



LANCASTER CITY COUNCIL  
*Promoting City, Coast & Countryside*

# Provisions and Reserves Policy

(Details of General Fund Items)

February 2010

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# Provisions & Reserves Policy

## 1. Legislative/Regulatory Framework

- 1.1 The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 1.2 There is also a requirement reinforced by section 114 of the Local Government Finance Act 1988 which requires the chief financial officer to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.
- 1.3 Furthermore, sections 26 and 27 of the Local Government Act 2003 set out the requirements regarding the determination of minimum levels of controlled reserves (i.e. currently unallocated balances), and actions required should they fall below such minimum levels.
- 1.4 A key element contained within the Use of Resources assessment criteria is Financial Standing; the authority must be able to demonstrate that "The Council monitors and maintains its level of reserves and balances within the range determined by its agreed policy".

## 2. Role of the Chief Financial Officer

- 2.1 Within the existing statutory and regulatory framework, it is the responsibility of the Chief Financial Officer (at Lancaster this is the Head of Financial Services) to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.
- 2.2 For clarity, within the legislation the minimum level of any reserve is not quantified, and it is not considered appropriate or practical for the Chartered Institute of Public Finance and Accountancy (CIPFA), or other external agencies, to give prescriptive guidance on the minimum, or maximum, level of reserves required either as an absolute amount or a percentage of the budget.

## 3. Purpose of Reserves and Balances

- 3.1 Reserves and balances can be held for three main purposes:
    - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of what is commonly referred to as 'general balances';
    - A contingency to cushion the impact of unexpected events or emergencies – this also forms part of 'general balances';
    - A means of building up funds, commonly referred to as earmarked reserves, to meet known or predicted liabilities.
  - 3.2 For each earmarked reserve held by a local authority there should be a clear protocol setting out:
    - The reason for/purpose of the reserve;
    - How and when the reserve can be used;
    - Procedures for the reserve's management and control; and
    - A process and timescale for review of the reserve to ensure continuing relevance and adequacy.
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## 4. Principles to Assess Adequacy

- 4.1 Setting the level of reserves and balances is just one of several related decisions in the formulation of the medium term financial strategy and the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements. In addition to the cash flow requirements of the authority the following factors should be considered:

### **Budget Assumptions**

- The treatment of inflation and interest rates
- Estimates of the level and timing of capital receipts
- The treatment of demand led pressures
- The treatment of planned efficiency savings/gains
- The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments
- The availability of other funds to deal with major contingencies and the adequacy of provisions

### **Financial Standing and Management**

- The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates, etc.)
  - The authority's track record in budget and financial management including the robustness of the medium term financial plans
  - The authority's capacity to manage in-year budget pressures
  - The strength of the financial information and reporting arrangements
  - The authority's virement and end of year procedures in relation to budget under/over spends at authority and departmental level
  - The adequacy of the authority's insurance arrangements to cover major unforeseen risks.
- 4.2 The minimum level of general reserves which is considered appropriate for the Council is reviewed annually as part of the budget process and Medium Term Financial Strategy. At present, the minimum level of general reserves is set at £1 million for the General Fund and £350K for the Housing Revenue Account.
- 4.3 A review of the level of earmarked reserves is undertaken generally as part of the annual budget preparation and as part of the closure of accounts process.
- 4.4 The Council's external auditors recommend the use of a risk based approach when setting the level of reserves. As far as reasonably practical this approach is used, although for many reserves the balance is being held to meet a specific budgeted need, or alternatively future spending needs can be restricted to tie in with monies available. For others, whilst the risk of financial liabilities arising is acknowledged, it may be impossible to assess accurately (or quantify) the financial risks involved, and the balances of such reserves are determined initially based on informed judgement. Their future levels will be further reviewed as more information becomes available.

## 5. Reporting Framework

- 5.1 The level and utilisation of reserves will be determined formally by the Council, informed by the advice and judgement of the Head of Financial Services.
- 5.2 The Council's annual budget report includes a statement showing the estimated opening general fund balances for the year ahead, the addition to/withdrawal from balances, and the estimated end of year balance. A statement is also included commenting on the adequacy of general balances and provisions in respect of the forthcoming financial year and the authority's medium term financial strategy.
- 5.3 Similarly, a statement is also included, as part of the budget report, identifying earmarked reserves, the opening balances for the year, planned additions/withdrawals and the estimated closing balance.
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## 6 Provisions & Reserves Protocol : General Fund

