

Report to Council	Agenda Item: 17(ii)
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Meeting Date: 7 January 2014
 Portfolio: Finance, Governance and Resources
 Key Decision: Yes: Recorded in the Notice Ref:KD31/13
 Within Policy and Budget Framework YES
 Public / Private Public

Title: REVIEW OF RESERVES AND BALANCES
 Report of: DIRECTOR OF RESOURCES
 Report Number: RD66/13

Purpose / Summary:

The report provides guidance and makes recommendations as to the level and type of Reserves that the Council should hold.

Recommendations:

The Council is asked to approve, the release of the LSVT warranties reserve to the General Fund Reserve.

Tracking

Executive:	18 November 2013, 16 December 2013
Overview and Scrutiny:	28 November 2013
Council	7 January 2014

<h1>Report to Executive</h1>	Agenda Item:
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Meeting Date: 16 DECEMBER 2013
 Portfolio: Finance, Governance and Resources
 Key Decision: Yes: Recorded in the Notice Ref:KD31/13
 Within Policy and Budget Framework YES
 Public / Private Public

Title: REVIEW OF RESERVES AND BALANCES
 Report of: DIRECTOR OF RESOURCES
 Report Number: RD66/13

Purpose / Summary:

This report provides an update to report RD60/13 which was considered by the Executive on 18 November. The report provides guidance and makes recommendations as to the level and type of Reserves that the Council should hold.

Recommendations:

The Executive is asked:

- (i) To consider the level and type of reserves held by the Council, noting their designated use as outlined in Section 5, and;
- (ii) To approve, for recommendation to Council, the release of the LSVT warranties reserve to the General Fund Reserve.

Tracking

Executive:	18 November 2013, 16 December 2013
Overview and Scrutiny:	28 November 2013
Council:	7 January 2014

1. BACKGROUND

- 1.1 This report provides guidance and makes recommendations to the level and type of Reserves which the City Council should hold. A fundamental review of all reserves was last carried out in 2003, so it is timely that, given current budgetary constraints, a further review is carried out to establish whether all current reserves held are still required.

2. LEGISLATIVE AND GOVERNANCE REQUIREMENTS

- 2.1 The requirement for financial reserves is statutory, with the Local Government Finance Act 1992 requiring authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement
- 2.2 The Local Government Finance Act 2003, adds a further requirement that in the case of a controlled reserve (i.e. one specified by the Director of Resources), it is not appropriate for the balance of that reserve at the end of the financial year to be less than the minimum amount determined. It requires the Director of Resources to report to the authority if it appears that this is likely to be the case or that a controlled reserve is or is likely to be inadequate, together with the reasons and the action taken.
- 2.3 Whilst it is primarily the responsibility of the local authority and its finance director to secure a stable financial position, external auditors have a responsibility to review the proper arrangements in place which secure financial resilience. In the course of their duties external auditors review and report on the level of reserves taking into account their local knowledge of the authority's financial performance over a period of time. However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.
- 2.4 CIPFA's view on reserves is that local authorities, on the advice of their finance directors, should make their own judgements on such matters taking into account all the relevant local circumstances, and that such circumstances vary.
- 2.5 Within the City Council, it is the full Council who are responsible for agreeing the level and utilisation of reserves, informed by the advice and judgement of the Director of Resources. Where the Director of Resources advice is not accepted this should be formally recorded in the Council minute.

3. TYPES OF RESERVES

3.1 Reserves can be held for three main purposes:

- (i) A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves.
- (ii) A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves.
- (iii) A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

4. CURRENT CITY COUNCIL RESERVES

4.1 The current actual reserves as at 31 March 2013 held by the Council are set out in the following table. Further details of each reserve, including its purpose and how and when it can be used is given at section 5.

