



CABINET – 27TH JULY 2016

SUBJECT: RESERVES STRATEGY

REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES AND SECTION 151 OFFICER

- 1.1 The attached report, which outlined details of the Council's draft reserves strategy document, was considered by the Policy and Resources Scrutiny Committee on 12th July 2016. The report sought the comments of Members on the strategy document prior to its presentation to Cabinet for approval.
- 1.2 Members were informed that the creation and use of both general and earmarked reserves are key tools to assist Authorities in delivering services over a period of longer than one financial year. They are an essential part of good financial management and help Councils cope with unpredictable financial pressures, help them smooth the impact of known spending requirements over time, and help to fund any in-year overspending.
- 1.3 Usable reserves held by Local Authorities have been subject to increased scrutiny in recent years, and in February 2015, after reviewing details of reserves held by all Councils in Wales, the Minister for Public Services referred to a lack of consistency in applying protocols for the establishment, review and discharge of reserves. He also expressed particular concern over the apparent lack of opportunity for Elected Members to engage in and scrutinise the use of reserves held by their Authorities. In April 2015 the Wales Audit Office (WAO) published a report on the financial resilience of Councils in Wales, which recommended that "Councils should ensure that they have a comprehensive reserves strategy that outlines the specific purpose of accumulated usable reserves as part of their Medium-Term Financial Plan".
- 1.4 It was explained that the draft reserves strategy (detailed at Appendix 1 of the Scrutiny Committee report) consolidates existing arrangements for the establishment and subsequent management and use of reserves within the Authority. One significant change to existing arrangements is a proposed 3% cap on the amount Directorates can hold in reserve from accumulated revenue budget underspends. Full details were outlined in the report, together with the reporting procedure to be followed in cases where the 3% limit is exceeded. It was noted that as part of the reserves strategy, an annual report on usable reserves will be prepared for the Policy and Resources Scrutiny Committee, which will contain detailed information and ensure that there is an opportunity for effective scrutiny of the balances held and their intended purpose.
- 1.5 During the course of the ensuing debate, reference was made to the Council's borrowing and investment practices. Officers explained that these areas are included in the Council's Treasury Management strategy and do not form part of the reserves strategy. Discussion took place regarding the definition of unusable reserves and Officers confirmed that these are not cash-backed but are required to meet statutory financial reporting requirements. In response to a Member's query, Officers provided further details on the reporting process to be followed where the proposed 3% cap on Directorate underspend reserves is exceeded. Reference was also made to school ring-fenced reserves and Officers outlined the policy for managing both surplus and deficit school balances.

- 1.6 Following consideration of the report, the Policy and Resources Scrutiny Committee unanimously recommended to Cabinet that for the reasons contained therein, the draft Reserves Strategy as appended to the report be approved.
- 1.7 Members are asked to consider the recommendation.

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Appendices:

Appendix 1 Report to Policy and Resources Scrutiny Committee on 12th July 2016 – Agenda Item 10