



POLICY & RESOURCES SCRUTINY COMMITTEE - 12TH JULY 2016

SUBJECT: RESERVES STRATEGY

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES & SECTION 151
OFFICER**

1. PURPOSE OF REPORT

- 1.1 To present the Scrutiny Committee with the Council's draft reserves strategy document prior to consideration by Cabinet.

2. SUMMARY

- 2.1 The draft reserves strategy appended to this report consolidates existing arrangements for the establishment and subsequent management and use of reserves within the Authority.
- 2.2 Members of the Scrutiny Committee are asked to consider the strategy document and provide comments prior to its presentation to Cabinet.

3. LINKS TO STRATEGY

- 3.1 The establishment and effective management of reserves are important elements of the Council's financial strategy.

4. THE REPORT

- 4.1 Local Authorities have a corporate responsibility to operate within available resources and to remain financially sound over the short, medium and longer term.
- 4.2 One of the key tools available to Authorities in managing their financial affairs is the creation and use of both general and earmarked reserves to assist them in delivering services over a period of longer than one financial year.
- 4.3 Reserves are an essential part of good financial management. They 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. The level, purpose, and planned use of reserves are important factors for Elected Members and Officers to consider in developing medium-term financial plans and setting annual budgets.
- 4.4 The definitions and related accounting treatment of reserves are governed by the requirements of accounting standards. In summary, reserves: -
- can be established for any purpose and at whatever point the Authority determines (although the purpose, usage and basis of transactions should be clearly established);

- can be held for both revenue and capital purposes; and
- can be used at the Authority's discretion (except that reserves established for capital purposes cannot be used to meet revenue expenditure).

4.5 Reserves are classified in specific categories. These are generally accepted classifications used by Local Authorities as follows: -

General Reserves – These apply separately in respect of the Council Fund and Housing Revenue Account (HRA), and essentially represent a combination of a working balance to 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 and Specific Reserves – These are established to meet known or predicted requirements or are established by statute.

Ring-fenced Reserves – These reserves are set-aside for specific service areas (e.g. schools) and are not available for general Council use.

Unusable Reserves – These arise out of the interaction of legislation and proper accounting practice either to store revaluation gains or as adjustment accounts to reconcile requirements driven by reporting standards to statutory requirements. These reserves are not backed by resources (i.e. not cash backed) and cannot be used for any other purpose. Unusable reserves are outside the scope of the attached reserves strategy document.

4.6 Usable reserves held by Local Authorities have been subject to increased scrutiny in recent years largely due to the ongoing programme of austerity.

4.7 In November 2014, the Minister for Public Services asked all Council Leaders in Wales for details of reserves held, the strategies for holding and utilising these amounts, and details of engagement with, and scrutiny by Elected Members. In February 2015 the Minister issued a statement which referred to a lack of consistency in applying protocols for the establishment, review and discharge of reserves and the statement 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.

4.8 In April 2015 the Wales Audit Office (WAO) published a report on the financial resilience of Councils in Wales. One of the recommendations in the report was the following: -

“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”.

4.9 The reserves strategy appended to this report is a consolidation of existing arrangements that have been operating with Caerphilly CBC for a number of years. The strategy ensures that appropriate arrangements are in place for the establishment and management of reserves and that reporting arrangements allow for sufficient transparency and scrutiny. The Authority does have a detailed reserves protocol for the day-to-day operational management of reserves and this is also in the process of being updated to ensure that it fully reflects the content of the attached strategy document.

4.10 One change to existing arrangements in the attached strategy document is a proposed cap on the amount Directorates can hold in reserve from revenue budget underspends. Directorates are currently permitted to hold 50% of revenue budget underspends in their own general reserves with the balance being transferred to the General Fund Reserve. There has previously been no limit on the cumulative amount that can be held in these reserves but it is now proposed that the cumulative balance should not exceed 3% of the net revenue budget for

each Directorate. Based on 2016/17 net budgets the cap for each Directorate would be as follows: -

Directorate	3% Cap (£m)
Corporate Services	0.656
Social Services	2.459
Environment	1.027
Education & Lifelong Learning	1.010

- 4.11 Where the 3% limit is exceeded the reporting procedure outlined in paragraphs 6.8 to 6.10 of the attached document should be followed.
- 4.12 The 3% cap does not apply to the Housing Revenue Account (HRA) or schools as balances in these areas are ring-fenced and are not available for general Council use.
- 4.13 Members will note that as part of the reserves strategy an annual report on usable reserves will be prepared for the Policy and Resources Scrutiny Committee during the autumn. This report will provide detailed information on all usable reserves and will ensure that there is an opportunity for effective scrutiny of the balances held and their intended purpose.
- 4.14 Members of the Scrutiny Committee are asked to consider the attached strategy document and provide comments prior to its presentation to Cabinet.

5. EQUALITIES IMPLICATIONS

- 5.1 An EIA screening has been completed in accordance with the Council's Strategic Equality Plan and supplementary guidance. No potential for unlawful discrimination and/or low level or minor negative impact has been identified regarding this report; therefore a full EIA has not been carried out.

6. FINANCIAL IMPLICATIONS

- 6.1 There are no immediate financial implications arising from the content of this report.

7. PERSONNEL IMPLICATIONS

- 7.1 There are no direct personnel implications arising from this report.

8. CONSULTATIONS

- 8.1 There are no consultation responses that have not been reflected in this report.

9. RECOMMENDATIONS

- 9.1 Members of the Scrutiny Committee are asked to consider the draft strategy document and provide comments prior to its presentation to Cabinet.

10. REASONS FOR THE RECOMMENDATIONS

- 10.1 To ensure that the views of the Scrutiny Committee are considered by Cabinet.

11. STATUTORY POWER

11.1 The Local Government Acts 1992 and 2003.

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Appendices:
Appendix 1 Caerphilly CBC Draft Reserves Strategy