

## Reserves and Balances Protocol

### 1. Background

- 1.1 Bridgend County Borough Council is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this protocol is to set out how the Council will determine and review the level of its Council Fund balance and Earmarked Reserves. The protocol has regard to LAAP Bulletin 99 'Local Authority Reserves and Balances', issued in July 2014.
- 1.2 The requirement for local authorities to hold financial reserves is acknowledged in statute. Reserves are one component of an authority's medium-term financial planning—other components include revenue spending plans, income forecasts, potential liabilities, capital investment plans, borrowing and council tax levels. These decisions are inter-linked. This means that, to ensure prudent financial management, some authorities will need to maintain reserves at higher levels than others.
- 1.3 Section 32 and 43 of the Local Government Finance Act 1992 require local authorities in Wales to have regard to the level of reserves needed to meet estimated spending when calculating the budget requirement. Section 25 of the Local Government Act 2003 requires:-
- the Chief Finance Officer to report to Members on the budget including the adequacy of reserves; and
  - Members to have regard to the Chief Finance Officer's report in making their decisions.
- 1.4 As a result, in reviewing medium-term financial plans and preparing annual budgets, the Council will consider the establishment and maintenance of reserves for the Council Fund. The nature and level of reserves will be determined formally by the Council, informed by the judgement and advice of the Chief Finance Officer (CFO).

### 2. Types of Reserve

- 2.1 The Council will maintain the following usable reserves:

Nature of Reserve	Description
Council Fund	to manage the impact of uneven cash flows and unexpected events or emergencies;
Earmarked Reserves	to meet known or predicted requirements and include Insurance Reserves, Directorate Reserves and Transformational Reserves. Earmarked Reserves will be established on a "needs" basis, in line with planned or anticipated requirements;
Delegated School Balances	these represent the cumulative effect of over and under-spending on school delegated budgets not available to the Council;
Equalisation Reserves	to spread the costs incurred in a particular future year over the period of the Medium Term Financial Strategy (MTFS);
Capital Receipts Reserve	this has been shown for completeness as it forms part of the Usable Reserves of the Council. Capital Receipts are available to finance capital expenditure in future years.

- 2.2 The Council will also maintain a number of other reserves that arise out of the interaction between legislation and proper accounting practices. These reserves, which are not

resource-backed, will be specified in the annual Statement of Accounts. These are called Unusable Reserves. The Council's unusable reserves are the Capital Adjustment Account, the Revaluation Reserve and the Pension Reserve.

### **3. Regulatory Framework**

3.1 It is the responsibility of the CFO to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use. CIPFA do not accept the case for introducing a generally applicable minimum level of reserves either as an absolute amount or a percentage of budget. It is for the local authority to make their own judgements based on relevant local circumstances.

3.2 For each Earmarked Reserve there needs to be a clear protocol setting out:-

- The reason for / purpose of the Reserve
- How and when the Reserve can be used
- Procedures for the management and control of the Reserve
- A process and timescale for review

### **4. Principles to Assess the Adequacy of Reserves**

4.1 The CFO will advise the Council on the adequacy of reserves. In considering the general reserve, or Council Fund, the CFO will have regard to:

- the strategic financial context within which the Council will be operating through the medium-term;
- the overall effectiveness of governance arrangements and the system of internal control;
- the robustness of the financial planning and budget-setting process;
- the effectiveness of the budget monitoring and management process.

4.2 CIPFA guidance on Local Authority Reserves and Balances advises that a statement reporting on the annual review of earmarked reserves should be made to Council, at the same time as the budget is approved. Within the Council's Medium Term Financial Strategy (MTFS), there are a number of main principles that relate to reserves. These are detailed below:-

#### **MTFS Principle 8**

**The Council Fund balance will be maintained at a minimum of £7 million over the MTFS period and reach 2.7% of Gross Revenue Expenditure by 2020-21**

The Council Fund balance provides resources for purposes such as general contingencies and cash flow management. It acts as a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing. It acts as a contingency to cushion the impact of unexpected events or emergencies. This is in accordance with CIPFA's Guidance Note on Local Authority Reserves and Balances. The Council Fund balance at the 31 March 2017 was £7.960 million (£7.604 million 15-16). This represents 2.46% of gross revenue expenditure for 2016-17 (2.32% of gross revenue expenditure for 2015-16). In comparison, the All Wales

average was 3.0% gross revenue expenditure or £8.996 million for the same period with local authorities ranging from 1.79% to 5.70%.

