

EAST RENFREWSHIRE COUNCIL25 February 2021Report 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 4% of net budgeted Revenue Expenditure. The level of this unallocated reserve will be reviewed annually by Council as part of the budget setting process and a lower level may at times be agreed if this will assist the Council in addressing short to medium term financial challenges. Unless there are exceptional circumstances, the Council will aim for the minimum level of this reserve to be around 2% of net budgeted Revenue Expenditure.

13. Earmarked Reserves are sums of money retained for specific purposes. The Council has 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 to 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 agreement.

16. Devolved School Management Reserve – This funding has been set aside by head teachers to assist schools in meeting future financial 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.

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 windfarm operator to provide grants to the local area and manage and maintain the current access infrastructure and allow for future access improvements to the windfarm.

20. Commuted Sums – The income for this reserve comes from 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.

Capital Reserve

21. 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

22. The Fund has been established to enable a continuing programme of repairs and renewals to roads, properties and other infrastructure.

Insurance Fund

23. 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 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.

**GOVERNANCE OF RESERVES**

24. 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) Proposed utilisation of Earmarked Reserves is agreed by the Council as part of the annual budget setting process.

**REPORTING AND REVIEW**

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

**CONCLUSION**

26. 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.

**RECOMMENDATION**

27. The Council is invited to approve the Reserves Policy

Further information is available from :

M McCrossan, Head of Accountancy Tel 0141 577 3035

**KEY WORDS**

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