

EAST RENFREWSHIRE COUNCIL28 February 2024Report by Head of Accountancy (Chief Financial Officer)RESERVES POLICY**PURPOSE OF REPORT**

1. The purpose of the report is to present for consideration an updated Reserves Policy for the Council.

**RECOMMENDATION**

2. The Council is invited to approve the Reserves Policy.

**BACKGROUND**

3. It is a requirement of good financial practice that the Council has a documented and approved Financial Reserves Policy and that this is reviewed and updated periodically. The Council aims to review this policy every three years.

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

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

**LAAP BULLETIN 99**

6. 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.

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

8. It is the duty of the Chief Financial Officer to report on the robustness of estimates and adequacy of reserves as part of their 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.

9. 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.

10. 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”.

11. 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.

## **TYPES OF RESERVES OPERATED BY EAST RENFREWSHIRE COUNCIL**

### General Fund Reserve

12. 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 in the medium to long term for the Non-Earmarked Reserve to be a target of 4% of net budgeted Revenue Expenditure. It is recognised that this target level cannot always be met. The level of this unallocated reserve will be reviewed annually by Council as part of the budget setting process and a lower level may be agreed to assist the Council in addressing short to medium term financial challenges. Unless there are exceptional circumstances, the Council would not expect this reserve to fall below a level of around 2% of net budgeted Revenue Expenditure.

13. Earmarked Reserves are sums of money retained for specific purposes. The Council has currently designated the following such reserves within its overall General Fund.

14. Modernisation Fund - This funding has been set aside by the Council to enable the upfront investment required in staffing and systems to maintain modern systems, drive forward the Council’s transformation activities and to generate future savings which will demonstrate payback within an agreed timescale.

15. PFI/PPP Equalisation Reserve – This fund has been established by the Council 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. The expected funding shortfalls are £4m in 2030/31 and £1m in 2031/32 respectively.

16. Devolved School Management Reserve – Legislation requires Councils to maintain a DSM reserve and, in this regard, the Council permits Head Teachers to set aside a proportion of in-year underspends, up to a cumulative maximum of 6% of their budget, in order to assist schools in meeting financial savings challenges and in managing budgets which span more than one financial year.

17. Feasibility Fund – The small reserve was set up by the Council to permit preliminary investigations to be progressed for potential future capital projects. This is intended to enable a prompt start if a project is then approved for inclusion in the Capital Programme. Where such an approval is confirmed, the preliminary expenditure will be recharged to the capital project and the feasibility fund refunded.
18. Unspent Grants – This reserve is to allow the matching of grant spend against grant received. Where grant has been received and we are permitted to use the funding in the following year then we use this reserve to enable the balance to be carried forward.
19. Whitelee Wind Farm – The income for this fund is from sums provided by the Whitelee wind farm operator to provide grants to the local area and manage and maintain the current access infrastructure and allow for future access improvements to the wind farm.
20. Commuted Sums – The income for this reserve comes from standard second home / long term empty Council Tax income as well as contributions from planning gains to fund infrastructure and affordable housing investment within the area. The newly agreed additional premiums levied on second/empty homes are not assigned to this reserve, but are used instead to fund an empty homes housing officer and to support the wider Council budget.
21. Get to Zero Fund – This small fund is intended to permit preparatory works in relation to the Council's Get to Zero plans. It is recognised that this will fund only a small proportion of the Council's climate action requirements and that substantial government/other external funding will also be needed.
22. Service Concession Flexibility – In closing the accounts for 2022/23, the Council was permitted to align PFI/PPP debt to the life of these assets, rather than to the contract term. This released over £14m of funding which was earmarked to help ease the transition to challenging budget savings over the years 2023/24 to 2025/26. This fund will be fully utilised by 31 March 2026.
23. Workforce Restructuring Fund – In closing the 2022/23 accounts it was acknowledged that significant reductions in staffing might be required in order to address medium term budget shortfalls. This fund is intended to assist with these pressures by funding short term additional HR staff requirements as structures are redesigned, and by contributing towards the one-off costs of ending staff contracts across affected services.
24. Employee Wellbeing and Development Fund – This fund was set up in 2023 to support staff wellbeing and continuous professional development opportunities in recognition of the pressures impacting on our workforce in the wake of the COVID pandemic.
25. Community Capacity Building Fund – During the COVID pandemic, many community groups and support mechanisms ceased to function. This funding is intended to help local groups and networks re-establish themselves and develop further in order to strengthen their community resilience.

26. Other Earmarked Reserves – In closing the accounts each year, the Council determines the level of contribution to be made to the various General Fund and other earmarked reserves. This can include establishing new reserves if deemed appropriate. In particular, the Council will benefit from a substantial short-term reduction in employer's pension contributions in 2024/25 and 2025/26 and expects to allocate these funds to a new earmarked reserve so that these can be used to invest for the future, with officers working with the Budget Strategy Group to develop proposals for Cabinet to consider.

#### Capital Reserve

27. This 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.

#### Repairs and Renewals Fund

28. The Fund has been established to enable a continuing programme of repairs and renewals to roads, properties and other infrastructure. The level and utilisation of this fund will be considered in conjunction with the Council's revenue and capital investment plans.

#### Insurance Fund

29. The 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, 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.

#### HRA Reserve

30. This fund provides a contingency to meet short term financial demands of the Housing Revenue Account as well as permitting major costs to be spread over a period of time rather than impacting on rentpayers in only one year.

### **GOVERNANCE OF RESERVES**

31. 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 Non-Earmarked Reserve
  - (i) Level of Non-Earmarked Reserves agreed as part of the Reserve Policy.

- (ii) Projected balance of Non-Earmarked 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) Fund balances are reviewed and reported to the Audit & Scrutiny Committee and Council as part of the Annual Accounts exercise.
- (ii) Fund balances and the establishment of any new earmarked reserves are considered by the Budget Strategy Group annually. Proposed utilisation of Earmarked Reserves is agreed by the Council as part of the annual budget setting process or in response to specific reports if needs arise during the year. In the case of the smaller reserves, utilisation during the year may be delegated to senior management in response to service needs. Payments from the Whitelee Wind Farm fund are determined by a panel of elected members and a representative from the local voluntary sector in response to applications from local groups.

**REPORTING AND REVIEW**

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

**CONCLUSION**

33. It is good practice to adopt a formal reserves policy in relation to the various reserves held by the Council. This provides the Council with flexibility to respond to the varying levels of financial challenge it may face over time.

34. In recent years, the challenges facing Councils have increased and it is all the more important that reserves are used to assist in taking a medium to long term view in managing the varying financial demands on services.

**RECOMMENDATION**

35. The Council is invited to approve the Reserves Policy

Further information is available from :

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**KEY WORDS**

Reserves, General Fund, Non-Earmarked, unallocated reserves.