

Use of Revenue Reserves 2012/13

EXECUTIVE MEMBER: Councillor Gillian Troughton

LEAD OFFICER: Joanne Wagstaffe, Corporate Director – Resources and Transformation

REPORT AUTHOR: Barry Williams, Interim Technical Accountant

SUMMARY

This report provides details of the Council's strategy for using its revenue reserves and the balances that are available to provide support to the revenue budget.

RPWG are asked to recommend to the Executive to approve:

- (i) The reserves strategy set out in the report, which provides the framework for the use and level of reserves in the future and.
- (ii) The level of reserves held by the Council as set out in **Appendix A**.

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 At the moment, the Council continues to use revenue reserves to support its budget. This is necessary in the short-term whilst the Council reviews its services to reduce costs to such a level to bridge the forecasted budget deficits for years 2012/13 – 2015/16 and possibly beyond.
- 1.3 The Council is required to have in place the comprehensive reserves strategy, which is robust and is subject to annual review. The strategy is shown in paragraph 2 to this report. It has been prepared with regard to information known at this time. The details on usage are set out in the Revenue Budget proposals.
- 1.4 Information on the level of reserves held by the Council is also provided at Appendix A to this report

2. THE USE OF RESERVES

- 2.1 Revenue reserves play a key role in the management of the Council's budget. The broad purposes for which reserves may be held are listed below;

- As a contingency to cover risks, uncertainties and emergencies;
- To fund planned investments and developments;
- To smooth the budgetary impact of cyclical costs;
- To carry forward funds for agreed purposes at year-end.

Revenue reserves will be held only for defined and formally agreed purposes.

2.2 Reserves fall into two categories:

- General Reserves – an accumulation of surpluses / deficits on overall revenue spending. The level of this reserve is linked to a risk assessment of the financial position of the authority.
- Earmarked Reserves – reserves set aside for specific purposes (including Sinking Funds).

Further details are given on these in paragraphs 3 and 4 below.

- 2.3 As a general principle, reserves will only be used to finance non-recurring spending or to cover transitional costs. If, in exceptional circumstances, the use of reserves is proposed to support recurring spending, this will be conditional on a strategy being in place to replace the use of reserves with mainstream funding.
- 2.4 Balances and reserves will be maintained at a level which is sufficient to allow for quantifiable liabilities and foreseeable risk and also to enable the Council to react to opportunities and risks should they arise;
- 2.5 The Council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use of earmarked reserves will be in line with the principles set out in the MTFS.
- 2.6 A full review of the level of reserves will be undertaken annually and has been completed for 2011/12. The Corporate Director of Resources and Transformation 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, Audit Commission 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 Corporate Director – Resources and Transformation.
- 2.7 Each earmarked reserve will be the responsibility of a named officer, which will generally be the service manager responsible for the budget to be funded from the reserve(s). The named officer will be responsible for managing the earmarked reserve, including planning, projecting and monitoring use. At the year-end the

named officer will review the adequacy and appropriateness of the earmarked reserves for which they are responsible as part of the closure of accounts process and year-end reporting.

3. GENERAL RISK-BASED RESERVES

- 3.1 The use of a risk-based approach better 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 risks and uncertainties in the approved budget and for emergencies. It does not provide cover for additional investment, rather it is there to ensure the approved budget can be delivered if associated risks materialise.
- 3.2 The Corporate Director - Resources and Transformation 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. Inclusion of items in the risk-based element will be informed by the Strategic Risk Register and budget proposals. Amounts will take account of the potential size and the likelihood of risks materialising. The assessment will also allow for foreseeable variances from cost and demand assumptions used to set the budget.
- 3.3 As part of the review of reserves carried out during 2011/12 by the Corporate Director – Resources and Transformation, it was considered that given the risk attached to the budget by the significant reduction of government grants, which are reducing over the next 3 years, the significant savings programme and the impact of the potential instability caused by the new local government resource review and business rates proposals, that the level of risk based reserves be increased from £1 714,419 to £1,866,321 and that this be the minimum level **(see Appendix A(2))**.
- 3.4 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. The risk-based calculation therefore provides a target for General Fund balances and £1,866,321 is the minimum amount deemed to be acceptable. Temporary dips below the target may be acceptable provided that the minimum amount is not likely to be breached and there is a robust plan to restore balances to the target level.