		Paragraph Actual Balance
		31/03/2013
		£
General Reserves:		
General Fund Reserve	5.2	2,542,792
Projects Reserve	5.3	0
Earmarked Reserves:		
EEAC Reserve	5.4	55,313
Transformation Reserve	5.5	496,295
Welfare Reform Reserve	5.6	200,000
Licensing Reserve	5.7	14,400
Building Control Reserve	5.8	(17,565)
Cremator Replacement Reserve	5.9	142,800
Conservation Fund	5.10	116,044
LSVT Warranties	5.11	487,759
		4,037,838
Capital Reserves		
Lanes Capital Fund	5.12	355,380
CLL Reserve	5.13	521,820
Asset Investment Reserve (i)	5.14	47,643
		924,843

Note (i): The Balance on the asset investment reserve as recorded on the balance sheet is £47,643, however capital receipts of £785,023, are held as available resources in the Capital Adjustment account for Asset Investment Reserve.

5. REVIEW AND POTENTIAL RELEASE OF RESERVES

5.1 As there are significant budgetary pressures on the Council in the coming years, the reserves highlighted above have been reviewed to determine if they are adequate, still required and if there are any possibilities for releasing any funds back to General Fund. There are certain reserves, that are still business critical, for example, Welfare Reform, Transformation and Cremator Replacement. It is proposed that these reserves remain untouched at the present time.

5.2 GENERAL FUND RESERVE

(i) Purpose of the Reserve

To be a general working balance/contingency to cushion the Council against uneven cash flows and budgetary impacts, or unexpected events and emergencies.

(ii) How and When Reserve can be used

Management of the reserve rests with the Director of Resources. The use of the reserve is dependent on judgements taken when setting the Council's revenue budget on (a) cash flow requirements; (b) inflation and interest rates; (c) demand led budget pressures; (d) efficiency and productivity savings; (e) the availability of funds to deal with major unexpected events or emergencies; (f) risks arising from significant new funding partnerships, major outsourcing arrangements or major capital developments. Approval to release funds from the reserve can only be given by the Council as part of the budget process, or through consideration of supplementary estimates on an ad-hoc basis.

(iii) Future of the Reserve

This reserve is still required.

5.3 PROJECTS RESERVE

(i) Purpose of the Reserve

This fund was originally established from year-end windfall gains. Additions to the balances thereafter can be used either to support revenue budget shortfalls or projects within the Council's capital programme. Current budgetary constraints that are relying on the use of the General Fund Reserve in the short term mean that the Projects Reserve balance is currently zero.

(ii) How and When Reserve can be used

Management of the reserve rests with the Director of Resources. Funding for the Reserve will be provided by windfall gains over and above those required to maintain the General Fund at its approved level and balances on reserves that are no longer needed. Approval to release funds from the reserve can only be given by the Council either as part of the budget process, or through consideration of supplementary estimates on an ad-hoc basis.

(iii) Future of the Reserve

This reserve is still required.

5.4 EEAC RESERVE

(i) Purpose of the Reserve

The Energy Efficiency Advice Reserve was established when the service transferred out of the Council's control. The reserve has been used over the past few years to support initiatives in improving household's energy efficiency by providing funding for support officers. The Executive, in 2009 (Report Ref DS100/09), approved the use of £306,000 towards these initiatives. To date, only £251,000 has been spent, however, the remaining £55,000 is required to continue the work of the fuel poverty officer in 2013/14.

(ii) How and When Reserve can be used

Management of the reserve rests with the Director of Economic Development. Use of the reserve should be accompanied by a report to the Executive providing details of the circumstances giving rise to the need for support to be provided by the Reserve.

(iii) Future of the Reserve

This reserve is still required to meet the requirements for the fuel poverty programme.

5.5 TRANSFORMATION RESERVE

(i) Purpose of the Reserve

This reserve holds the balance available to fund any one-off transformational costs.

(ii) How and When Reserve can be used

Management of the reserve rests with the Chief Executive, but approval to release funds can only be given by the Executive.

(iii) Future of the Reserve

This reserve is still required to meet the potential liabilities from the transformation programme.

5.6 WELFARE REFORM RESERVE

(i) Purpose of the Reserve

This reserve was established to meet potential future costs arising out of changes in the Welfare Reform Agenda including the introduction of the Universal Credit.

(ii) How and When Reserve can be used

Management of the Reserve rests with the Director of Resources with the use of the Reserve requiring Executive approval.

