

EAST RENFREWSHIRE COUNCIL9 February 2017Report by Head of Accountancy (Chief Financial Officer)RESERVES POLICY**1. PURPOSE OF REPORT**

The purpose of the report is to present for consideration a Reserves Policy for the Council.

2. RECOMMENDATION

The Council is invited to approve the Reserves Policy.

3. BACKGROUND

3.1 It is regarded as good financial practice that the Council has a documented and approved Financial Reserves Policy.

3.2 Local Authority Accounting Practice (LAAP) Bulletin 99 published in July 2014 provides advice from CIPFA in respect of Local Authority Reserves and Balances.

3.3 The following Policy reflects the key messages from the LAAP Bulletin and also outlines the practical application within East Renfrewshire Council.

4. LAAP BULLETIN 99

4.1 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.

4.2 Within the General Fund Reserve, Scottish Local Authorities are permitted to earmark specific parts for specific purposes.

4.3 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.

4.4 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.

4.5 Whilst not prescribing a generally acceptable minimum 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".

4.6 The purpose of each of the earmarked reserves is set out below, as are the governance arrangements for these funds to ensure continuing relevance and adequacy.

5. TYPES OF RESERVES OPERATED BY EAST RENFREWSHIRE COUNCIL

General Fund Reserve

5.1 The General Fund Reserve is split into a non-Earmarked portion and Earmarked Reserves. The former is often referred to as the “Unallocated Reserve” and is held for unforeseen emergencies and contingencies. Council policy is to aim for the Unallocated Reserves to be 4% of net budgeted Revenue Expenditure. The level of the unallocated reserve will be reviewed annually by Council as part of the budget setting process. Earmarked Reserves are sums of money retained for specific purposes.

Capital Reserve

5.2 This earmarked reserve will assist in supporting capital investment for major projects and in maintaining capital investment during periods of economic challenge. It will be utilised in accordance with the Council’s Capital Plan.

Modernisation Fund

5.3 This earmarked funding has been identified to enable the upfront investment required to drive forward the Council’s transformation activities and to generate future savings which will demonstrate payback within an agreed timescale.

Repairs and Renewals Fund

5.4 This earmarked fund has been established to enable a continuing programme of repairs and renewals to roads, properties and other infrastructure.

Insurance Fund

5.5 This earmarked fund has been established to provide for insurance voluntary excess costs. Income and expenditure in relation to Insurance claims does 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.

PFI/PPP Equalisation Reserve

5.6 This earmarked fund has been established to equalise future PFI/PPP payments as grant funding is not fully aligned to the contract repayment schedules and this could produce large affordability gaps in the latter years of these agreements.

6. GOVERNANCE OF RESERVES

It is important that there is clarity on the rules and responsibilities in respect of governance of the Council’s Funds and Reserves. The governance arrangements are as follows:

- a) General Fund Unallocated Reserve
 - (i) Level of Unallocated Reserves agreed as part of the Reserves Policy.
 - (ii) Projected balance of Unallocated Reserves reported to Budget Strategy Group and Council as part of the annual budget setting process. Proposed utilisation is agreed by the Council.
 - (iii) Fund balance reviewed and reported to the Audit & Scrutiny Committee and Council as part of the Annual Accounts exercise.
- b) Earmarked Reserves
 - (i) Proposed utilisation of Earmarked Reserves is agreed by the Council as part of the annual budget setting process.
 - (ii) Fund balances are reviewed and reported to the Audit & Scrutiny Committee and Council as part of the Annual Accounts exercise.
 - (iii) Committee and Council as part of the Annual Accounts exercise.

7. REPORTING AND REVIEW

The Reserves Policy will be reviewed and approved no less frequently than three yearly by Council.

8. CONCLUSION

It is good practice to adopt a formal reserves policy in relation to the various reserves held by the Council.

9. RECOMMENDATION

The Council is invited to approve the Reserves Policy

Further information is available from :

M McCrossan, Head of Accountancy Tel 0141 577 3035

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