4 EARMARKED RESERVES (INCLUDING SINKING FUNDS)

- 4.1 Earmarked reserves may be set up to save for investments and policy initiatives that cannot be met in full from the base budget in the year or years the spending is planned. Use of reserves for these purposes must be planned in advance and incorporated, where possible, in the budget recommendation to Council in February each year. However, earmarked reserves may be established during the

year as a result of policy developments that have been reported to the Executive as part of the Council's budget monitoring process.

- 4.2 Earmarked reserves may also be used to smooth the impact on the revenue budget of spending that is cyclical in nature or is highly variable between years. Use of reserves for these purposes must be planned in advance and incorporated in the budget recommendation to Council in February each year. Reserves should be sufficient to cover the forecast spending requirement but should avoid building up large uncommitted balances. Such balances will generally be recommended for carry forward at the year-end subject to a review of their adequacy and reasonableness. **Appendix A(1)** provides details of the current proposals for funding from earmarked reserves for the period 2012/13 to 2015/16.
- 4.3 Earmarked reserves may be used to carry forward amounts unspent at the year-end but committed for previously approved purposes. Such commitments will be recommended for carry forward in the out-turn report presented to the Executive as part of the closure of accounts process, subject to a robust review of their adequacy and reasonableness.
- 4.4 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.
- 4.5 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.
- 4.6 The adequacy and appropriateness of each earmarked reserve will be reviewed and reported as part of the year-end processes and 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.
- 4.7 The budget recommendation to Council in February each year will include a schedule of planned usage of earmarked reserves over the duration of the MTFS, supported by an assessment by the Corporate Director - Resources and Transformation of their adequacy and appropriateness. In addition to assessing the adequacy of the risk-based element of the General Reserve, this will consider whether the planned use of earmarked reserves is sustainable beyond the duration of the MTFS or whether earmarked reserves are being built up without good reason.
- 4.8 The forecasts of available balances on earmarked reserves and sinking funds for the period 2012/13 – 2015/16 are shown at **Appendices A(3) and A(4)** to this report.

5 THE CURRENT LEVEL OF RESERVES

- 5.1 Appendices A (1) to A (4) provide members with the details of all the individual reserve balances held by the Council.
- 5.2 In summary, the forecast the available reserve balances over the period 2012/13 – 2015/16 is as follows:

	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
General Fund					
- Risk based	1,313	1,866	1,866	1,866	1,866
- Unallocated balance	1,604	651	634	617	600
	2,917	2,517	2,500	2,483	2,466
Sinking Funds	1,803	1,853	2,019	2,199	2,392
Earmarked Reserves	1,669	1,574	1,554	1,535	1,566
Total	6,389	5,944	6,073	6,217	6,424

6 WHAT ARE THE LEGAL, FINANCIAL AND HUMAN RESOURCES IMPLICATIONS?

- 6.1 Implications are set out in the report.

7 STATUTORY OFFICER COMMENTS

- 7.1 The Monitoring Officer's comments are:

None

- 7.2 The Section 151 Officer's comments are;

All comments are contained within the report.

- 7.3 Other consultee comments, if any;

None

List of Appendices

Appendix A – Use of Reserves 2012/13 – 2015/16

List of Background Documents:

Various reports to RPWG.

Revenue Budget Proposals 2012/13.

Consultees:

RPWG, Executive, OSC, CLT and Budget Holders

CHECKLIST

Impact on Crime and Disorder	None
Impact on Environmental Sustainability	None
Impact on Rural Proofing	None
Health and Safety Implications	None
Project Management Arrangements	None
Has this been subject to an Equality Impact Assessment?	No
Children and Young Persons Implications	None
Human Rights Act Implications	None
Health Impact Assessment Implications	None
Risk Management including Strategic Risk Register implications	Included in report
Contribution to Choosing to Change programme	Included in report
s.151 Officer Comments	Confirmed consulted upon
Monitoring Officer Comments	Confirmed consulted upon

