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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b> 13 <sup>th</sup> August 2013
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b> FIN/48/13/AP/LA
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<b>Subject:</b>	<b>Inverclyde Council - Reserves Policy</b>	

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## 1.0 PURPOSE

- 1.1 The purpose of this report is to seek Committee approval for the Council's revised Reserves Policy.

## 2.0 SUMMARY

- 2.1 The Council has a significant level of reserves and in line with good practice the Council is required to have a policy which is reviewed on a regular basis to govern its reserves.
- 2.2 The Council's Reserves Policy was last reviewed in 2008 immediately following the transfer of the Council's housing stock. It is proposed that in future the Reserves Policy is reviewed no less frequently than 3 yearly.
- 2.3 The Reserve Policy covers 4 main matters:
- a) The statutory and good governance requirement for a Reserves Policy.
  - b) The types of reserves operated by the Council
  - c) The proposals for the governance of the various funds and reserves.
  - d) The arrangements for reporting and review.
- 2.4 The proposed policy has been considered and approved by the Corporate Management Team.
- 2.5 The Committee are asked to agree that the Strategic Housing Reserve, which was originally the Housing Repairs and Renewals Fund, be moved from the Earmarked Reserves and be incorporated within the Repairs and Renewals Fund.

## 3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Policy & Resources Committee endorses the attached Reserves Policy and agrees that the next review of this Policy will be no later than August 2016.
- 3.2 That the Committee agree that the Strategic Housing Reserve be added to the Repairs and Renewals Fund.

Alan Puckrin  
Chief Financial Officer

## Reserves Policy

### **1.0 Introduction**

- 1.1 It is a requirement as good financial practice that the Council has a documented and approved Financial Reserve Policy.
- 1.2 Local Authority Accounting Practice (LAAP) Bulletin 77 published in November 2008 provides advice from CIPFA in respect of Local Authority Reserves and Balances.
- 1.3 The following Policy reflects the key messages from the LAAP Bulletin and also outlines the practical application within Inverclyde Council.

### **2.0 LAAP Bulletin 77 – Main Messages**

- 2.1 In Scotland there are explicit statutory powers under Schedule 3 of the Local Government (Scotland) Act 1975 permitting Local Authorities to establish a Renewal and Repair Fund, an Insurance Fund and Capital Fund alongside a requirement to maintain a General Fund Reserve.
- 2.2 Within the General Fund Reserve, Scottish Local Authorities are allowed to earmark specific parts for specific purposes.
- 2.3 It is the duty of the Chief Financial Officer to report on the robustness of estimates and adequacy of reserves as part of his statutory duty. This requirement also needs to take account of the requirements of CIPFA's Prudential Code in respect of affordability when making recommendations about the Council's future Capital Programme.
- 2.4 The LAAP Bulletin makes it clear it is not the responsibility of External Auditors to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.
- 2.5 Whilst not prescribing a generally acceptable minimal level of reserves, the LAAP Bulletin makes it clear that reserves should not be held without a clear purpose. This purpose however does include "a contingency to cushion the impact of unexpected events or emergencies".
- 2.6 Over and above the resource backed reserves outlined in paragraph 2.1 there are other reserves which are not resource backed which appear in the annual accounts.
- 2.7 In the case of Earmarked Reserves then there should be a clear protocol setting out the purpose of the reserve, how and when the reserve can be used and a process for review of the reserve to ensure continuing relevance and adequacy. The protocol for Inverclyde Council is shown in Appendix 1.
- 2.8 The LAAP Bulletin concludes that "it is not normally prudent for reserves to be deployed to finance recurrent expenditure" and "where such action is taken it should be made explicit and an explanation given as to how such expenditure will be funded in the medium to long term".

### **3.0 Types of Reserves Operated by Inverclyde Council**

#### **3.1 General Fund Reserve**

The General Fund Reserve is split into an non Earmarked portion and Earmarked Reserves. The former is often referred to as the "Free Reserve" and it is held for unforeseen emergencies and contingencies. In the past Council policy has been that Free Reserves should not be lower than 2% of annual turnover where turnover is defined as General Government Revenue Grant Income and Council Tax Budgeted Income. Earmarked Reserves are sums of money retained for specific purposes.

