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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>19<sup>th</sup> May 2015</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/32/15/AP/CM</b>
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<b>Subject:</b>	<b>Earmarked Reserves Policy</b>		

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## **1.0 PURPOSE**

- 1.1 The purpose of this report is to seek Committee approval for an amended Policy in respect of the establishment and utilisation of Earmarked Reserves.

## **2.0 SUMMARY**

- 2.1 As part of the overall Reserve Strategy approved in 2013 a process was approved which covered how Earmarked Reserves were to be dealt with, this is attached as Appendix 1 to this report.
- 2.2 Concerns have been raised by both External Audit and also internally regarding the volume of Earmarked Reserves held by the Council.
- 2.3 The Corporate Management Team believe it would be appropriate for the Committee to amend the current Policy and in the process reduce the number of Earmarked Reserves and also improve transparency and delivery. The proposed Policy is attached as Appendix 2.
- 2.4 As has been reported to Committee previously and elsewhere in this agenda there is the opportunity for Members to allocate further Reserves to projects/policy areas due to the increased surplus in 2014/15. It is proposed that decisions on this are made at the September Policy & Resources Committee and that at this stage any increase in the "Free Reserves" is carried forward as part of the 2014/15 Accounts closure.

## **3.0 RECOMMENDATIONS**

- 3.1 It is recommended that the Committee agree the Earmarked Reserve Policy set out in Appendix 2.
- 3.2 It is recommended that Committee agree to consider utilisation of any surplus Free Reserves at the September Policy & Resources Committee and that any proposals comply with the amended Earmarked Reserve Policy.

Alan Puckrin  
Chief Financial Officer

## **4.0 BACKGROUND**

- 4.1 Local Authorities have always held reserves some of which are established by statute such as the Repairs and Renewals Fund and the Capital Fund but in recent years Councils have increasingly used reserves as a way of managing improved medium term financial planning.
- 4.2 Inverclyde Council is reported to have a higher value and volume of reserves than almost any other Council in Scotland and this matter has been commented upon by successive External Audit Reports and Members.
- 4.3 The Council approved a General Reserves Policy in August 2013 and part of this covered Earmarked Reserves.

## **5.0 WHY HAVE EARMARKED RESERVES?**

- 5.1 There are a number of reasons as to why Earmarked Reserves have been established. These include:
  - a) It is a way of smoothing out unpredictable demand led budgets eg. winter maintenance, residential schools placements.
  - b) A way to fund revenue projects which span more than one financial year and which are funded from either a one off allowance from the General Reserve or a recurring revenue budget eg. Riverside Inverclyde, Clune Park area regeneration, Modernisation fund.
  - c) A method by which external revenue funding received at the end of the financial year can be carried forward and used for the purpose for which it has been given eg Integrated Change Fund, Delayed Discharge monies, Scottish Government Grants (mostly Education).
- 5.2 In addition Earmarked Reserves have been established to carry forward the balance on some multi-year Capital Funding models such as the SEMP, Office and Depot AMP or the Vehicle AMP.
- 5.3 As part of the budget approximately £3.5 million was written back from the Council's Earmarked Reserves and funds representing 10% of the balance held. A considerable amount of Officer time is spent tracking, monitoring, budgeting and reporting on Earmarked Reserves and the Corporate Management Team view is that it would be better if fewer Earmarked Reserves were held in order to free up Officer time to concentrate on core delivery of the Capital Programme and Annual Revenue Budget.
- 5.4 In addition there is a growing number of Earmarked Reserves which are established at the year end at the request of budget holders in order to carry forward relatively minor unspent sums for future years. Whilst the rationale for the need to carry the funding forward is understandable from an individual budget holder perspective, when seen in the context of the Council's overall Revenue budget or even at a Directorate budget level there is no reason that these sums could not be contained within the next year's Revenue Budget.
- 5.5 There is however a sound rationale for having Earmarked Reserves if they are clearly justified, have clear outputs, are monitored and reported on a regular basis. In order to achieve this a revised Policy has been drafted which is attached as Appendix 2.

## **6.0 PROPOSED CHANGES**

### **6.1 Approval Process**

The main driver for the establishment and review of Earmarked Reserves is the annual budget process and as such requests to establish Earmarked Reserves should be greatly minimised during the rest of the financial year. There should be a clear justification for the continuation of existing Earmarked Reserves and also a clear justification for the establishment of new

Earmarked Reserves. It is accepted that given both budget timescales and process, and getting full clarity as to the ultimate use of monies is difficult but it is believed that teasing out greater details prior to the approval of the budget will aid delivery in the medium term.