### **MTFS Principle 2**

#### **Adequate provision is made to meet outstanding and reasonably foreseen liabilities**

The Council holds a number of earmarked reserves to cover potential liabilities or for unforeseen events and include the Insurance Earmarked Reserve and a Major Claims Reserve. These are reviewed throughout the year and the balances are adjusted at the end of the financial year based on the most up to date information of potential outstanding liabilities. This process includes analysis of external assessments or actuary reports on the levels needed for the insurance or pension funds. The Council also holds an Insurance Provision to meet the estimated cost to the Council of outstanding liabilities for Employer's Liability, Public Liability and Property.

### **MTFS Principle 7**

#### **Balances are not used to fund recurrent budget pressures or to keep down council tax rises unless an equivalent saving or increase in council tax is made in the following year in recognition that balances are a one-off resource.**

The principle allows for the use of balances where there is to be an equivalent saving in the following year. There are a number of Earmarked Reserves that have been established specifically relating to this principle. For example, the funding of new Information Technology to make services more efficient in the future. These reserves will be utilised over the forthcoming financial year.

### **MTFS Principle 9**

#### **Capital investment decisions support the Council's corporate priorities and mitigate any statutory risks taking account of return on investment and sound option appraisals.**

In order to support sound option appraisals, a Capital Feasibility earmarked reserve has been created. Capital investment is intrinsic in the MTFS and as a result there are also Earmarked Reserves that support asset management planning, fund capital minor works in relation to health and safety and one specifically to support major schemes within the Capital Programme of the Council. Additions have been made during 2017-18 to provide for significant capital pressures over the MTFS period.

### **MTFS Principle 12**

#### **Resources are allocated to deliver the Bridgend Change Programme based on clear strategic plans that are kept under review by Corporate Directors to maintain alignment with the MTFS and a MTFS Budget Reduction Contingency is maintained.**

The MTFFS proposed the establishment of a Change Management Programme Earmarked Reserve specifically to support delivery of the Corporate Plan and MTFFS. There are also some other earmarked reserves which are supporting service reconfiguration and digital transformation.

The current financial landscape demands that significant savings need to be made in order to deliver a sustainable budget. It is therefore prudent to have reserve levels to provide a buffer or a safeguard during uncertain times. An Earmarked Reserve will be established at a level to be determined annually following an assessment of budget reductions categorised as 'red' and deemed material within the MTFFS. This will provide additional capacity for discretionary use by the CFO to manage inescapable problems with delivery.

## **5. Establishment and Monitoring of Reserves**

- 5.1 In considering specific reserves, the CFO will have regard to matters relevant in respect of each reserve, and will advise the Council accordingly. The process for the determination of Directorate reserves will be based upon the principles of effective financial management. The agreement of business cases will be determined by the CFO, having considered the recommendations of the Corporate Management Board.
- 5.2 Directorate Finance Officers are issued with details of how to apply for Earmarked Reserves within the Closing of Accounts Pack for the financial year. The Pack includes guidance as follows :- "For a request to be approved, there must be a firm commitment / policy decision, i.e. order raised or committee minute. The requested amount must be material and should be restricted in number to those considered to be of key importance. Subject to these criteria being met, the Directorate will be informed of whether the requests have been approved."
- 5.3 The CFO/Section 151 Officer and Group Managers Finance will review the establishment, monitoring and the level of Corporate Reserves. These include Specific Contingency Reserves, Capital Development or Asset Related Reserves and MTFFS/Transformational Reserves. The meetings will examine evidence from external information such as actuary reports or insurance and risk management assessments; changes in legislation; new emerging risks or capital initiatives. The establishment of the Earmarked Reserves, both Directorate and Corporate, is authorised by CFO and reported to Cabinet within the Quarterly Monitoring Reports during the financial year and within the Statement of Accounts for any set up at the end of the financial year. The draft accounts are presented to Audit Committee in June following the end of the financial year. They are then scrutinised by External Audit and a revised post- audit Statement of Accounts is reported to Audit Committee by the end of September.
- 5.4 The CFO will monitor the drawdown of specific reserves in accordance with the agreed policy, and keep Members advised, through normal monitoring reports. Reserves can only be used once and should not be held to fund ongoing expenditure (MTFS Principle 7). This would be unsustainable as, at some point, the reserves would be exhausted. To the extent that reserves are used to meet short term funding gaps, they must be replenished in the following year. However, Earmarked Reserves that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established.
- 5.5 All Earmarked Reserves are recorded on a central schedule held by the Financial Control and Closing Team which lists the various Earmarked Reserves and the purpose for which they are held and shows the estimated opening balances for the year, planned additions/withdrawals and the estimated closing balance. Any appropriations to or from Earmarked Reserves are controlled by this Team. Evidence of expenditure incurred at

