

RESERVES

Report By: Head Of Financial Services

Wards Affected

County-wide.

Purpose

1. To provide Strategic Monitoring Committee with further information on the level of reserves held by the Council, further to the Committee's request at the last meeting.

Background

2. Reserves are amounts set aside in one year's accounts to be spent in future years. Some reserves are earmarked for specific purposes and other general revenue balances are available to meet future revenue and capital expenditure.
3. Whilst it is considered to be evidence of sound financial management for any organisation to hold reserves to assist meeting future pressures it is important that reserves are held for sound reasons and that the level of reserve is appropriate. The number and level of reserves is a key area reviewed by the Council's auditors as part of their annual audit of the Council's accounts.
4. The use of and level of reserves has recently taken on an additional level of importance. The Comprehensive Performance Assessment (CPA) process has the 'Use of Resources' as a key element of the overall assessment. The Financial Standing of the Council is covered by a Key Line of Enquiry that looks at whether the Council manages its spending within available resources. Evidence to support this can be provided by three areas; if the Council is financially sound; the Council manages its levels of reserves (and balances) and current spending plans match available resources.
5. Currently the overall assessment for use of resources is that we score a '3'. However the Financial Standing element is a strong 2 but further development of the Council's policies for holding reserves and balances is needed. In order to achieve an improved score the Council's policy for reserves and balances must be based on a thorough understanding of its needs and risks and must be properly and clearly reported to members.

General Fund Balance

6. The Council has 2 main sources of reserve funding to support its day to day spending recorded in the revenue account – the General Fund balance and Specific Reserves. The General Fund balance is best viewed as a general contingency. The following table indicates the position on the General Fund for the last 3 financial years:

Further information on the subject of this report is available from
David Powell, Head of Financial Services, on 01432 383173

Balance as at:	General Fund £000K
31 March 2004	9,847
31 March 2005	14,491
31 March 2006	14,525

7. The General Fund balance at 31 March 2006 included £2.8m of budgets carried forward into the current financial year. This left £11.7m that was uncommitted but a number of changes totalling £4.965m were included in the MTFMS reflecting a move to specific reserves.
8. The level of General Fund balance will be a key area for closer scrutiny. The Council operates a 'policy' of a minimum £3m in General Fund Reserve but this was established at the time of local government reorganisation and requires updating. The Medium Term Financial Management Strategy (MTFMS) states that so long as earmarked reserves are set aside to cover specific significant financial risks it is not expected that the General Fund balance would need to exceed £6m. The ongoing improvements to financial planning in the Resource Directorate includes more detailed review of General Fund balance.

Specific Revenue Reserves

9. The Appendix provides details of the specific revenue reserves held by the Council. As of 31 March 2006 these totalled £13.942m having risen from £11.244m in the previous year. The balance held on 28 February 2007 was £18.82m after additions outlined in the Medium Term Financial Management Strategy (MTFMS) agreed by Cabinet.
10. The list of reserves includes £8.739m in respect of balances held by schools under the Local Management of Schools arrangements. These statutory arrangements entitle schools to draw on, add to or maintain the sums held as they see fit. The local authority has a 'challenge' role but in general terms it is a matter for schools to determine the level of balances held. These balances are required to be shown in our annual accounts but are not available for general Council use.
11. As indicated the Appendix includes notes on the specific reserves but significant reserves include:
 - i) Waste Disposal. An amount held towards the likely increase in costs for the contract.
 - ii) Herefordshire Connects. This was transferred from an invest to save reserve.
 - iii) Social Care. A contingency for budget pressures. It should be noted that the MTFMS includes an additional £1.3m revenue contingency.

- iv) Invest to Save/Initiatives Fund. This is set aside for schemes that produce revenue savings after an initial investment.
 - v) Budget Management. This is held in the event that Directorate budgets are 1% over budget at out-turn.
12. The Appendix indicates a number of other reserves exist and these cover areas as diverse as Winter Road Maintenance and an amount set aside each year for the Council elections.

Capital Reserves

13. The Council has one capital reserve that represents cash available to support spending on the creation or enhancement of assets recorded in the capital account. The reserve is known as the Useable Capital Receipts Reserve.
13. The following summarises the position since 2003/04:

Financial Year	Balance at start of year	Income from sale of assets (capital receipts)	Capital receipts used to pay for capital spending	Balance at end of year
2003/04	18,908	5,301	4,245	19,964
2004/05	19,964	2,654	4,327	18,291
2005/06	18,291	3,876	2,097	20,070
2006/07	20,070	4,883	7,592	17,361

(All figures in £000k)

14. The estimated year-end balance of £17.361m includes £8.922m 'ring-fenced' to Housing. Further capital receipts are anticipated by the end of March.
15. As part of the Accommodation Strategy the Council agreed a strategy for disposing of surplus assets. Capital receipts will be generated over the medium-term as these assets are vacated and sold but they will be used to reduce the potential borrowing requirement for the project to rationalise office accommodation.
16. The Council has set the Smallholdings Estate an annual target of realising £1m capital receipts. This policy ensures a steady but modest stream of new capital receipts each year.

Budget Management Strategy 2007/08

17. The MTFMS includes a £5.8m revenue saving from the Herefordshire Connects programme in 2007/08. After careful consideration it was appropriate that financial 'cover' should be available to support the 2007/08 budget strategy. The 'cover'

available means that the 2007/08 budget can still be delivered and would see the use of the following reserves outlined in the Appendix as funding sources;

- a) Using £1.5m of the Herefordshire Connects Reserve. This would reduce the £1.928m to £428k by the end of financial year 2007/08.
- b) Social Care Reserve. A £1.3m use of the £1.7m Social Care contingency reserve established in 2006/07 could be used. This means that £400k of the reserve would still be available. In addition there is the £1.3m revenue contingency included in the Council's revenue base budget.
- c) Budget Management Reserve. The £1.1m reserve for overspends is also being made available from the Council's specific revenue reserves to support the 2007/08 budget strategy.
- d) Local Authority Business Grant Incentive. In 2006/07 £1.4m of grant has been received. The MTFMS includes using £1m of this along with a further £1m to be received in 2007/08 as Herefordshire Connects 'cover'. Any additional LABGI income will be added to General Reserves.

RECOMMENDATION

- THAT**
- (a) **Strategic Monitoring comments on the level of reserves;**
and
 - (b) **comments on the move to a risk based assessment to determine the level of general fund reserve.**

BACKGROUND PAPERS

- Medium Term Financial Management Strategy