Please say if this report will require the making of a Key Decision **NO**

Please say if this is to be Part I or Part II report- **Part I**

Use of Reserves 2012/13 - 2015/16

Appendix A (1)

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
<u>Earmarked Reserves</u>				
HR Employment Tribunals	30	0	0	0
NCL Contract	122	0	0	0
LABGI	25	0	0	0
Coastal Regeneration	50	50	50	0
Local Development Framework	55	0	0	0
Development Control Enforcement	15	0	0	0
Building Control Service Improvement	2	0	0	0
	299	50	50	0
<u>Sinking Funds</u>				
Bin Replacement	27	27	27	27
PFI - Copeland Centre	7	7	7	7
Catherine Street Car Park	20			
Crematorium	7			
Beacon	76			
	137	34	34	34
Total Earmarked Reserves and Sinking Funds	436	84	84	34
General Fund Unallocated	231	0	0	0
Total	667	84	84	34

RESERVES - GENERAL FUND

Appendix A (2)

	Balance reported to Council 22 Feb 2011	Changes arising from 2010/11 out-turn	Balance at 31 March 2011	2011/12			2012/13			2013/14			2014/15			2015/16		
				Additions in Year	Released in Year	Balance Carried forward	Additions in Year	Released in Year	Balance Carried forward	Additions in Year	Released in Year	Balance Carried forward	Additions in Year	Released in Year	Balance Carried forward	Additions in Year	Released in Year	Balance Carried forward
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Base Budget Risks																		
Sustainability of Base Budget	-111,870		-111,870			-111,870	-91,890		-203,760			-203,760			-203,760			-203,760
Medium Term Financial Plan	-123,230		-123,230			-123,230	-221,645		-344,875			-344,875			-344,875			-344,875
Grant Settlement	-590,500		-590,500			-590,500	-223,550		-814,050			-814,050			-814,050			-814,050
Vacancy Factor	-33,750		-33,750			-33,750	33,750		0			0			0			0
Reduced Fees and Charges	-60,586		-60,586			-60,586	-1,740		-62,326			-62,326			-62,326			-62,326
Actuarial Review	0		0			0	-33,050		-33,050			-33,050			-33,050			-33,050
Reduced Investment Income	-28,310		-28,310			-28,310	-29,190		-57,500			-57,500			-57,500			-57,500
Housing Benefits	-90,525		-90,525			-90,525	8,025		-82,500			-82,500			-82,500			-82,500
HGV Licence - Operators Fund	-74,200		-74,200			-74,200			-74,200			-74,200			-74,200			-74,200
Fuel Price	-28,850		-28,850			-28,850			-28,850			-28,850			-28,850			-28,850
Civil Emergencies	-58,449		-58,449			-58,449	-3,032		-61,481			-61,481			-61,481			-61,481
Insurance Excesses	-11,859		-11,859			-11,859	1,214		-10,645			-10,645			-10,645			-10,645
Assets and Property	-100,705		-100,705			-100,705	7,621		-93,084			-93,084			-93,084			-93,084
	-1,312,834	0	-1,312,834	0	0	-1,312,834	-553,487	0	-1,866,321	0	0	-1,866,321	0	0	-1,866,321	0	0	-1,866,321
General Fund Unallocated	-1,641,843	0	-1,641,843	-50,000	87,763	-1,604,080	553,487	400,000	-650,593	0	17,000	-633,593	0	17,000	-616,593	0	17,000	-599,593
Total General Fund	-2,954,677	0	-2,954,677	-50,000	87,763	-2,916,914	0	400,000	-2,516,914	0	17,000	-2,499,914	0	17,000	-2,482,914	0	17,000	-2,465,914