period 6, period 9 and year-end will be required from Directorate Finance Officers and a pro-forma will need to be completed which will be authorised by the CFO to release the funding from the Earmarked Reserves. The drawdown from reserves will be included within the Quarterly Monitoring Reports to Cabinet. Appropriate working papers for each reserve are produced at year-end and provided to the External Auditor to support the disclosures within the Statement of Accounts.

## **6. Summary of Specific Provisions and Balances**

6.1 As well as the Council Fund and Earmarked Reserves, there are a number of specific provisions and balances as follows:-

### **a) Delegated School Balances**

These balances represent the cumulative effect of over and under-spending on school delegated budgets not available to the Council. Current projections suggest that these balances will be significantly depleted by 31 March 2018 as more schools fall into a deficit position. School balances were only £866,000 at 31 March 2017.

### **b) Specific Provisions**

The Council holds two provisions for unforeseen events namely for Carbon Reduction Commitment and one to meet the total outstanding liability of Bridgend's self -insurance fund based on a professional analysis of the claims outstanding for Employer's Liability, Public Liability and Property. The current projections suggest that the balance on the provisions will be around £3.400 million by 31 March 2018 (£3.665 million at 31 March 2017).

## **7. Summary of Earmarked Reserves**

7.1 A summary of the Earmarked Reserves are detailed below:-

### **a) Reserves Held for Directorates' Planned Developments**

These reserves are for a number of planned developments in the forthcoming years such as waste management, ICT and Financial Systems, Adult Social Care developments as well as specific Directorate issues. These reserves will be increased at year-end to meet any agreed funding arising from planned underspends within Directorates. Any reserves that are no longer required will be released back into the general revenue budget.

### **b) Specific Contingency Reserves**

These reserves have been created to cover specific known risks including one off service pressures identified in MTFS Council Reports, the deficit on the pension fund, major capital contractual claims and mitigate potential pay claims and the assessment for future insurance liabilities from the insurance and risk management advisors.

### **c) Capital Development or Asset Related Reserves**

These reserves have been set up for a number of reasons to support the Council's Asset Management Plan and Capital Programme. They include a reserve that provides a revenue contribution to the capital programme, to enable schemes to be progressed more quickly to alleviate pressure on the revenue budget and accelerate the realisation of capital receipts that may include the costs of demolition of non-saleable surplus properties and related health and safety works, one for planned maintenance expenditure and any

emergency works on the Council's buildings and establishments and one for capital feasibility studies and asset management plans.

d) Medium Term Financial Strategy/Transformational Reserve

These reserves have been established to support digital transformation, severance costs and costs associated with providing corporate capacity to progress planned developments linked to achieving budget reductions and transformational change as articulated in the MTFS and the Bridgend Change Programme. A new reserve established within 2017-18 is for City Deal which will provide the necessary resources that the Council requires for the participation in the programme which will increase connectivity, improve physical and digital infrastructure, as well as regional business governance.

e) Equalisation of Spend Reserves

These reserves ensure that expenditure that is incurred in a particular future year is smoothed over the period of the MTFS. These include the costs of elections, Building Control Costs, Special Regeneration Fund projects and the preparation of the Local Development Plan. These have not been included within the summary below as they are simply spreading the costs of various items over financial years.

The table below sets out the forecast movement in the Council's Earmarked Reserves by the end of the financial years 2017-18 and 2018-19. It is based on estimates of expenditure at period 9 projected forward to year end for 2017-18 and where expenditure is forecast for 2018-19 this is also included. It does not include the potential increase of reserves for 2018-19.