(iii) Future of the Reserve

This reserve is still required to meet the potential liabilities from the changes in welfare reform

5.7 LICENSING RESERVE

(i) Purpose of the Reserve

This is a ring-fenced surplus carried forward to fund future year's expenditure.

(ii) How and When Reserve can be used

Management of the reserve rests with the Director of Governance. Approval to release funds from the reserve can only be given by the Executive of the Council.

(iii) Future of the Reserve

This reserve could be released, but any requirement to fund expenditure would require a call on council reserves in order to meet these obligations. It is therefore recommended to maintain this reserve.

5.8 BUILDING CONTROL RESERVE

(i) Purpose of the Reserve

This reserve accumulates the funds from the Building Control function, a statutory ring-fenced service, which must break-even over a rolling 3-year period. Any surplus generated must be spent on improving service delivery.

(ii) How and When Reserve can be used

Management of the reserve rests with the Director of Economic Development. The balance is ring-fenced by statute to support improvements to the Building Control Service and is not available for general use by the Council. Funding is

provided from surpluses generated by the service annually. Approval to release funds from the reserve can only be given by the Council either as part of the budget process, or through consideration of supplementary estimates on an ad-hoc basis.

(iii) Future of the Reserve

This reserve is still required.

5.9 CREMATOR REPLACEMENT RESERVE

(i) Purpose of the Reserve

This reserve has been established to hold the environmental surcharges levied per cremation as per 2011/12 Charges Review reports in order to build up a fund for the replacement of the cremators in the future

(ii) How and When Reserve can be used

Management of the report rests with the Director of Local Environment but approval to release can only be given by the Executive

(iii) Future of the Reserve

This reserve is still required in order to build up funds for the replacement of the cremators.

5.10 CONSERVATION FUND

(i) Purpose of the Reserve

The Conservation Reserve is a revolving conservation fund, set up by the Council in 1994. The purpose of the fund was to purchase historic buildings at risk, repairing and improving them if necessary with the help of a local building preservation trust and, on the sale of the property, using the money to reimburse the fund. Recently the fund has been used to carry out remedial works to the Central Plaza Hotel building.

(ii) How and When Reserve can be used

Management of the fund rests with the Director of Economic Development, with any spending from the fund subject to Executive approval.

(iii) Future of the Reserve

This reserve is still required.

5.11 LSVT WARRANTIES

(i) Purpose of the Reserve

This reserve was set up following LSVT in December 2002. Its purpose is to meet any claims arising from the breach of any environmental and non-environmental warranties given at the time of the transfer in years 13 – 25 following the expiry of the period that such claims have been covered by appropriate insurance provisions.

(ii) How and When Reserve can be used

Management of the reserve rests with the Director of Resources. The reserve is only able to be used to meet defined costs and is not available for general use by the Council. Approval to release funds from the reserve can only be given by the Council.

(iii) Future of the Reserve

To date there has been no call on this reserve. It is therefore proposed to release this reserve to General Fund balances, but if any future claims are made these would need to be met as a supplementary estimate from General Fund balances as and when they arise subject to Council approval.

5.12 LANES CAPITAL FUND

(i) Purpose of the Reserve

The Lanes Capital Fund was established under the terms of the original agreement whereby the Council was permitted to charge up to 1% of capital expenditure to the gross rent account as a permitted deduction. This annual amount has created a Reserve from which the Council's share of any exceptional expenditure required on the Lanes could be met in future years. Under the terms of the new lease agreement, any requirement to fund up to the first 1% of capital expenditure will fall on the Council's partner and the Council's permission (not to unreasonably refused) would be required to spend in excess of 1%. The Council would ultimately meet its share of any further exceptional expenditure through a lower rent distribution for that year. Given this situation it is considered prudent to continue to set aside the annual contribution to meet any future liability.

(ii) How and When Reserve can be used

Management of the Reserve rests with the Director of Resources who will be responsible for developing proposals requiring funding from the reserve. Approval to release funds from the reserve can only be given by the Council.