Description	Balance reported to Council 22 Feb 2011	Changes arising from 2010/11 out-turn	Balance at 31 March 2011	2011/12				2012/13				2013/14				2014/15				2015/16			
				Estimated Internal Interest in Year	Contributions in Year	Utilised (+)	2011/12 Balance carried forward	Estimated Internal Interest in Year	Contributions in Year	Utilised (+)	2012/13 Balance carried forward	Estimated Internal Interest in Year	Contributions in Year	Utilised (+)	2013/14 Balance carried forward	Estimated Internal Interest in Year	Contributions in Year	Utilised (+)	2014/15 Balance carried forward	Estimated Internal Interest in Year	Contributions in Year	Utilised (+)	2015/16 Balance carried forward
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Bin Replacement Sinking Fund	-166,954	-1,486	-168,440	-1,684		35,000	-135,124	-1,351		27,000	-109,476	-1,095		27,000	-83,570	-836		27,000	-57,406	-574		27,000	-30,980
PFI Sinking Fund	-1,295,931	-10,931	-1,306,862	-13,069	-135,392		-1,455,323	-14,553	-146,392	7,000	-1,609,268	-16,093	-157,784	7,000	-1,776,144	-17,761	-169,517	7,000	-1,958,423	-19,564	-181,603	7,000	-2,150,590
Phoenix Court Sinking Fund	-4,118	-171	-4,289	-175			-4,464	-180			-4,644	-185			-4,829	-190			-5,019	-195			-5,214
Sea Walls Sinking Fund	-9,270	-9,270	-18,540	-185	-9,270		-27,995	-280	-9,270		-37,545	-375	-9,270		-47,191	-472	-9,270		-56,933	-569	-9,270		-66,772
Catherine Street Car Park	-65,331	-5,754	-71,085	-711	-5,150		-76,946	-769	-5,150	20,000	-62,865	-629	-5,150		-68,644	-686	-5,150		-74,480	-745	-5,150		-80,375
Crematorium Sinking Fund	-101,175	82,725	-18,450	-185	-8,950		-27,585	-276	-9,000	7,000	-29,860	-299	-9,000		-39,159	-392	-9,000		-48,551	-486	-9,000		-58,036
Beacon Sinking Fund	-50,585	-90,363	-140,948	0	-40,000	105,000	-75,948			75,948	0				0				0				0
Total	-1,693,364	-35,250	-1,728,614	-16,009	-198,762	140,000	-1,803,385	-17,410	-169,812	136,948	-1,853,659	-18,675	-181,204	34,000	-2,019,538	-20,337	-192,937	34,000	-2,198,812	-22,133	-205,023	34,000	-2,391,968

Description	Forecast Balance as at 31 March 2012	2012/13			2013/14			2014/15			2015/16		
		Contributions In year	Planned utilisation	Balance as at 31 March 2013	Contributions In year	Planned utilisation	Balance as at 31 March 2014	Contributions In year	Planned utilisation	Balance as at 31 March 2015	Contributions in year	Planned utilisation	Balance as at 31 March 2016
CHIEF EXECUTIVE Choosing to Change	-65,721			-65,721			-65,721			-65,721			-65,721
Assist in resourcing Nuclear activities	-19,658			-19,658			-19,658			-19,658			-19,658
TOTAL	-85,379	0	0	-85,379	0	0	-85,379	0	0	-85,379	0	0	-85,379
POLICY & TRANSFORMATION IT Review	0			0			0			0			0
TOTAL	0	0	0	0	0	0	0	0	0	0	0	0	0
CORPORATE RESOURCES 2010/11 Carry Forwards	0			0			0			0			0
Audit Shared Services	-27,000			-27,000			-27,000			-27,000			-27,000
Revenues & Benefits Shared Service	-40,722			-40,722			-40,722			-40,722			-40,722
DWP Grant Reserve.	-16,691			-16,691			-16,691			-16,691			-16,691
Revenues & Benefits Shared Service (Fraud)	-7,979			-7,979			-7,979			-7,979			-7,979
Legal Services - Taxi Ranks	-2,319			-2,319			-2,319			-2,319			-2,319
Mayors Charity Bequest	-12,967			-12,967			-12,967			-12,967			-12,967
Members IT Reserve	-7,902			-7,902			-7,902			-7,902			-7,902
Members Induction	-12,500			-12,500			-12,500			-12,500			-12,500
Elections Fund	-42,723			-42,723			-42,723			-42,723			-42,723
Human Resources Employment Tribunals	0	-30,000	30,000	0			0			0			0
Asset Management Enabling Fund	-40,227			-40,227			-40,227			-40,227			-40,227
PFI Non Conformance Incidents	-17,586			-17,586			-17,586			-17,586			-17,586
Building Maintenance and energy conservation	-2,000			-2,000			-2,000			-2,000			-2,000
Crematorium Chapel	-31,000			-31,000			-31,000			-31,000			-31,000
NCL Contract	0	-122,000	122,000	0			0			0			0
Vertex	-37,500			-37,500			-37,500			-37,500			-37,500
Environmental Insurance Reserve	-90,000			-90,000			-90,000			-90,000			-90,000
Coastal Management	-267,649			-267,649			-267,649			-267,649			-267,649
TOTAL	-656,765	-152,000	152,000	-656,765	0	0	-656,765	0	0	-656,765	0	0	-656,765

