Report To:	**Corporate Governance Committee**
Date of Meeting:	**22 May 2013**
Lead Member/Officer:	**Lead Member for Finance and Assets/ Head of Finance and Assets**
Report Author:	**Head of Finance and Assets**
Title:	**Review of Reserves, and Setting Up a Corporate Plan Investment Reserve**

1. What is the report about?

1.1 To consider the Council's current level of reserves, balances and provisions.

2. What is the reason for making this report?

2.1 To inform the committee on the level of funds that the Council currently holds.

2.2 To seek the Committee's views on changes to certain reserves prior to proposals being submitted to full Council.

3. What are the Recommendations?

3.1 That the Committee considers the contents of the report and comments on the proposed changes.

4. Report details.

What are Reserves, Provisions and Balances?

4.1 Reserves, balances and provisions are different names for money that the Council has set aside for various reasons. The reason it has been set aside will determine what it is classed as. Most organisations do this and it is similar to individuals having savings accounts.

Earmarked Reserves

4.2 These are funds that are set aside for specific reasons (this is why they are referred to as 'earmarked' reserves). Generally, we will be confident that the event will happen and that we have a good idea of how much it will cost. You have an element of control over the expenditure. It's like an individual saving up for a new car – they can decide when to buy and how much to spend.

4.3 Within the Council's Statement of Accounts you will see a number of items that may be referred to as reserves but are, in fact, accounting adjustments and are not ‘cash-backed’ and are therefore not covered in this paper.

Provisions

4.4 These are funds that are set aside against a specific event, but the timing and amount are uncertain. For example if you are being sued by someone, you may think that you will win but set aside a sum of money in case you lose. It will not necessarily be the full amount, but may be a proportion based on a risk assessment of the likely outcome.

Balances

4.5 These are funds set aside for unforeseen events and are not related to any specific project or event. The amount set aside varies depending on the external environment, historic circumstances and the size of the organisation. The costs of the recent flooding events in Denbighshire would be met by these funds. Services have year-end balances that are simply as a result of timing issues – ie expenditure that may have been planned to take place in March and actually happens in April. This means they underspend on the year’s budget which creates a year-end balance that is, generally, simply carried forward and spent in the new year.

4.6 There are three types of balances that are held by the Council

- **General balances** – available for the Council to use in most circumstances
- **School balances** – held by individual schools for their own purposes and not available for use on other services (although the Council could choose to put a cap on these and remove any funds above that cap)
- **HRA balances** – these are balances held within the Housing Revenue Account and are not available for any other service.

How much money has the Council set aside?

4.7 The annual Statement of Accounts lists the end of year amounts held in each of the above categories although these will change in year as services add to or spend from them. The table below shows a summary of how much the Council currently has (note these figures are as at **31/03/12**)

Type	**Amount £000**
Earmarked Reserves	28,704
General Balances	7,575
Service Balances	1,583
School Balances	1,801
HRA Balances	871
Provisions	3,307
TOTAL	**43,841**

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How Does The Council Decide How Much to Set Aside?

4.8 The Council does not have a specific policy on how much it should keep in reserves and balances as they are generally driven by external factors. This means that services will propose new reserves or the Chief Finance Officer will recommend changes. The final decision is taken at Full Council at the end of each financial year.

4.9 The main driver behind these funds is an assessment of risk and this should be done on a regular basis. This is done at different times depending on the nature of the risk and the amounts involved. As financial conditions become more difficult perceived risk increases and Councils tend to build up their balances.

4.10 It is a difficult balance to strike between setting aside funds for financial safety and security and tying up much needed funds that may never be spent.

Does The Council Have the 'Right' Amount of Funding Set Aside?

4.11 As part of its recent Corporate Plan, the Council decided it wanted to embark on an ambitious scheme of capital investment and that a new reserve – a 'Corporate Plan Investment Reserve' should be set up.

4.12 As part of this the Chief Finance Officer advised he would undertake a review of current funds to determine whether the current levels were reasonable and whether some reserves could be reduced and funding moved into the new reserve.

Proposed Changes

4.13 Appendix 1 contains an analysis of current Earmarked Reserves and whether the risk profile still warrants retaining funds at the current level. Appendix 2 shows the proposed changes.

4.14 The analysis shows that £6.4m can be moved out of existing reserves into a new Corporate Plan Investment Reserve. This is because either the risks around the current reserve have reduced, the event has occurred or they were already set up for a similar purpose.

4.15 Moving the funds between reserves doesn't mean it has been spent, but that it is being earmarked for future investment. The Corporate Plan assumed that the Council would need to find around £25m from cash, reserves, capital receipts and redirecting revenue expenditure with a further £50m coming from borrowing. This review therefore identifies around 25% of the funds needed for the capital plan. Appendix 3 shows the amount of funding required to achieve the corporate plan and how much has been identified to date.

Approval Process

4.16 If the Corporate Governance Committee support the recommendations then these will be included in the 'Outturn Report' to full Council in June which tells members what our final end of year position is, agrees the creation of new reserves (such as this one) and will decide what to do with any underspends or overspends that have occurred in year.

4.17 It is likely that other funds will be allocated to this reserve as part of the year end process.

5. How does the decision contribute to the Corporate Priorities?

5.1 Delivery of the Corporate Plan is reliant on identifying funds to pay for the schemes contained in it.

6. What will it cost and how will it affect other services?

6.1 There is no cost as the report identifies funds for investment in priority projects.

7. What are the main conclusions of the Equality Impact Assessment undertaken?

No EQIA has been undertaken as this is not relevant.

8. What consultations have been carried out with Scrutiny and others?

Discussions have taken place with the relevant Heads of Service.

9. Chief Finance Officer Statement

The report takes a reasonable view of the current need for the level of reserves held and sets up the Strategic Investment Reserve which is at the heart of the Council's ambition to invest in its Corporate Plan.

10. What risks are there and is there anything we can do to reduce them?

10.1 The risk of transferring funds between reserves is minimal. The risk of not specifically allocating funds to the Council's priorities means they may not have sufficient money to proceed.

11. Power to make the Decision

11.1 Under section 151 of the Local Government Act 1972, the Council must make appropriate arrangements for the proper management of its finances.

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