



LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

Provisions and Reserves Policy

(Details of General Fund Items)

February 2011

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.

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.

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.

6 Provisions & Reserves Protocol : General Fund

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
CAPITAL RESERVES				
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 and revenue elements of capital schemes, where applicable.	For 2010/11, to help fund the Capital Programme, reserve to be fully utilised by 2011/12.	Financial Services	Budget & Outturn, & mid-year MTFS review.
REVENUE RESERVES				
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. Reserve fully utilised in 2010/11 and will be closed at outturn.	Community Engagement / Financial Services	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
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 Head of Health & Housing, in conjunction with the Head of Financial Services.	Health & Housing / Financial Services	Budget & Outturn

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
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.	Balance no longer required. Funds transferred out during 2010/11 and then reserve to be closed at outturn.	Community Engagement / Financial Services	Outturn
Revenue Support	To cover potential additional costs arising regarding Concessionary Travel, Fairpay (including ongoing costs), and building works that cannot fall as capital.	Reserve balance reallocated to restructuring reserve.	Financial Services	Budget, Outturn, and mid year as part of MTFS review
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 no longer required. Funds transferred out during 2010/11 and then reserve to be closed at outturn.	Health & Housing / Financial Services	Outturn
Revenues and Benefits (formerly Housing Benefit 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. Current balance fully utilised in 2010/11.	Financial Services	Budget & Outturn
Job Evaluation	To support development and modelling, and implementation of pay structures.	Contributions to the reserve to be approved by Cabinet. Use of the reserve to be agreed by both the Head of Governance and Head of Financial Services, linked to new Pay & Grading structure.	Governance Services / 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

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
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.	Any necessary repairs will be funded from existing budgets. Balance transferred and reserve to be closed at outturn.	Health & Housing / Financial Services	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.	Reserve fully utilised in 2010/11 and then to be closed at outturn.	Financial Services	Outturn
Restructuring Reserve	To fund the cost of redundancies and early retirements as a result of Service restructures.	Use linked to major service restructurings requires Personnel Cttee approval. Any further contributions to the reserve to be approved by Cabinet.	Governance Services / Financial Services	Quarterly PRT, Budget & Outturn
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. No further planned contributions to the reserve after 2010/11.	Financial Services	Budget & Outturn
Vacant Shops Fund	The reserve was established in 2009/10 from grant monies received but not applied.	Funding applied in 2010/11 and reserve to be closed at outturn.	Community Engagement / Financial Services	Outturn
Performance Reward Grant	The reserve was established in 2009/10 from grant monies received but not applied.	Use subject to Cabinet approval in accordance with approved protocol.	Community Engagement / Financial Services	Budget & Outturn
Connecting Communities	The reserve was established in 2009/10 from grant monies received but not applied.	Funding applied in 2010/11 and reserve to be closed at outturn.	Community Engagement / Financial Services	Outturn
Lancaster Market	The reserve has been established to finance costs associated with consultancy costs.	Use linked to costs associated with Lancaster Market. Application of the reserve to be approved by Head of Property Services, in consultation with portfolio holder and Head of Financial Services.	Property Services / Financial Services	Budget & Outturn.

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
Invest to Save	The reserve has been established to finance any Invest to Save initiatives.	Use linked to capital or revenue schemes that can generate future savings and meet pay back periods in accordance with MTFs, as advised by Head of Financial Services. Application of and contributions to reserve to be approved by Cabinet.	Financial Services	Budget, Outturn and quarterly PRT.

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
MAINTENANCE / RENEWALS				
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. 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 Environmental Services as sums received.	Environmental 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 & 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
Municipal Buildings	Contributions are made into the fund to provide for municipal building works that cannot be capitalised as part of the current scheme of works. In addition, further survey costs will be funded from this reserve.	An initial contribution of £300K has been made in 2010/11. Use of the reserve to be agreed by Head of Property Services, in conjunction with Head of Financial Services.	Property Services / Financial Services	Budget & Outturn

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
PROVISIONS				
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
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.	Environmental 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 2011/12.	Financial Services	Budget & Outturn
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. Provision will be applied in dissolving company during 2010/11 and 2011/12.	Financial Services	Budget & Outturn

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
UNALLOCATED GOVERNMENT GRANTS				
Capital Grants – Performance Reward Grant (PRG)	Under International Financial Reporting Standards any capital grants which are currently unallocated must be held in a separate account.	Established in 2009/10 following receipt of PRG capital monies. Application subject to Cabinet approval in accordance with protocol.	Community Engagement / Financial Services	Budget & Outturn