

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 policy is to set out how the Council will determine and review the level of its Council Fund balance and Earmarked Reserves. The policy has regard to LAAP Bulletin 77 'Local Authority Reserves and Balances', issued in November 2008.
- 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 – the Section 151 Officer.

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, 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;
Private Finance Initiative (PFI) Equalisation Reserve	to meet future PFI costs arising from advance payments of Revenue Support Grant.

- 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 Pensions Reserve.

3. Regulatory Framework

3.1 It is the responsibility of the Section 151 Officer 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 reserve's management and control
- A process and timescale for review

4. Principles to Assess the Adequacy of Reserves

4.1 The Section 151 Officer will advise the Council on the adequacy of reserves. In considering the general reserve, or Council Fund, the Section 151 Officer 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

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 2014 was £7.395 million, representing 2.9% of net expenditure for 2013-14.

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 corporate liabilities and reasonably foreseen risks and pressures, such as insurance, major claims, treasury management, change management fund, invest to save fund and severance costs. These reserves 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. The total of these reserves at 31 March 2014 was £19.613 million.

There is also a small Expenditure Equalisation Reserve which has been created to smooth expenditure that is incurred in a particular future year over the period of the MTFS. These include the costs of elections and the preparation of the Local Development Plan. This reserve totalled £251,000 as at 31 March 2014.

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.

This principle is designed to prevent the use of reserves to meet recurrent budget pressures as this is considered imprudent and unsustainable. It also allows for the creation of earmarked reserves to meet foreseen one-off risks or pressures within directorates either as part of the budget planning process or as a result of carrying forward planned underspends (in line with the Council's Financial Procedure Rules). These reserves 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, one off pressures identified in the MTFS and year end reserve requests from Directorates. The total of these reserves at 31 March 2014 was £5.369 million.

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 line with this principle a number of earmarked reserves have been created to cover potential capital liabilities, risks and pressures associated with the Council's Capital Programme and Asset Management Plan and include funding for capital investment feasibility studies, demolition costs, compliance with legislation and revenue contributions to the capital programme, to enable schemes to be progressed. The total of these reserves at 31 March 2014 was £7.148 million.

5. Summary of Earmarked Reserves

5.1 The forecast for reserves over the financial year 2014-15 and 2015-16 is shown below:-

Opening Balance 1 April 2014 £'000	Reserve	Movement 2014-15 £'000	Closing Balance 31 March 2015 £'000	Movement 2015-16 £'000	Closing Balance 31 March 2016 £'000
7,395	Council Fund Balance		7,395		7,395
	Earmarked Balances :-				
5,369	Directorate Risks and Pressures Reserve	(2,679)	2,690	(2,690)	0
19,613	Corporate Risks and Pressures Reserve	1,711	21,324	(5,049)	16,275
7,148	Capital Risks and Pressures Reserve	(630)	6,518	(3,489)	3,029
251	Expenditure Equalisation Reserve	20	271	(70)	201
32,381	Total Earmarked Reserves	(1,578)	30,803	(11,298)	19,505
39,776	Total Usable Reserves	(1,578)	38,198	(11,298)	26,900

6. Establishment and Monitoring of Reserves

- 6.1 In considering specific reserves, the Section 151 Officer 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 businesses cases will be determined by the Section 151 Officer, having considered the recommendations of the Corporate Management Board.
- 6.2 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 key. Subject to these criteria being met, the Directorate will be informed of whether the requests have been approved." The establishment of the Earmarked Reserve is authorised by the Section 151 Officer and then reported within the Statement of Accounts. 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.
- 6.3 The Section 151 Officer 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 so 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.
- 6.4 All Earmarked Reserves are recorded on a central schedule held by the Financial Control 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 the Financial Control 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 Section 151 Officer to release the funding from the earmarked reserves. 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.

7. Summary of Specific Provisions and Balances

7.1 As well as the Council Fund and Earmarked Reserves as detailed in the above table, there are a number of specific provisions and balances as follows:-

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 around £2.000 million by 31 March 2015 (£2.467 million at 31 March 2014).

Maesteg School PFI Equalisation Fund

This Fund is used to equalise the funding available from Welsh Government to meet the costs of the Unitary Charge for the Private Finance Initiative School at Maesteg over the contract period. The balance will be £3.406 million by 31 March 2015 (£3.051 million at March 2014).

Specific Provisions

These are provisions for unforeseen events which include the mitigation of any potential Equal Pay claims arising from the Abdullah judgement, carbon reduction commitment and a major claims reserve to mitigate the deficit on the pension fund and other potential contractual claims. Also the provisions include the need 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 £5.400 million by 31 March 2015 (£4.900 million at 31 March 2014).