



Ryedale District Council

REPORT TO: Policy & Resources Committee

DATE: 2 October 2008

REPORTING OFFICER: Corporate Director (s151)
Paul Cresswell

SUBJECT: REVIEW OF COUNCIL RESERVES

WARDS AFFECTED: All

1.0 PURPOSE OF REPORT

1.1 The purpose of the report is to review the reserves held by the Council and identify resources available for investment in capital or revenue projects.

2.0 RECOMMENDATIONS

2.1 That the Policy and Resources Committee recommend to Council that:

(i) the Council's reserves are reorganised as below:

Reserve:	£	Review/Range Criteria
General Reserve	500,000	5% - 7% NRE
Useable Capital Receipts and Contributions Reserve	5,214,660	Balance Reviewed Annually
Capital Fund	4,170,903	Balance Reviewed Annually
Capital Contingency Fund	200,000	£100k - £400k
ICE Fund	308,060	Balance Reviewed Annually
Operational Reserve	568,602	£250k - £750k
Restructure Reserve	426,200	Balance Reviewed Annually
IT Fund	154,899	Balance Reviewed Annually
LDF Reserve	100,000	Balance Reviewed Annually
Grants Reserve	117,989	Balance Reviewed Annually
Community Investment Fund	85,203	Balance Reviewed Annually
Elections Reserve	19,631	Balance Reviewed Annually
Total	11,866,147	

POLICY & RESOURCES

2 October 2008

- (ii) **the Medium Term Financial Plan adopt a policy that all interest receipts from investments will be allocated to fund the capital programme and that the Revenue Account makes a comparable reduction of its contribution to capital funds.**

3.0 REASONS SUPPORTING DECISION

- 3.1 The level of reserves need to be set at an appropriate level to ensure financial stability, whilst not being at such a level to impact on service delivery.

4.0 BACKGROUND

- 4.1 The Council's reserves and balances underpin the sustainability of both the revenue and capital financial plans. When calculating their budget requirement the Local Government Finance Act 1992 requires Councils to have regard to their level of capital and revenue reserves needed for meeting estimated future expenditure.

5.0 INTRODUCTION

- 5.1 The Corporate Director (s151), being the Council's Chief Finance Officer, is required to advise the Council on the level of reserves it should hold in order to ensure a sound financial standing, and also ensure that clear protocols exist for their establishment and use.
- 5.2 Clearly a well-managed Council, with a prudent approach to budgeting should be able to operate with a relatively low level of General Reserve. The Audit Commission is in turn required to review the level of reserves and financial performance over a period of time. However, it is not the responsibility of the auditor to prescribe or recommend an optimum or minimum level of reserves.
- 5.3 The introduction of the Prudential Code for Capital Finance reinforces the safeguards for financial planning. The Code emphasises the requirement to consider affordability when making decisions about the Council's future capital programme. The development of three-year revenue forecasts and long-term capital programme focus greater attention on the levels and application of the Council's Balances and Reserves.
- 5.4 A key issue of The Use of Resources Assessment, which the Council undergoes on an annual basis, is how the Council reviews and re-prioritises its reserves.
- 5.5 The Council's Reserves and balances as at the 31 March 2008 are detailed in the following table:

POLICY & RESOURCES

2 October 2008

<i>Strategic Reserves:</i>	Value £
General Reserve	1,339,347
Useable Capital Receipts and Contributions Reserve	5,214,660
Investment Income Reserve	2,723,926
Repairs and Renewals Reserve	1,107,630
Improvement Contingency and Emergency Fund	308,060
Service Investment Fund	510,299
DSO Reserves	158,303
<i>Earmarked Reserves:</i>	
Superannuation Reserve	126,200
IT Fund	154,899
Grants Reserve	117,989
Community Investment Fund	85,203
Election Reserve	19,631
Total	11,866,147

6.0 POLICY CONTEXT

6.1 The Council's reserves impact on all service delivery of the Council.

7.0 REPORT

7.1 In order to assess the adequacy of unallocated reserves the Council must take into account the strategic, operational and financial risks that it will face in both the long and short term.