| Reserve                 | Purpose   | How and When Used  | Procedures for management and control      | Timescale for review                      |
|-------------------------|---|--|--|---|
| <b>CAPITAL RESERVES</b> |   |  |  |   |
| Marsh Capital           | The monies held in this reserve came from the proceeds of land sold at Willow Lane on the Marsh, as set out by the Lancaster Corporation Act 1900. The Act determines that the interest generated on this reserve be applied in perpetuity to the payment to the freemen of the City. | Investment interest generated on the reserve is used to make the annual payments to the freemen of the City.   | Financial Services                         | Outturn                                   |
| Capital Support         | To support the financing of the capital programme.  | Between 2009/10 to 2010/11, to help fund Capital Programme and in particular Luneside.   | Financial Services                         | Budget & Outturn, & mid-year MTFS review. |
| <b>REVENUE RESERVES</b> |   |  |  |   |
| Access to Services      | To finance smaller scale accommodation works (one-off costs), on the basis that the wider plans will not be taken forward at present.   | Contributions to the reserve to be approved by Cabinet. Use of the reserve to be determined by Access to Services Board, in conjunction with the Head of Financial Services. There are no funds available after 31 March 2010 – reserve to close.  | Financial Services                         | Budget & Outturn                          |
| Allotment Improvements  | To improve allotments across the district.  | To be applied as determined by the Head of Community Engagement and in accordance with budget proposals.   | Community Engagement / Financial Services  | Budget & Outturn                          |
| Building Regulations    | This is a statutory reserve to which the annual surplus or deficit on the Building Control Account is transferred. In addition, the reserve may be used to finance expenditure which will make the Building Control function more efficient.  | The surplus or deficit on the Building Control Account is appropriated to/from the reserve at the end of each financial year. In addition, it may be used to finance specific one-off Building Control expenditure, with Head of Financial Services approval (to reflect statutory usage), or with Cabinet approval for recurring items. | Regeneration & Policy / Financial Services | Budget & Outturn                          |

| <b>Reserve</b>                  | <b>Purpose</b>   | <b>How and When Used</b>  | <b>Procedures for management and control</b>    | <b>Timescale for review</b>              |
|---------------------------------|--|---|---|--|
| Business Continuity             | To provide funding to ensure Business Continuity Plans can be effectively actioned as and when required (one-off costs).   | Any contributions to reserve to be approved by Cabinet. Use of the reserve to be determined by Board, in conjunction with the Head of Financial Services.                               | Health & Strategic Housing / Financial Services | Budget & Outturn                         |
| City Lab                        | Surpluses on the operation of the building to be used to support any future losses / economic development in the district.   | Contributions to and from the reserve to be approved by Cabinet.  | Regeneration & Policy / Financial Services      | Budget & Outturn                         |
| Community Cohesion Reserve      | Currently unallocated.   | There are no funds available after 31 March 2010 – reserve to close.  | Community Engagement / Financial Services       | Budget & Outturn                         |
| Revenue Support                 | To cover potential additional costs arising regarding Concessionary Travel, Fairpay (including ongoing costs), and building works that cannot fall as capital.                   | Annual contributions to be made into the reserve from 2009/10 onwards. Use of reserve to be agreed with Head of Financial Services and reported through quarterly financial monitoring. | Financial Services                              | Budget & Outturn, & Quarterly monitoring |
| Customer First                  | To cover one-off costs associated with the approved roll out and integration of Customer Services.   | There are no funds available after 31 March 2010 – reserve to close.  | Community Engagement / Financial Services       | Budget & Outturn                         |
| Every Child Matters             | To support Council input and any responsibilities in connection with Every Child Matters (one-off costs).  | Reserve supporting Play Schemes in 2009/10 and Diversionary Activities in 2010/11. There are no funds available after 31 March 2011 – reserve to close.                                 | Community Engagement / Financial Services       | Budget & Outturn                         |
| HMO Registration Fees           | This is a mandatory scheme which is required to be self funding over a five year period.   | Surpluses generated at the start of the scheme will be set aside in this reserve to off-set any future losses.  | Health & Strategic Housing / Financial Services | Budget & Outturn                         |
| Housing Benefits Administration | The reserve has been established to ensure additional grant monies received can be applied to the relevant year in which the expenditure is planned, subject to service outturn. | Contributions to& from reserve to be agreed with Head of Financial Services.  | Revenue Services / Financial Services           | Budget & Outturn                         |

| <b>Reserve</b>                  | <b>Purpose</b>  | <b>How and When Used</b>  | <b>Procedures for management and control</b>    | <b>Timescale for review</b>     |
|---------------------------------|---|---|---|---------------------------------|
| Job Evaluation                  | To support development and modelling of pay structures.   | Contributions to the reserve to be approved by Cabinet. Use of the reserve to be agreed by both the Head of Legal & Human Resources and Head of Financial Services, linked to adoption of new Pay & Grading structure.                    | Legal & Human Resources / Financial Services    | Budget & Outturn                |
| Planning Delivery Grant (PDG)   | To enable grant monies committed against approved spend to be rolled forward between financial years.   | Where specific approved budgets have not been spent, which are funded from PDG, the balance of unapplied grant will be transferred into the reserve and applied in the following financial year. Any other use to be approved by Cabinet. | Regeneration & Policy / Financial Services.     | Budget & Outturn                |
| Private Housing Rental Deposits | The reserve has been established as a rental deposit guarantee for private landlords, against tenants who are financially unable to provide such a deposit.                         | The money is to be applied to fund any necessary repairs upon the vacation of a tenant for whom a guarantee has been provided. Contributions to the reserve are to be approved by Cabinet.  | Health & Strategic Housing / Financial Services | Budget & Outturn                |
| Project Implementation          | To meet one-off costs of project implementation that cannot be directly charged to other funding sources: e.g. training, site visits and providing temporary cover for secondments. | To be applied when no other source of funding can be used to cover such costs. Use of the reserve to be agreed by Head of Financial Services.   | Financial Services                              | Budget & Outturn                |
| Restructuring Reserve           | To fund the cost of redundancies and early retirements as a result of Service restructures.   | Use linked to large service restructurings requires Personnel Cttee approval. Any further contributions to the reserve to be approved by Cabinet.   | Legal & HR / Financial Services                 | Quarterly PRT, Budget & Outturn |