Outwith the budget process then it is believed that an annual report to the August or September cycle of the Policy & Resources Committee will act as a sweep up for any other Earmarked Reserves that require to be established following closure of the Annual Accounts. In every case the creation of the Earmarked Reserve or the allocation of further funding to an existing Reserve should be supported by the Corporate Management Team and where practical be channelled through the Service Committee prior to be remitted to the Policy & Resources Committee for approval.

## 6.2 Rationale for the Earmarked Reserve

There are too many Earmarked Reserves where it is not clear how the sum allocated has been arrived at or the outputs/outcomes expected and the timescales for delivery. Time requires to be spent on this prior to the request to establish the Earmarked Reserve and this should be captured in a pro forma which should form part of the approved process. A similar process is also recommended in respect of requests to carry forward funding from one year to the next as this will create a discipline for reviewing whether the carry forward is actually necessary.

## 6.3 Managing Delivery & Spend

The phasing and regular reporting of Earmarked Reserves has delivered improvements in 2014/15. It is recommended that at the establishment of an Earmarked Reserve an indication of phasing of spend and the milestones for delivery are captured as part of the pro forma.

In addition it is important that efforts are made to reduce the number of relatively minor Earmarked Reserves and as such it is recommended that where the balance on an individual Earmarked Reserve is less than £20,000 as at 31<sup>st</sup> March then this balance is written back to the General Fund unless there is an established legal commitment to pay the remaining balance. Where this legal commitment is not in place then the individual Directorate will contain any spend within its overall Revenue Budget for the next Financial year.

## 7.0 IMPLICATIONS

### Finance

### 7.1 Financial Implications:

#### One off Costs

As has been reported to Committee previously and elsewhere in this agenda there is the opportunity for Members to allocate further Reserves to projects/policy priorities. It is proposed that decisions on this are made at the September Policy & Resources Committee and that at this stage any increase in the "Free Reserves" is carried forward as part of the 2014/15 Accounts closure.

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

## Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (If Applicable)	Other Comments
N/A					

### Legal

- 7.2 There are no specific legal implications arising from this report.

### Human Resources

- 7.3 There are no specific HR implications arising from this report.

### Equalities

- 7.4 There are no specific equalities implications arising from this report.

### Repopulation

- 7.5 There are no specific repopulation implications arising from this report.

## 8.0 CONCLUSIONS

- 8.1 The use of Earmarked Reserves is a positive aid to medium term financial management and planning however care needs to be given to ensure that the Earmarked Reserves do not become a distraction to the core delivery to the Council's £200 million Revenue Budget or £90 million Capital Programme.
- 8.2 In order to ensure the Earmarked Reserve process is totally transparent then the establishment of Earmarked Reserves accompanied by the necessary detail should ultimately be approved by the Policy & Resources Committee just as though it were a request for a draw down on the General Fund Reserve.

## 9.0 CONSUTLATION

- 9.1 The contents of this report has been discussed and agreed with the Corporate Management Team.

## 10.0 BACKGROUND PAPERS

- 10.1 None.

**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

## **Earmarked Reserves Policy**

### **1/ EMR establishment**

- a) The event which necessitates the creation of an EMR is the financial year end and as such there is no requirement for regular requests throughout the year to establish EMRs.
- b) The correct vehicle for taking decisions around EMRs is the Budget and officers should therefore ensure that requests to establish an EMR outwith this process are by exception. In every case which uses this exception route the establishment of the EMR will require a report to CMT, then a report to the Service Committee and approval by the Policy & Resources Committee.

### **2/ Rationale for an EMR**

- a) For each EMR a standard pro forma outlining the detail of what the EMR is required for plus the amount requested, expected outcomes, milestones, phasing and areas of spend is required to be submitted as part of the EMR establishment. The completed pro forma will require to be approved by the relevant Corporate Director and Finance Manager.
- b) The same process will be required for the carry forward of any year end balances where an EMR covers more than one year.

### **3/ Managing Delivery & Spend**

- a) When establishing an EMR and each year thereafter, monthly phasing of spend will require to be agreed with Finance Services. Performance against this phasing will be reported to CMT/Committee each Committee cycle.
- b) In order to avoid the carry forward of immaterial sums and to minimise the number of EMRs in existence at any one time, any EMR with an outstanding sum of less than £20,000 at the end of the financial year will be closed and the balance written back to the General Fund. In the event there is residual spend in the next financial year then this will require to be contained by the Committee.
- c) The exception to this will be where there is an established Legal commitment and the EMR does not relate to a recurring budget.

Finance Services  
April 2015