until the election has taken place, the new governance arrangements have been set up and the Independent Remuneration Panel have met. Further consideration will need to be given to any costs that are on-going.
- 3.5 The impact of the above is that the General Fund unallocated balance would be forecast at £1.637m as at 31/3/15 assuming the proposals in this report are agreed. This is the Reserve that will be utilised to fund any budget shortfall during 2015/16 whilst permanent savings are being identified. A maximum of £960k was earmarked for this purpose. However, the figure currently used in planning for 2015/16 is £237k, assuming savings for 2015/16 to the level outlined in the separate 2015/16 Revenue budget paper.

#### **4. EARMARKED RESERVES**

- 4.1 Earmarked reserves are established to meet specific needs that have been identified.
- 4.2 New reserves or changes to the use of existing reserves must be approved by the Executive either through the budget monitoring or budget setting process. Forecast calls on earmarked reserves will be adjusted against the appropriate budgets controlled by the named budget holder provided that they fall within approved parameters.
- 4.3 Reserves may not be over-committed. If potential calls on an earmarked reserve exceed its available balance, then this must be addressed through the budget monitoring process.
- 4.4 The adequacy and appropriateness of each earmarked reserve is reviewed twice yearly; once within the budget setting and review of MTFs (this report) and once reported as part of the year-end processes, which will be used to inform decisions on carry forwards. Once the purpose of an earmarked reserve has been fulfilled, or the balance is higher than is needed, the remaining balance will be returned in the first instance to the unallocated portion of the General Reserve.
- 4.5 Information on the purpose, use and balance, in 2014/15, on individual earmarked reserves held by the Council is provided at **Appendix 3** to this report.
- 4.6 Table 1 set out below shows the reserves that were released into the current year (2014/15) budget:

**Table 1 – Earmarked Reserves Released into 2014/15 Budget**

<b>Reserve</b>	<b>2014/15 Release to Revenue Budget £</b>
<b>Carry forwards:</b>	
Transformation Fund	65,036
Tangier Street	1,368
Copeland Apprenticeship (WNF)	7,988
Beacon (refurbishment)	43,014
<b>In year:</b>	
Transformation Fund	225,000
Asset Management Enabling	5,500
PFI	7,000
Housing Strategy	10,000
Local Development Framework	10,000
Cremation sinking fund	10,000
Proceeds for TMaC	25,000
Recycling	10,000
Bin Replacement	35,000
Catherine Street Car Park	7,000
Knotweed	7,000
Planning For Nuclear	64,243
Copeland Seaside Coastal Park	50,000
Enabling Growth Strategy	25,000
<b>New requests this report:</b>	
Crematorium Donations (Para 4.8 (i))	1,200
<b>Total</b>	<b>609,349</b>

4.8 The adequacy and level of all of the earmarked reserves has been reviewed and members are now being asked to approve the following for recommendation to Council:

**(i) To the current year 2014/15 budget**

Members are asked to approve the release of £1,200, in the current year, from the Crematorium Donations EMR to fund for the provision of a shelter next to the chapel entrance to protect visitors from the weather.

**(ii) To the general fund unallocated reserve**

Compensation payments for community assets (right to bid)

This reserve was created to meet the Authority's potential need to compensate private landowners for delayed disposal of their assets under the Localism Act (maximum call in any 1 year is £20k). Since this reserve was established 2 years ago there have been 3 applications to register community interest in assets, 1 being rejected and two being

registered. As there is currently no plans for either of properties registered to be sold there is no call on this reserve and it is recommended it is released into the general fund and the risk of potential call on the general fund in the future is noted.

**(iii) To the Land Management EMR**

The earmarked reserve established for Howbank is now no longer required as this project is complete, however rather than releasing the £20k balance back into the general fund reserve, Members are asked to agree to transfer this balance to Land Management EMR as its anticipated that the majority of this reserve may be utilised end of this/next financial year on land to the rear of the United Utilities building, but as the timing is uncertain no release is currently being sought.

**(iv) Bin Replacement**

The authority currently holds a ‘Bin Replacement’ EMR with an estimated year-end balance of circa £60k. Whilst the Council has made a decision to charge for replacement bins in the next financial year, it is suggested that this reserve be retained until the outcome of the policy is evidenced, with a decision on whether to release some or all of this reserve back to the General Fund, being taken at the next reserve review for the purposes of setting the 2016/17 revenue budget.

**(v) Request for new earmarked reserves**

Following the extensive work done on review of the in- year budget and base budget requirement going forward, a number of EMR’s are now requested. The holding of these EMR negates the need for a base budget each and every year, as the reserve will be accessed as and when needed, but these reserves may require top up when fully used. The new EMR’s will be funded from base budget in 2014/15, receipt of external funding (localism grant), or transferred from the unallocated reserve, and therefore do not represent a new call on the General Fund. The requests for new Earmarked Reserves in 2014/15 are detailed in Table 2:

**Table 2 – Creation of New Earmarked Reserves**

<b>Earmarked Reserve</b>	<b>2014/15 Release to Earmarked Reserve £</b>	<b>Notes</b>
Localism Grant	29,503	1
Environmental Health Legal	TBC	2
Home Group Insurance	19,585	3
Housing Services	20,000	4
NNDR Safety Net payments	5,178,072	5
Cost associated with the new Mayor	100,000	6
<b>Total</b>	<b>5,347,160</b>	