7.2 For the last few years the Council has set a relatively low risk budget, characterised by under spends at year end, however members should be mindful that £100,000 of the General Reserve is provided to balance the Council's revenue budget and projections of future efficiency savings are higher than previously required.

7.3 Each of the reserves will be considered in turn:

7.3.1 General Reserve

This fund receives or contributes to differences in the estimated to actual net expenditure on the Revenue Account and represents the accumulated working balance. It provides a working balance for the day-to-day revenue costs and income and meets any unforeseen expenses not provided for elsewhere in the accounts of the Council.

Taking into account the risks within the Council's budget it is recommended that the balance on the fund be maintained at a range of between 5% and 7% of the Council's budget requirement. This equates to a range of £395,621 to £553,869 in 2008/2009. It is proposed that £300,000 of the current balance be transferred to the Pensions Reserve in respect of the expected maximum requirement from the implementation of the Framework for Change. Of the remaining

balance it is proposed that £339,347 is transferred to the Capital Fund Reserve, £200,000 to the Capital Contingency Reserve (see below) leaving a remaining balance of £500,000.

7.3.2 Useable Capital Receipts and Contributions Reserve

Members have to date chosen to maintain a balance of the capital receipts arising from the sale of assets to enable the interest earned thereon to be used to finance capital expenditure.

With the limited capital assets held by the Council, other than significant strategic property and the priorities in affordable housing; a low level of capital receipts are expected in future years. It is therefore the interest earned on balances, which provides the mainstay of the Council's capital plans.

It is proposed that the fund is maintained at a level that ensures balances are sufficient to provide a return to support the continued investment in the Council's priority housing grant schemes.

7.3.3 Capital Contingency Fund

It is proposed that a Contingency reserve be established to assist in the management of the Council's Capital Resources, which may arise during a year.

There are two proposed uses for the Capital Contingency Reserve:

- (i) it will provide a flexible and responsive resource to fund small-scale and hoc capital schemes in between the annual capital bid process. In this respect small scale means up to £50,000.
- (ii) It will provide contingency funding for potential additional costs incurred on the existing capital programme.

The current procedure for capital schemes allocates funding annually based on available resources over a four-year timescale taking into account the Council's priorities. Outside of this envelope schemes will inevitably come along which require urgent consideration. This fund should not be used to avoid poor planning of bids as part of the annual process.

Taking into account the size of the Council's capital programme it is proposed that the Capital contingency fund should be kept at a level of between £100,000 and £400,000. Clearly if there are significant high risk schemes added to the Capital programme this level may need to increase. All allocations from this fund would require member approval. The proposed opening balance is £200,000 transferred from the General Reserve.

7.3.4 Improvement, Contingency and Emergency Fund (ICE)

It is important that the Council can meet unexpected significant revenue items out with the Council's revenue budget. With the proposed revision to the level of balance on the General Reserve this revenue fund will provide the first call for meeting unplanned revenue items. It is proposed that this fund remains unchanged.

7.3.5 Repairs and Renewal Fund

This fund receives annual revenue contributions of £209,000 for asset management and vehicles replacement in the capital programme and also, meets smaller items of asset related expenditure, which do not qualify as capital expenditure (below £10k). It is recommended that this reserve be closed and that the balance is transferred to the Capital Fund.

7.3.6 Service Investment Fund (SIF) and DSO Reserves

The SIF primarily relates to accumulated under spending that has been carried over to support known future operational requirements, and to provide a working balance to equalise fluctuations in seasonal income and expenditure. All transactions to and from these reserves are subject to the approval and review of the Corporate Director (s151). The DSO reserves are the accumulated profits from the operations of Environmental Services.

With the changes to the management structure and responsibilities within the Council and the changes to working practices that have occurred over the years since the introduction of DSO/DLO accounting changes to this are proposed. The current procedure of separately accounting for the Environmental Services former contracts as a trading operation will cease.