| <b>Reserve</b>  | <b>Purpose</b>  | <b>How and When Used</b>  | <b>Procedures for management and control</b>        | <b>Timescale for review</b>     |
|---|---|---|---|---------------------------------|
| Risk Management   | The reserve was established to finance any Risk Management initiatives.   | Expenditure relating to risk management is charged to revenue and financed by an appropriation from the reserve. Its application must be in line with the Risk Management Policy. Contributions to the reserve are to be approved by Cabinet.   | Financial Services                                  | Budget & Outturn                |
| <b>MAINTENANCE / RENEWALS</b>   |   |   |   |                                 |
| Open Spaces – Commuted Sums   | This reserve receives all sums paid to the Council from third parties for the maintenance of open spaces adopted by the City Council. An amount is then transferred from the revenue on an annual basis to cover the additional maintenance costs associated with the open space. | Lump sums are credited to the reserve, and an annual contribution is made from the reserve to cover the additional grounds maintenance costs.<br>The value of commuted sums due is to be agreed with Financial Services prior to the development agreement being completed. Budgets to be updated by Financial Services in consultation with CC(D)S as sums received. | City Council (Direct) Services / Financial Services | Budget & Outturn                |
| Other Commuted Sums   | This reserve receives all sums paid to the Council from third parties other than for Grounds Maintenance, e.g. affordable housing.  | Lump sums are credited to the reserve and appropriated either to revenue or capital dependent upon the nature of the agreement – subject also to approved policy for use (November 2009).   | Regeneration & Policy / Financial Services          | Budget & Outturn                |
| Graves Maintenance  | This reserve holds monies donated to the City Council by individuals, specifically for the maintenance of graves.   | The capital sum must be maintained at the original level of contribution, with interest earned being appropriated to revenue to offset maintenance costs.   | Health & Strategic Housing / Financial Services     | Outturn                         |
| Renewals (Including IT, AONB Vehicle, Car Park Equipment, Courier Vehicle, Parks vehicles & Salt Ayre Sports Centre renewals) | Contributions are made into the fund to provide for renewal of major assets such as vehicles, plant and equipment.  | Contributions are made into the reserve on an annual basis, and transferred to revenue as and when renewals are undertaken. Contributions to the reserve are to be approved by Cabinet. Use of the reserve to be agreed by Head of Financial Services.  | Financial Services                                  | Quarterly PRT, Budget & Outturn |

| Reserve                                  | Purpose  | How and When Used  | Procedures for management and control               | Timescale for review              |
|--|--|--|---|-----------------------------------|
| <b>PROVISIONS</b>                        |  |  |   |                                   |
| Bad & Doubtful Debts                     | This provision is used to write off all General Fund bad debts that have been approved.  | The provision is funded by an annual contribution based on assessment of the level of debt outstanding.  | Financial Services                                  | Budget, Outturn & Quarterly PRT   |
| Equal Pay                                | To meet the cost of settling equal pay claims  | The provision was established in 2008/09, to meet any liabilities arising and is expected to close at the end of 2009/10.  | Legal & Human Resources / Financial Services        | Budget & Outturn                  |
| Insurance                                | The cost of insurance claims, premiums and brokerage are charged to the provision.   | Contributions are made to the provision from individual services at a level sufficient to cover the anticipated claims experience and premiums.  | Financial Services                                  | Budget, Outturn and Quarterly PRT |
| Provision for Write-Off / Obsolete Stock | The provision provides for obsolete stock or stock that has reduced in value.  | The stock is valued as part of the closure of accounts process and adjustments made as appropriate.  | City Council (Direct) Services / Financial Services | Outturn                           |
| Derelict Land Grant                      | This provision covers the cost of anticipated grant clawback in respect of land sales, previously financed from grant.   | The provision will be fully utilised in 2009/10.   | Financial Services                                  | Budget & Outturn                  |
| Vehicles, Plant & Machinery              | This provision has been established to cover future years costs associated with vehicle renewals, when budgets may be insufficient due to the timing of replacements and procurement method applied. | Provision now closed.  | N/A   | N/A                               |
| Williamson Park                          | As the company is wholly controlled by the City Council, provision must be made for any losses arising.  | Provision established during 2008/09 following review of operations. Contributions to / from the provision to be approved by Cabinet. Provision will be applied in dissolving company. | Financial Services                                  | Budget & Outturn                  |