(iii) Future of the Reserve

This reserve is still required.

5.13 CLL RESERVE

(i) Purpose of the Reserve

To provide funds to purchase equipment from Carlisle Leisure Ltd, should the leisure management contract either not be renewed or be terminated due to breach of contract on the part of CLL.

(ii) How and When Reserve can be used

Management of the reserve rests with the Deputy Chief Executive and can only be used with the agreement of the Council. Use of the reserve should be accompanied by a report to Council providing details of the circumstances giving rise to the need for support to be provided by the Reserve.

(iii) Future of the Reserve

As the CLL contract is due to terminate in 2017, this reserve is still required. Discussions are ongoing with CLL to determine the current value of equipment should the contract not be re-let and the Council is left with an obligation to purchase.

5.14 ASSET INVESTMENT RESERVE

(i) Purpose of the Reserve

To provide resources to purchase properties and fund associated revenue costs and to provide resources for investment in the Council's industrial estates to ensure rent yields are maintained/ increased.

(ii) How and When Reserve can be used

Management of the reserve rests with the Director of Resources who will be responsible for developing proposals requiring funding from the reserve. Approval to release funds from the reserve can only be given by the Council.

(iii) Future of the Reserve

This reserve is still required.

6. CONSULTATION

- 6.1 This report was considered by Resources Overview and Scrutiny Panel on 28 November 2013.

7. CONCLUSION AND REASONS FOR RECOMMENDATIONS

7.1 The Executive is asked:

- (i) To consider the level and type of reserves held by the Council, noting their designated use as outlined in Section 5, and;
- (ii) To approve, for recommendation to Council, the release of the LSVT warranties reserve to the General Fund Reserve.

Contact Officer: Steven Tickner

Ext: 7280

**Appendices
attached to report:**

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- None

CORPORATE IMPLICATIONS/RISKS:

Chief Executive's -

Community Engagement –

Economic Development –

Governance – The Council is required to have a balanced budget and the Authority should take account of the advice of its appointed s151 Officer. The Chief Finance Officer is required, by s25 of the Local Government Act 2003, to report to the Council on the robustness of estimates and also on the adequacy of proposed financial estimates.

Local Environment –

Resources – contained within the main body of the report

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 18 NOVEMBER 2013

EX.139/13 REVIEW OF RESERVES AND BALANCES
(Key Decision – KD.031/13)

Portfolio Finance, Governance and Resources

Relevant Overview and Scrutiny Panel Resources

Subject Matter

The Finance, Governance and Resources Portfolio Holder reported (RD.60/13) that a fundamental review of all of the Council's reserves was last undertaken in 2003. It was therefore timely that, given current budgetary constraints, a further review be carried out to establish whether all current reserves held were still required. He further outlined the legislative and governance requirements relative thereto.

Reserves could be held for three main purposes:

- (i) A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – that formed part of general reserves;
- (ii) A contingency to cushion the impact of unexpected events or emergencies – that also formed part of general reserves; and
- (iii) A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

Members' attention was drawn to the current actual reserves held by the Council as at 31 March 2013, details of which were provided at Section 4.1 of the report.

The Finance, Governance and Resources Portfolio Holder reiterated that, as there were significant budgetary pressures on the Council in the coming years, the reserves highlighted above had been reviewed to determine whether they were adequate, still required and whether any potential existed for the release of any funds back to the General Fund. He added that certain reserves were still business critical, for example Welfare Reform, Transformation and Cremator Replacement. It was proposed that those reserves remain untouched at the present time.

Guidance in relation to the purpose of the various Reserves, and how and when they could be used was also provided at Section 5 of the report.

In conclusion the Finance, Governance and Resources Portfolio Holder moved the recommendations which were seconded by the Leader.

Summary of options rejected None

DECISION

That the Executive:

1. Had considered the level and type of reserves held by the Council, noting their designated use as outlined in Section 5 of Report RD.60/13, and;
2. Approved, for recommendation to Council, the release of the LSVT warranties reserve to the General Fund Reserve.