Opening Balance 1 April 2017	Reserve	Projected Movement 2017-18		Closing Balance 31 March 2018	Projected Movement 2018-19	Closing Balance 31 March 2019
		Additions / Reclassif- ication	Draw down			
£'000		£'000	£'000	£'000	£'000	£'000
1,036	Looked After Children	26	(62)	1,000	-	1,000
880	Wellbeing Projects	-	(129)	751	(151)	600
651	Directorate Issues	821	(75)	1,397	(842)	555
175	Car Parking Strategy	(175)	-	-	-	-
1,268	ICT & Finance Systems	276	(45)	1,499	(639)	860
431	School Projects Reserve	113	(24)	520	(79)	441
250	Property Reserve	-	(16)	234	(34)	200
250	Porthcawl Regeneration	80	-	330	(150)	180
250	Waste Awareness Reserve	-	(72)	178	(178)	-
171	Safe Routes to Schools	-	(61)	110	(110)	-
-	Chief Executive Partnership Reserve	97	-	97	(37)	60
50	Donations Reserve Account	3	-	53	7	60
25	Human Resources Reserve	-	(10)	15	(15)	-
20	Local Development Plan IT System	-	-	20	(20)	-
6	Webcasting Reserve	-	(4)	2	(2)	-
66	Partnership Reserve	(66)	-	-	-	-
4	Waste Management Contract	-	(4)	-	-	-
31	Community Safety Reserve	(31)	-	-	-	-
<b>5,564</b>	<b>Reserves Held for Directorates' Planned Developments</b>	<b>1,144</b>	<b>(502)</b>	<b>6,206</b>	<b>(2,250)</b>	<b>3,956</b>
8,451	Major Claims Reserve	62	-	8,513	(2,801)	5,712
2,335	Insurance Reserve	-	(175)	2,160	(91)	2,069
-	Corporate Pressures Contingency	1,000	-	1,000	-	1,000
1,000	MTFS Budget Contingency	200	(200)	1,000	-	1,000
500	Welfare Reform	-	-	500	-	500
<b>12,286</b>	<b>Specific Contingency Reserves</b>	<b>1,262</b>	<b>(375)</b>	<b>13,173</b>	<b>(2,892)</b>	<b>10,281</b>
11,380	Capital Programme Contribution	889	(5,151)	7,118	(3,650)	3,468
249	Capital Feasibility Fund	402	(243)	408	(89)	319
1,262	Asset Management Plan	200	(180)	1,282	(754)	528
718	Building Maintenance Reserve	330	(71)	977	(427)	550
182	DDA Emergency Works	-	(50)	132	(32)	100
138	Property Disposal Strategy	5	(78)	65	(20)	45
146	Public Realm	-	(83)	63	(63)	-
<b>14,075</b>	<b>Capital Development or Asset Related Reserves</b>	<b>1,826</b>	<b>(5,856)</b>	<b>10,045</b>	<b>(5,035)</b>	<b>5,010</b>
8,103	Service Reconfiguration	-	(1,119)	6,984	(2,084)	4,900
1,936	Digital Transformation	-	(272)	1,664	(914)	750
-	City Deal Reserve	598	(598)	-	-	-
1,588	Change Management	-	(383)	1,205	(259)	946
<b>11,627</b>	<b>MTFS / Transformational Reserves</b>	<b>598</b>	<b>(2,372)</b>	<b>9,853</b>	<b>(3,257)</b>	<b>6,596</b>
<b>43,552</b>	<b>TOTAL EARMARKED RESERVES</b>	<b>4,830</b>	<b>(9,105)</b>	<b>39,277</b>	<b>(13,434)</b>	<b>25,843</b>
	<b>Equalisation &amp; Grant Reserves:-</b>					
832	Highways Reserve	52	(125)	759	(9)	750
841	IFRS Grants	-	(386)	455	(167)	288
533	Special Regeneration Fund	-	(30)	503	(103)	400
201	Election Costs	-	(173)	28	172	200
196	Local Development Plan	-	-	196	-	196
174	Civil Parking Enforcement	-	-	174	(68)	106
15	Building Control Reserve	-	-	15	5	20
<b>2,792</b>	<b>Equalisation &amp; Grant Reserves</b>	<b>52</b>	<b>(714)</b>	<b>2,130</b>	<b>(170)</b>	<b>1,960</b>
<b>46,344</b>	<b>TOTAL RESERVES</b>	<b>4,882</b>	<b>(9,819)</b>	<b>41,407</b>	<b>(13,604)</b>	<b>27,803</b>