EARMARKED RESERVES

Description	Forecast Balance as at 31 March 2012	2012/13			2013/14			2014/15			2015/16		
		Contributions in year	Planned utilisation	Balance as at 31 March 2013	Contributions in year	Planned utilisation	Balance as at 31 March 2014	Contributions in year	Planned utilisation	Balance as at 31 March 2015	Contributions in year	Planned utilisation	Balance as at 31 March 2016
REGENERATION & COMMUNITIES													
Local Development Framework	-140,078		55,118	-84,960			-84,960			-84,960			-84,960
Planning Policy- Habitat Evaluation	-33,670			-33,670			-33,670			-33,670			-33,670
Cleator Moor Business Centre	-3,886			-3,886			-3,886			-3,886			-3,886
Empty Shops	-6,223			-6,223			-6,223			-6,223			-6,223
Dilapidated Buildings	-40,000			-40,000			-40,000			-40,000			-40,000
Dangerous Structures	-6,437			-6,437			-6,437			-6,437			-6,437
Development Strategy Consultants	-30,536			-30,536			-30,536			-30,536			-30,536
Housing Strategy	0	-10,000		-10,000	-10,000		-20,000	-10,000		-30,000	-10,000		-40,000
Homelessness Repossession Fund	-22,589			-22,589			-22,589			-22,589			-22,589
Local Business Growth Initiative	-39,917		25,000	-14,917			-14,917			-14,917			-14,917
Whitehaven Regeneration Scheme	-9,800			-9,800			-9,800			-9,800			-9,800
Copeland Seaside Coastal Park	-150,000		50,000	-100,000		50,000	-50,000		50,000	0			0
Small Business Fund	-197			-197			-197			-197			-197
Working Neighbourhoods	-48,727			-48,727			-48,727			-48,727			-48,727
Cultural Services - Ongoing Schemes	-2,481			-2,481			-2,481			-2,481			-2,481
Regeneration Reserve	-158,551			-158,551			-158,551			-158,551			-158,551
Beacon Museum Exhibits	-21,014			-21,014			-21,014			-21,014			-21,014
TOTAL	-714,106	-10,000	130,118	-593,988	-10,000	50,000	-553,988	-10,000	50,000	-513,988	-10,000	0	-523,988
NEIGHBOURHOODS													
Dog Control Orders	0			0			0			0			0
Crematorium Donations	-4,659			-4,659			-4,659			-4,659			-4,659
Proceeds from CAMEO tax	-50,755	-40,500		-91,255	-20,250		-111,505	-20,250		-131,755	-20,250		-152,005
Recycling	-44,222	-442		-44,664	-447		-45,111	-451		-45,562	-456		-46,017
Development Control - Enforcement	-40,000		14,273	-25,727			-25,727			-25,727			-25,727
Development Control - Application	-25,758			-25,758			-25,758			-25,758			-25,758
Building Control - Service Improvement	-47,885		2,225	-45,660			-45,660			-45,660			-45,660
TOTAL	-213,279	-40,942	16,498	-237,723	-20,697	0	-258,420	-20,701	0	-279,121	-20,706	0	-299,826
GRAND TOTAL	-1,669,529	-202,942	298,616	-1,573,855	-30,697	50,000	-1,554,552	-30,701	50,000	-1,535,253	-30,706	0	-1,565,958