Reasons for Decision

To seek approval, for recommendation to Council, the release of the LSVT Warranties Reserve to the General Fund Reserve

EXCERPT FROM THE MINUTES OF THE RESOURCES OVERVIEW AND SCRUTINY PANEL HELD ON 28 NOVEMBER 2013

ROSP.89/13 REVIEW OF RESERVES AND BALANCE

The Director of Resources reported (RD.60/13) that a fundamental review of all of the Council's reserves was last undertaken in 2003. It was therefore timely that, given current budgetary constraints, a further review be carried out to establish whether all current reserves held were still required. He further outlined the legislative and governance requirements relative thereto.

Reserves could be held for three main purposes:

- (i) A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – that formed part of general reserves;
- (ii) A contingency to cushion the impact of unexpected events or emergencies – that also formed part of general reserves; and
- (iii) A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

Members' attention was drawn to the current actual reserves held by the Council as at 31 March 2013, details of which were provided at Section 4.1 of the report.

The Director of Resources reiterated that, as there were significant budgetary pressures on the Council in the coming years, the reserves highlighted above had been reviewed to determine whether they were adequate, still required and whether any potential existed for the release of any funds back to the General Fund. He added that certain reserves were still business critical, for example Welfare Reform, Transformation and Cremator Replacement. It was proposed that those reserves remain untouched at the present time.

Guidance in relation to the purpose of the various Reserves, and how and when they could be used was also provided at Section 5 of the report.

The Executive had on 18 November 2013 (EX.139/13) considered and received the report.

“That the Executive:

1. Had considered the level and type of reserves held by the Council, noting their designated use as outlined in Section 5 of Report RD.60/13, and;

2. Approved, for recommendation to Council, the release of the LSVT warranties reserve to the General Fund Reserve. “

RESOLVED – That report RD.60/13 be welcomed.

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 16 DECEMBER 2013

EX.156/13 **REVIEW OF RESERVES AND BALANCES
(Key Decision – KD.031/13)

(In accordance with Paragraph 15(i) of the Overview and Scrutiny Procedure Rules, the Mayor had agreed that call-in procedures should not be applied to this item)

Portfolio Finance, Governance and Resources

Relevant Overview and Scrutiny Panel Resources

Subject Matter

Pursuant to Minute EX.139/13, the Finance, Governance and Resources Portfolio Holder reported (RD.66/13) that a fundamental review of all of the Council's reserves was last undertaken in 2003. It was therefore timely that, given current budgetary constraints, a further review be carried out to establish whether all current reserves held were still required. He further outlined the legislative and governance requirements relative thereto, reiterating that Reserves could be held for three main purposes:

- (i) A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – that formed part of general reserves;
- (ii) A contingency to cushion the impact of unexpected events or emergencies – that also formed part of general reserves; and
- (iii) A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

Members' attention was drawn to the current actual reserves held by the Council as at 31 March 2013, details of which were provided at Section 4.1 of the report.

The Finance, Governance and Resources Portfolio Holder reiterated that, as there were significant budgetary pressures on the Council in the coming years, the reserves highlighted above had been reviewed to determine whether they were adequate, still required and whether any potential existed for the release of any funds back to the General Fund. He added that certain reserves were still business critical, for example Welfare Reform, Transformation and Cremator Replacement, and it was proposed that those reserves remain untouched at the present time.

Guidance in relation to the purpose of the various Reserves, and how and when they could be used was also provided at Section 5 of the report.

The Resources Overview and Scrutiny Panel had, on 28 November 2013, considered the matter (ROSP.89/13) and resolved that Report RD.60/13 be welcomed.

In conclusion the Finance, Governance and Resources Portfolio Holder moved the recommendations which were seconded by the Leader.

Summary of options rejected None

DECISION

That the Executive:

1. Had considered the level and type of reserves held by the Council, noting their designated use as outlined in Section 5 of Report RD.66/13; and
2. Approved, for recommendation to Council, the release of the LSVT Warranties Reserve to the General Fund Reserve.

Reasons for Decision

To seek approval, for recommendation to Council, of the release of the LSVT Warranties Reserve to the General Fund Reserve