### 3.2 Repairs and Renewals Fund

The Repairs and Renewals Fund contains funds which have been set aside for specific maintenance purposes often arising from a commuted sum given to the Council as part of an asset transfer deal. Such cases include the Council taking on the maintenance of Greenock Cut, the Railway Bridge at Inverkip, the maintenance of some landscaping areas adjacent to the A8 in Port Glasgow Town Centre and the former Housing Repairs and Renewals Fund which has been set aside to meet unavoidable contamination costs on former HRA sites.

### 3.3 Capital Fund

A Capital Fund receives income arising from the sale of Capital assets and can be used to incur Capital expenditure or assist meeting the principal repayments of loans charges.

### 3.4 Insurance Fund

The Council maintains an Insurance Fund as income and expenditure in relation to Insurance claims do not fall evenly on an annual basis. Given the long term nature of some Insurance claims then it is important that the Council has an appropriate balance to meet these claims some of which could relate to events which happened decades ago. The Council receives advice on the appropriate level of Insurance Fund via a triennial actuarial valuation.

## 4.0 **Governance Reserves**

4.1 It is important that there is clarity on the rules and responsibilities in respect of governance of the Council's Funds and Reserves. Taking each in turn then the governance arrangements are as follows:-

a) General Fund Reserve -

- i. Level of Free Reserves agreed as part of the Reserve Policy and reviewed no less frequently than 3 yearly by the Policy & Resources Committee.
- ii. Projected Balance reported to each cycle of the Policy & Resources Committee.
- iii. Reported six monthly to the full Council as part of the review of the Financial Strategy.

b) Earmarked Reserves –

- i. Creation of Earmarked Reserves approved by the Policy and Resources Committee.
- ii. Update in respect of Earmarked Reserves given to each Service Committee.
- iii. Update in respect of Earmarked Reserves reported monthly to the Corporate Management Team.

c) Repairs and Renewal Fund –

- i. Additions to the Repairs and Renewal Fund require Policy & Resources Committee approval.
- ii. Annual expenditure budgets allocated to Services as part of the budget process and monitored via the normal budget monitoring process.
- iii. Update in respect of the Repairs and Renewal Fund provided as part of the six monthly review of the Financial Strategy.

d) Capital Fund –

- i. All receipts from sales of assets are paid into the Capital Fund unless otherwise approved by the Policy & Resources Committee.
- ii. Decisions to utilise the Capital Fund approved by the Policy and Resources Committee.
- iii. Capital Fund update reported as part of the Financial Strategy on a six monthly basis.

e) Insurance Fund –

- i. Insurance Fund Balance reviewed and reported as part of the Annual Accounts.
- ii. Annual report in respect of the Insurance Fund reported to the Policy & Resources Committee.
- iii. Outcome of the triennial actuarial review is reported to the Policy & Resources Committee.

## 5.0 Reporting & Review

- 5.1 The Reserve Policy requires to be reviewed and approved no less frequently than three yearly and by the Policy & Resources Committee.
- 5.2 In the event that it is projected that the Council's Non-Earmarked General Fund Reserve will fall below the 2% of limit then the Chief Financial Officer should report no later than the next meeting of the Policy & Resources Committee explaining the reasons for this shortfall and the options available to rectify the situation.

Alan Puckrin  
Chief Financial Officer  
July 2013

Earmarked Reserves Process

1. An earmarked reserve cannot be established without the approval of the Chief Financial Officer and the Policy & Resources Committee.
2. For each earmarked reserve there needs to be a clear documented understanding of the purpose of the reserve, the timescale for which the reserve is required and anticipated phasing.
3. For earmarked reserves projecting over £50,000 of spend during the year then the annual spend requires monthly phasing.
4. As part of the year end accounts the remaining balance and continuing purpose of the earmarked reserve requires to be reviewed by the budget holder and approved by Finance.
5. Any earmarked reserve not required is to be written back to the General Fund reserves.

Finance Services  
June 2013