It is proposed that by combining the current DSO Reserves and SIF that a single pot Operational Reserve be established. The SIF balance includes £100,000 earmarked for the delivery of the Local Development Framework and it is suggested that this be transferred to an earmarked reserve specifically for that purpose, leaving a balance of £568,602 allocated to the Operational Reserve. It is proposed that the balance on this reserve is maintained between £250k and £750k and is reviewed annually.

7.3.7 Investment Income Reserve

This presently holds the balances on investment income. This is a revenue reserve and the funds are applied to revenue and capital expenditure. It is proposed that this reserve be closed and the balance is transferred to the Capital Fund.

7.3.8 Superannuation Reserve

It is proposed that this fund be renamed the Restructure Reserve. The current balance on the Superannuation Reserve plus the £300,000

POLICY & RESOURCES

2 October 2008

maximum requirement to implement the Framework for Change from the General Reserve, as detailed above, forms the reserve with an opening balance of £426,200. The balance on this reserve will be reviewed on an annual basis.

7.3.9 Other Earmarked Reserves: IT Fund, Elections Reserve, Grants Reserve and Community Investment Fund.

These funds exist for the specific purposes and as such it is not proposed to make any changes to these. Should the need to set up other earmarked reserves arise for good operational and financial management reasons they will be established.

7.3.10 Capital Fund

This new reserve will hold the resources from the revenue stream of funding to be applied to the Capital Programme. Based on the above the opening balance will be as follows:

Transfer from:	£
General Reserve	339,347
Investment Income Reserve	2,723,926
Repairs and Renewals Reserve	1,107,630
Total	4,170,903

It is the current financial policy that the interest receipts from the Council's investments are allocated to fund the capital programme with the exception of £134,000, which is used to finance the Revenue Account. Currently the Revenue Account contributes £209,000 each year to the Repairs and Renewals Reserve to fund the major repair and replacement of assets. It is proposed that in future all interest receipts are allocated to capital funds and that the Revenue Account makes a reduced contribution of £75,000 to ensure there is no net impact on the Council Tax.

7.4 By implementing the above changes to the Council's reserves the following represents the capital programme funding profile through to 2011/2012.

	£'000	£'000
Funds Available to Finance Capital:		
Capital Fund	4,170	
Useable Capital Receipts & Conts Reserve	3,572	
Interest Receipts to 2011/2012	3,000	
General Fund Contribution to Capital	300	
External Funding	1,070	12,112
Anticipated Expenditure:		
Current Capital Programme	9,374	
Reserve Schemes recommended by RWP	238	9,612
Estimated Balance of Available Funds		2,500

POLICY & RESOURCES

2 October 2008

7.5 This report does not deal with the consideration of the funds identified in the table above.

8.0 OPTIONS

8.1 It is the responsibility of the Section 151 officer to advise the Council on the level of reserves. It is essential that the Council makes best use of its reserves whilst also ensuring that it has sufficient funding to deliver its capital and revenue aspirations. The recommended changes to reserves aim to achieve this.

8.2 Any number of options can be considered by members in this respect but the proposals above represent the recommendation of the Chief Finance Officer.

9.0 RESULT OF OPTION APPRAISAL

9.1 Members are asked to endorse the recommendations for the changes to reserves.

10.0 FINANCIAL IMPLICATIONS

10.1 There are no direct financial issues arising from the recommendations within this report.

11.0 RISK ASSESSMENT

11.1 The significant risk to the recommendations is that the changes to reserves do not ensure that sufficient funds exist to cover unplanned expenditure requirements. This is mitigated by the level of balance on the General Reserve, the Improvement, Contingency and Emergency Fund, the Capital Contingency Fund and the Operational Reserve.

12.0 CONCLUSION

12.1 The Council's reserves should have proper criteria and regular review. This reports reviews the reserves and makes recommendations for changes to assist the delivery of the Council's objectives.

Background Papers:None

OFFICER CONTACT:

Please contact Paul Cresswell, Corporate Director (s151) if you require any further information on the contents of this report. The officer can be contacted on 01653 600666 extension214 and paul.cresswell@ryedale.gov.uk

POLICY & RESOURCES

2 October 2008