

Agenda Item No: 9

Report To: **Audit Committee**

Date: **1st December 2015**

Report Title: Annual Report on Reserves and Balances

Report Author: **Ben Lockwood**
Head of Finance

Portfolio Holder: Cllr Shorter
Portfolio holder for Finance, Budget & Resource Management



Summary: This report has been requested in response to a minute from the December 2014 Audit Committee meeting requesting an annual update on the level of the Councils reserves.

The Council has a policy to have a General Fund Reserve of no less than 7.5% of the councils Net Budget Requirement (approximately £1m).

The Council also hold a number of earmarked reserves that are reserves held for specific purposes, a schedule of these is attached to the report.

Key Decision: No

Affected Wards: None

Recommendations: **The Audit Committee is asked to**

- 1. Note the report**
- 2. Note that for this year and all future years a review of Reserves and Balances is undertaken as part of the scrutiny of the budget**

Policy Overview: The Council has to maintain an adequate general fund balance and can earmark sums in reserves for specific purposes. The Council has set a policy where the minimum level of general fund balance in 7.5% and it is considered that this remains a prudent policy.

Financial Implications: None specifically – the reserves levels are reviewed regularly as part of the budgeting and resource planning purposes and no changes are recommended.

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Report Title: Annual Report on Reserves and Balances

Purpose of the Report

1. When this committee discussed the Auditors Annual audit Letter for 2013/14 (December 2014) our auditors mentioned that the adequacy of reserves was an issue for each authority to decide. This committee decided to request a report on the level of reserves and balances. This report provides that update to the committee.

Issue to be Decided

2. The Audit Committee is asked to note the report
3. A review of the level of reserves and balances is undertaken as part of the financial planning process and budget scrutiny. Therefore the committee is asked to note that the Budget Scrutiny Committee reviews balances of reserves as part of their scrutiny of the budget.

Background

4. The bottom section of the Council's balance sheet is made up of useable and un-useable reserves. The un-useable reserves are balances that have been derived through the historic treatment of financing capital assets and liabilities. They are normally non cash backed reserves and not available for members to allocate or spend,
5. The council holds a number of useable reserves, these are generally divided into general reserves and earmarked reserves. General reserves are funds available to emergencies and to help manage pressures that arise during the year. Earmarked reserves are balances that are earmarked for a specific purpose, these can also be reserves that the council is required to hold by statute (for example the Building Control Reserves) and reserves that hold funds that have been received from developers for S106 contributions. The Council also holds capital reserves which are accumulated balances for capital receipts that have been realised and unspent. Reserves can also be sub-divided between housing Revenue Account and General Fund.
6. The Authority has a policy to maintain a General Fund reserve of 7.5% of net budget requirement, for 2015/16 the net budget requirement is £13.7m which means that the minimum level of General Fund Balance is £1.03m. The Opening position was £1.5m which is comfortably above the minimum required level.
7. The Cabinet has recently received and agreed a report on the Council's medium term financial plan. This section included sections on the forecast level of reserves and it is upon this work that this report is based.

General Fund Balance

8. The Table below contains the forecast level of General Fund Balance for the medium term financial plan, this shows that in the short term the balance on the reserve is will increase however as budget gaps develop the surplus' accumulated in the current and following year will be used to balance the budget requirement.

General Fund Balance

	Balance at 31st March 2015 £'000	Budgeted 2015/16 Transfers £'000	Estimated Balance at 31st March 2016 £'000
General Fund Balance	1,549	698	2,247

9. There is a sufficient level of cover for the general fund balance to meet the required minimum level of reserves. However it needs to be remembered that the MTFP includes a drawdown of £500,000 over the next 3 years which will reduce the Councils margin above its established minimum General Fund Reserve Balance.
10. The government's reform of local government funding has led to a transfer of funding risk to local government with increased risks through the level of business rates income. This can be seen through the level of business rates appeals that have been lodged and represent a threat to the Councils funding. In addition there is a threat that a major business rate payer leaves the borough. These risks could lead Members to conclude that the level of General Fund reserve needs to be amended to reflect this enhanced risk environment. However, to manage this risk the Council has set up provisions for business rates appeals based on forecasts from experts, Analyse Local. In addition the council has created an earmarked reserve for Business rates income which is kept to manage the volatility of business rated income.
11. Therefore the minimum level of general fund balance can be maintained at no less than 7.5% of net budget requirement

Earmarked Reserves

12. The Council has a number of earmarked reserves, these are reserve balances that have been allocated to cover a specific need or event. A schedule of these balances was included in the medium term financial plan report to cabinet in December and is reproduced in this report at **Appendix A**.

Summary of Earmarked Reserves

	Balance at 31st March 2015 £'000	Budgeted 2015/16 Transfers £'000	Estimated Balance at 31st March 2016 £'000
<i>Earmarked reserves</i>			
Fund future expenditure	5,931	-3,231	2,700
Provision for the maintenance of assets	3,950	-2,901	1,049
Reserves required by statute	223	10	233
Developer contributions	5,500	-	5,500
Total Earmarked Reserves	15,604	-6,122	9,482

13. The schedule shows that there are a number of significant commitments for Earmarked Reserves which will reduce those balances but it should be remembered that those commitments are for the purpose against which the reserve has been earmarked and therefore represent a planned use of the reserve.
14. These reserves have been reviewed by Management Team and Cabinet as part of the budgeting process and are reviewed when spending priorities are considered.

Handling

15. Whilst the Councils external auditor will submit reports to the audit committee and make comments on the level of reserves and balances, it needs to be considered whether the Audit Committee is the correct place to review these items. The cabinet receives advice on the level of reserves and balances as part of the financial planning and budgeting process, this is then scrutinised by the Overview and Scrutiny Committee when they complete their work in the budget.
16. Decisions on the allocation, and appropriateness of reserves and balances are therefore better placed with these committees rather than the Audit Committee and therefore it is recommended that the review of reserves and balances be completed by the Overview and Scrutiny committee as part of its work on the budget.

Conclusion

17. The policy that the General Fund Balance be maintained at a minimum of 7.5% is appropriate and does not need to be amended.
18. The Councils Earmarked reserves are held for specific purposes with planned uses of those amounts.
19. That Overview and Scrutiny should review reserves as part of the scrutiny of the budget.

Portfolio Holder's Views

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Contact:

Email:

