

## 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 CIPFA Bulletin 13 – Local Authority Reserves and Balances (Updated) issued March 2023, which replaces 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 The Chief Finance Officer is required to make a statement in the budget report on the robustness of the estimates and the adequacy of the proposed financial reserves. This should be on the adequacy of reserves over the lifetime of the MTFs and should also take into account the expected need for reserves in the longer term.
- 1.5 In November 2018 the then Cabinet Secretary for Local Government and Public Services issued a Statement which said “it is prudent to build up and hold reserves for specific purposes, including transforming services to meet the continuing financial pressures, which I recognise Councils face...I believe that local authorities in Wales will wish to use their reserves strategically to drive forward the change required to deliver essential services to communities. They will need to consider how to use available funds to work with others to deliver longer term efficiencies”.

### 2. Types of Reserve

- 2.1 The Council will maintain the following usable reserves:

Nature of Reserve	Description
Council Fund	This is a working balance to help cushion the impact of uneven cash flows to avoid unnecessary temporary borrowing and to provide a contingency to cushion the impact of unexpected events or emergencies.
Earmarked Reserves	These reserves are a means of building up funds to meet known or predicted requirements. Earmarked reserves are accounted for separately but remain legally part of the General Council Fund. Earmarked reserves will be established on a “needs” basis, in line with planned or anticipated requirements.
Delegated School Balances	These are unspent balances of budgets delegated by the local authority to individual schools. There are specific regulations to deal with school balances, and these balances are ring-fenced and cannot be used for other purposes.

Equalisation & Grant Reserves	These reserves are held to facilitate the carry forward of grants, where permitted, or to spread the costs incurred in a particular future year over the period of the Medium Term Financial Strategy (MTFS). In respect of grants the funding is held either to meet the terms and conditions of the grant or to repay the funding body. They cannot be used for other purposes.
Capital Receipts Reserve	This account holds the proceeds from the sale of assets and in accordance with regulations; these funds can only be used for capital purposes.
Capital Grants Unapplied	This account holds the grants and contributions received towards capital projects for which the authority has met the conditions set by the grant funding body. The funds will remain in this account until the expenditure to be funded by that grant has been incurred. This cannot be used for other purposes.

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, Revaluation Reserve, Pension Reserve, Short-term Accumulating Compensated Absence Account and the Financial Instruments Adjustment Account. These will not be referenced within this Protocol.

### 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 4**

**The financial control system is sufficiently robust to support the delivery of financial plans and mitigate corporate risks, with adequate provision being 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 these include the Insurance Earmarked 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**

**Savings proposals are fully developed and include realistic delivery timescales prior to inclusion in the annual budget. An MTFS Budget Reduction Contingency Reserve will be maintained to mitigate against unforeseen delays**

The Council has a Change Management Programme Earmarked Reserve specifically to support delivery of the Corporate Plan and MTFS. 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. A MTFS Budget Reduction Contingency Reserve is established and is set at a level determined annually following an assessment of budget reductions categorised as 'red' and deemed material within the MTFS. This will provide additional capacity for discretionary use by the CFO to manage inescapable challenges with delivery.

#### **MTFS Principle 8**

**Balances are not used to fund recurrent budget pressures or to keep down Council Tax rises unless an equivalent budget reduction 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 to meet budget pressures, where the costs are on a one-off basis or 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.

#### **MTFS Principle 9**

**The Council Fund balance should be set at a prudent but not excessive level. This will normally be maintained at a level of 5% of the Council's net budget, excluding schools**

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 31 March 2023 was £9.832 million (£10.110 million at 31 March 2022). This represents 3.95% of the 2024-25 net budget excluding school delegated budgets. It also equates to 2.39% of the 2022-23 Gross Revenue Expenditure (GRE). As a comparison the

Welsh average was approximately 2.80% (based on available published information).

## **MTFS Principle 10**

### **Capital investment decisions are in alignment with the Council's Capital Strategy, and mitigate any statutory risks taking account of return on investment and sound option appraisals**

In order to support sound option appraisals the Council maintains a Capital Feasibility earmarked reserve. 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 2023-24 to provide for significant capital pressures over the MTFS period.

