

Agenda Item No:	5	
Committee:	Cabinet	
Date:	18 July 2019	
Report Title:	Council Reserves	

Cover sheet:

1 Purpose

- To provide Cabinet with an analysis of reserves to inform future consideration of the Council's Medium Term Financial Strategy.

2 Key issues

- At 31 March 2019 the Council had a General Fund Reserve balance of £2.622M and Earmarked Reserve balances of £7.681M.
- Balances are held on reserves for a range of reasons including recognising grant monies received but not yet spent and to provide funding to address spending pressures expected to arise in future. The use of reserves is budgeted as part of the budget-setting process and the Chief Finance Officer is required under legislation to provide an annual statement confirming the adequacy of reserve balances.
- It is good practice to keep reserve balances under review. The planned use of reserves over the medium-term forms part of the information feeding into the Medium Term Financial Strategy (MTFS). The MTFS is updated regularly to reflect the latest estimates and assumptions which inform the Council's understanding of its financial position.

3 Recommendations

- It is recommended that Cabinet notes the analysis of reserves provided as part of this report.

Wards Affected	All
Portfolio Holder(s)	Cllr Chris Boden, Leader and Portfolio Holder, Finance
Report Originator(s)	Peter Catchpole, Chief Finance Officer and Corporate Director Mark Saunders, Chief Accountant
Contact Officer(s)	Peter Catchpole, Chief Finance Officer and Corporate Director Mark Saunders, Chief Accountant
Background Paper(s)	Medium Term Financial Strategy 2019/20 to 2023/24, Council Revenue and Capital Outturn 2018/19

Report:

4 Introduction

- 4.1 The Council presents information regarding its reserve balances throughout the year. The budgeted use of reserves is presented as part of the annual budget-setting process and the year-end balance on reserves is presented as part of the Statement of Accounts.
- 4.2 The Chief Finance Officer is responsible for ensuring the level of reserves held by the Council is adequate. The Chartered Institute of Public Finance and Accountancy (CIPFA) regularly publish guidance to assist Chief Finance Officers in fulfilling this function. In their 2016 publication on the Role of the Chief Finance Officer in Local Government, CIPFA emphasise that the Chief Finance Officer must 'take into account future commitments, resources available and the desirable levels of reserves, to ensure that the authority's finances remain sustainable'.
- 4.3 Under the Council's constitution the Chief Finance Officer is responsible for ensuring that the purpose of each reserve, its usage and the basis of transactions is clearly identified. These cannot be varied without the consent of Cabinet. The constitution provides members of Corporate Management Team with the authority to fund expenditure charged to the revenue account from reserves subject to the ultimate approval of the Chief Finance Officer.

5 Reserve Balances held by Fenland District Council

- 5.1 Reserve balances available to fund revenue expenditure are split into Earmarked Reserves and a General Fund Balance. Earmarked Reserves are those reserves established for a specific purpose. The General Fund balance reflects an amount held, on the advice of the Chief Finance Officer, to provide contingency to address financial pressures and/or emergency situations where the need for funds cannot be met from the revenue budget or any of the established earmarked reserves.
- 5.2 For many years the Council has been the beneficiary of funding from central government bodies and other funding agencies for specific projects and initiatives. Often the funding awarded is paid over before the Council incurs any expenditure relating to the project or initiative. Where this is the case, in line with accepted accounting convention, any element of a grant allocation which is not spent at the year-end is transferred to a reserve. The balance on these reserves is only used to fund expenditure incurred in relation to the funded project or initiative. If any of the grant received is unspent at the end of the project the Council may be required to repay the unspent element to the funding body. Examples of these reserves are the Homelessness Prevention, Controlling Migration Fund and Wisbech High Street Heritage Lottery Fund reserves.
- 5.3 The Council works collaboratively with many different organisations to provide a range of services. Some of the agreements with partner organisations require the Council to retain any surplus generated by a service in a reserve so that the funds can be retained by the service to address any future funding pressures specific to that service. Examples of this include reserves relating to the CCTV service, the maintenance of port buoys and the travellers sites the Council manages on behalf of Cambridgeshire County Council.

- 5.4 Each of the remaining reserves was established to provide funding to address expected future funding pressures impacting on the Council's revenue budget and capital programme. Typically these reserves will have been established as part of the budget-setting process in previous years or at the year-end. The budget report provided guidance to full Council of the types of cost pressures faced by the Council which might lead to a reserve being established. Examples include:
- significant increased costs of providing statutory services;
 - significant increased contractual costs;
 - an unexpected and/or significant event or disaster, e.g. civil emergency;
 - an unexpected major liability in law; and
 - the need to make significant payments in relation to prior year adjustments under the direction of the external auditor.
- 5.5 In some cases the use of reserves will be budgeted for within the Council's MTFS. Examples at this time include the use of the Council's Local Plan Reserve or the Capital Contribution Reserve. However, in other scenarios estimating the extent to which a reserve balance might be needed in any given year is more difficult. A primary example of this is the Repairs and Maintenance Reserve which exists to fund necessary repairs and maintenance to the Council's estate which arise during the year but were not built into the base budget.
- 5.6 Taking account of the three types of earmarked reserve set out in paragraphs 5.2 to 5.5 above the reserves held by the Council at 31 March 2019 can be analysed as follows:

Type of Reserve	Balance Held at 31 March 2019 (£000)
General Fund (see para 5.1)	2,622
Specific Grants (see para 5.2)	1,680
Service-Specific Reserves (see para 5.3)	630
Other Reserves (see para 5.4-5.5)	5,371
Total	10,303

- 5.7 For the reasons set out above the Council has very limited discretion to review the basis for maintaining specific grant and service-specific reserves. It is appropriate, however, to revisit the Other Reserves to understand whether any of the amounts held could be re-designated or re-allocated as part of future updates to the Council's Medium Term Financial Strategy. The table on the following page sets out the reserves held and discloses the extent to which balances held at 31 March 2019 have been committed as part of the current MTFS.

Reserve	Balance at 31 March 2019 (£000)	Balance Committed in current MTFS (£000)	Available Balance for Re-Allocation or Re-Designation (£000)
Conservation Reserve	4	0	4
Management of Change	1,202	(262)	940
Neighbourhood Planning Reserve	185	(185)	0
Community Projects	12	0	12
Personal Search Fees	115	0	115
Housing Benefit Reforms and Subsidy Claims	149	0	149
Warm Homes	17	0	17
Local Government Resource Review	1,056	(556)	500
Capital Contribution Reserve	420	(420)	0
Repairs & Maintenance Reserve	643	(643)	0
Property Development Fund	1,000	0	1,000
Local Plan Reserve	451	(451)	0
Solid Wall Remediation	100	(100)	0
Brexit Preparation Reserve	17	0	17
TOTAL	5,371	(2,617)	2,754