**Table 2 - Notes:**

- 1 This is monies received in the form of a grant to deal with issues relating to the implementation of the Localism Act. There are no current plans to spend this in year so it is requested that an Earmarked Reserve is created to keep this specific funding until it is required.
  - 2 The value of this reserve will be the unspent budget as at 31 March 2015. The need to incur legal and professional costs with Environmental Health is demand led and cannot be predicted year to year, rather than continue to provide a base budget each year any unspent budget at 31 March 2015 will be placed in a reserve to be accessed as and when needed in the future. The value to be placed in the reserve will not be known until outturn. The benefit of this approach is that it avoids fluctuations in the base budget as the reserve will only be accessed as required.
  - 3 This is a repayment of insurance in relation to the occupancy of the Copeland Centre. This authority received the monies and will release to the Home Group as required. This money is not needed in the revenue budget and will be placed in an EMR and released when required.
  - 4 Housing Services, this is similar to the Environmental reserve at point 2 above, in that the services doesn't necessarily require an on-going revenue budget each year for certain activities but needs access to funds on an as and when basis.
  - 5 The authority received a general fund grant for NNDR to bring the authority back up to baseline line assessment, which due to timing issues will not be required in year but in the future to match against loss of income. Until this funding is required it is being transferred to an earmarked reserve.
  6. There will be costs associated with the new mayoral system at Copeland Borough Council that are not yet able to be quantified. It is requested that in the interim, an earmarked reserve be established that can be accessed if required.
- 4.9 The current base budget build contains funding from a number of Earmarked Reserves, some of which have already been approved for use and some that have not. Members are asked to recommend to Council the use of £184k from earmarked Reserves in support of 2015/16 revenue budget as summarised in Table 3 below. More detail is given in Appendix C.

**Table 3 – Proposed use of earmarked Reserves in 2015/16 Budget**

Reserve	2015/16 £ Release to Revenue Budget
Planning for Nuclear	64,000
Elections (fund local elections)	67,000
Crem Sinking Fund (upgrade sound system)	6,000
PFI	7,000
Knotweed (continue programme of treatment)	7,000
Catherine Street Car Park ( <b>contribution to capital programme</b> )**	8,000
Welfare Support	20,000
Members induction (training new members)	5,000
<b>Total</b>	<b>184,000</b>

\*\* As this is a contribution to the capital programme the amount of EMRs included in the 2015/16 revenue budget is £176k (£184k less £8k)

#### 4.10 Transformation Fund

Whilst no request is currently being made for release into 2015/16 budget from this EMR, dependent upon progress it is envisaged that this reserve will be spent in the next two financial years. Members will be updated on progress and requests for release will be made as and when appropriate.

#### 4.11 Corporate IT Reserve

Again whilst no request is currently being made for release into 2015/16 budget from this EMR, the IT strategy is currently being developed and this will inform spend, so again requests for release will be made as and when appropriate.

### 5 SUMMARY OF GENERAL FUND RESERVE BALANCES

5.1 Taking into account all the movements as detailed above the proposed position on the Councils Reserves with opening balances as at 1/4/14 and forecast balances at 31/3/15 as follows in Table 4;

**Table 4 – Summary of movements in General Fund Reserves 2014/15 – 2015/16**

	1/4/14 £000	Movements 2014/15 £000	31/3/15 £'000	Movement in 2015/16 £'000	31/3/16 £'000	Para
General Fund Risk-based	2,000		2,000		2,000	2
General Fund Unallocated balance	7,108	-5,471	1,637	-237	1,400	3
Earmarked Reserves – General	5,692	-61	5,631	-184	5,447	4
<b>Sub Total – Council Funds</b>	<b>14,800</b>	<b>-5,532</b>	<b>9,268</b>	<b>-421</b>	<b>8,847</b>	
Earmarked Reserve – Business Rates	0	5,178	5,178	0	5,178	3.2/ 4.8(v)
<b>Total</b>	<b>14,800</b>	<b>-354</b>	<b>14,446</b>	<b>-421</b>	<b>14,025</b>	

## 6 RESOURCE REQUIREMENTS



6.1 The report details the financial requirement to utilise the council's general fund reserves to support the current budget and policy framework and that of 2015/16.

## **7 STATUTORY OFFICER COMMENTS**

7.1 The Monitoring Officer's comments are: No further comments

7.2 The Section 151 Officer's comments are: Included in the report

7.3 EIA Comments: None

7.4 Policy Framework: Within the policy framework

7.5 Other consultee comments: None

## **8 HOW WILL THE PROPOSALS BE PROJECT MANAGED AND HOW ARE THE RISKS GOING TO BE MANAGED?**

8.1 Through the monthly budget monitoring process in which management and finance staff work together to ensure financial reports are accurate and timely to assist the decision making process of the Council as a whole. Exceptions are reported monthly through Corporate Leadership Team and to Executive on a quarterly basis. It is also good financial practice to report the year-end position on revenue reserves as a consequence of the outturn.

## **9 WHAT MEASURABLE OUTCOMES OR OUTPUTS WILL ARISE FROM THIS REPORT?**

9.1 The requirement to use reserves for the year and the level of general and earmarked reserves the Council will have available to support its revenue budget in future years.

### **List of Appendices**

Appendix 1 - General Fund Risk Base Assessment

Appendix 2 – General Fund Risk and Unallocated Reserve

Appendix 3 – Earmarked Reserves

### **List of Background Documents**

Quarters 1, 2 and 3 Revenue financial monitoring reports