## **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 requested amount must be material and should be restricted in number to those considered to be of key importance. The establishment of reserves will be subject to sufficient resources being available. Subject to these criteria being met, the Directorate will be informed of whether the requests have been approved.
- 5.3 The Finance Senior Management Team will review the establishment, monitoring and the level of Corporate Reserves. These include specific Contingency Reserves, Capital Development or Asset Related Reserves and MTFS 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 earmarked reserves, both Directorate and Corporate, is authorised by the CFO and reported to Cabinet through the quarterly revenue forecast 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 Governance and Audit Committee following the end of the financial year. They are then scrutinised by the Council's external auditors – Audit Wales - and a revised post-audit Statement of Accounts is reported to Governance and Audit Committee and Council and published on the Council's website in accordance with the Accounts and Audit (Wales) Regulations.
- 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 8). 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 in the Finance Section which lists the various earmarked reserves and the purpose for which they are held. The schedule sets out the opening balances for the year, additions/withdrawals and the closing balance. Any appropriations to or from earmarked reserves are controlled in the section. Evidence of expenditure incurred at period 6, period 9 and year-end will be required from Directorate Finance Officers. The drawdown from reserves will be included within the quarterly revenue forecast 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 and are not available to the Council. School balances were £6.898 million at 31 March 2023.

### b) Specific Provisions

The Council holds provisions for unforeseen events, with the major one being 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 level of provisions is £5.244 million.

## 7. Summary of Earmarked Reserves

7.1 A summary of the Earmarked Reserves are detailed below:

### a) Corporate Reserves

These reserves include Change Fund, Feasibility and Capital reserves and are for planned developments in the forthcoming years, such as Sustainable Communities for Learning, ICT improvements and upgrades to Financial Systems. These reserves will be reviewed and adjusted at year-end as appropriate to fund any new developments going forward. Any reserves that are no longer required will be released back into the general revenue budget. Some of these reserves are used over a number of financial years.

### b) Directorate Earmarked Reserves

These reserves have been created for specific pressures or priorities, such as pressures within Children's Social Services.

### c) Equalisation and Grant Earmarked 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 and the preparation of the Local Development Plan. In addition, where carry forward of grant funding has been approved, the income is recognised in the Council's Income and Expenditure statement but the unused funds are held within these earmarked reserves.

7.2 The table below sets out the Council's earmarked reserves position at the end of January 2024. It is anticipated that there will be further draw-down of reserves by 31 March 2024. The table does not include any potential new or increase of reserves over the final two months of the year.

Opening Balance 01 Apr 23 £'000	Reserve	Movement as at Period 10			Closing Balance 31 Dec 23 £'000
		Net Additions/ Reclassification £'000	Draw-down £'000	Unwound £'000	
	<b>Corporate Reserves:</b>				
50,531,437	Capital Programme Contribution	3,013,538	-	(4,598,609)	48,946,366
3,794,440	Asset Management Reserves	426,270	(420,892)	(514,815)	3,285,003
4,629,715	Major Claims & Insurance Reserves	1,000,000	(2,263,267)	(921,953)	2,444,495
2,892,509	Service Reconfiguration	-	-	-	2,892,509
3,422,660	Change Management/Digital Transformation	(141,609)	(196,367)	(184,000)	2,900,684
1,093,789	Economic and Future Resilience Fund	-	-	(293,789)	800,000
906,000	Other Corporate Reserves	1,500,000	-	-	2,406,000
<b>67,270,549</b>	<b>Total Corporate Reserves</b>	<b>5,798,199</b>	<b>(2,880,525)</b>	<b>(6,513,166)</b>	<b>63,675,057</b>
	<b>Directorate Reserves:</b>				
692,947	Education & Family Support	113,061	(184,536)	(133,388)	488,084
6,076,249	Social Services & Wellbeing	2,545,996	(1,830,605)	(145,996)	6,645,643
2,752,891	Communities	130,324	(105,744)	(337,571)	2,439,900
3,101,860	Chief Executives	303,401	(747,259)	(679,982)	1,978,019
<b>12,623,946</b>	<b>Total Directorate Reserves</b>	<b>3,092,781</b>	<b>(2,868,144)</b>	<b>(1,296,937)</b>	<b>11,551,646</b>
	<b>Equalisation &amp; Grant Reserves:</b>				
2,074,399	Education & Family Support	(78,363)	(50,000)	(735,634)	1,210,402
436,379	Social Services & Wellbeing	-	-	(350,379)	86,000
2,845,917	Communities	-	-	(593,953)	2,251,964
346,055	Chief Executives	(153,401)	-	-	192,654
<b>5,702,750</b>	<b>Equalisation &amp; Grant Reserves:</b>	<b>(231,764)</b>	<b>(50,000)</b>	<b>(1,679,967)</b>	<b>3,741,020</b>
6,898,038	School Balances	-	-	-	6,898,038
<b>92,495,283</b>	<b>TOTAL RESERVES</b>	<b>8,659,216</b>	<b>(5,798,669)</b>	<b>(9,490,069)</b>	<b>85,865,761</b>