

**PROVISIONS AND RESERVES
POLICY 2014/15**

(Including Balances)

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 (as amended) require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget / council tax 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 Chief Officer (Resources)) 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 balances 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 £1M for the General Fund and £350K for the Housing Revenue Account.
- 4.3 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 Council through this policy, informed by the advice and judgement of the Chief Officer (Resources).
- 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 balances.

6 Provisions & Reserves Protocol : General Fund

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
Apprenticeships	Established to pump prime an apprenticeship scheme within services, to provide recruitment and development opportunities.	Use of the reserve to be approved by Chief Officer (Governance) with top up contributions being approved also by the Chief Officer (Resources) (or their nominated representatives).	Governance / Resources Any change in use to be approved by Cabinet.	Budget & Outturn, and mid-year MTFS review
Business Rates Retention	This reserve has been established to support the budget in the event that Business Rates Income does not achieve projected growth estimates or reaches the safety net threshold.	Use of the Reserve to be determined and reported to Cabinet by Chief Officer (Resources) approval.	Resources	Budget & Outturn & mid-year MTFS review
Capital Support	To cover contractual liabilities as at 31 March 2011 on West End properties and to provide cover for any revenue costs arising through shortfalls in capital financing (i.e. from capital receipts).	Any use to be determined and reported to Cabinet by Chief Officer (Resources).	Resources Any change in use to be approved by Cabinet, but permitted only where surplus balances exist.	Budget & Outturn, & mid-year MTFS review
City Lab	Surpluses on the operation of the building to be used to support any future losses / economic development in the district.	Any contributions to or from the reserve to be approved by Cabinet.	Regeneration & Planning / Resources. Any change in use to be approved by Cabinet.	Budget & Outturn
Elections	The reserve has been established to even out the cost of holding City Council elections every four years.	Contributions to and from reserve to be approved by Cabinet (generally as part of annual budget process, rather than specifically).	Governance / Resources.	Budget & Outturn
Highways	Created from previous years' surpluses, to provide support for anticipated additional cost pressures arising from the new Highways Partnership contract.	Any contributions to or from the reserve to be approved by Cabinet (as part of the budget or outturn reporting).	Environmental Services / Resources.	Budget and Outturn.
Homelessness	Established at 2011/12 outturn from additional government grant, for additional homelessness prevention measures.	Use of Reserve to be approved by Chief Officer (Health & Housing), in consultation with Chief Officer (Resources) (or her nominated representative). To be closed once used.	Health & Housing / Resources.	Budget and 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 in the medium term. In particular, those linked with the Renewable Energy Strategy. Contributions to or from reserve to be approved by Cabinet.	Resources. Pay back periods must be in accordance with MTFS, and as advised by Chief Officer (Resources) (or her nominated representative). Any change of use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn, and mid year MTFS review
Markets Reserve	The funding will be used to make improvements to the existing markets in operation.	Use of the reserve to be approved by Chief Officer (Environment) in consultation with Portfolio Holder and Chief Officer (Resources) (or her nominated representative).	Environmental Services / Resources	Budget & Outturn
Municipal Buildings	To provide for surveys and repair works to municipal buildings and facilities (in particular, for those that cannot be capitalised as part of the current works programme or are not otherwise budgeted for).	Use of the reserve to be approved by Chief Officer (Resources) (or her nominated representative), subsequent to Cabinet report on investment programme.	Resources. Any change of use to be approved by Cabinet, should the reserve balance exceed spending needs.	Quarterly reporting, Budget & Outturn
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.	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 Resources (Financial Services) prior to the development agreement being completed. Budgets to be updated by Resources (Financial Services) in consultation with Environmental Services as sums received.	Environmental Services / Resources Any use of reserve must be in accordance with specific s106 agreements.	Budget & Outturn

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
Performance Reward Grant	Funding to support Domestic Abuse Outreach Service, commissioning of mainstream domestic abuse services (3 yrs) and voluntary sector initiatives (up to £15K).	Any contributions to or from the reserve to be approved by Cabinet.	Resources	Budget & Outturn
Planning Delivery Grant (PDG)	To enable grant monies committed against approved spend to be rolled forward between financial years.	Reserve to be closed in 2013/14.		
Renewals (Including Williamson Park, ICT, 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 or capital as and when renewals are undertaken. Contributions to the reserve are to be approved by Cabinet. Use of the reserve to be agreed by Chief Officer (Resources) (or her nominated representative).	Resources. Any change of use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn
Restructuring Reserve	To fund the costs associated with early termination of staff (in the interests of efficiency / redundancy) / Pay and Grading Review.	Use (in line with relevant approved HR policies) to be agreed with Chief Officers (Governance) & (Resources) (or their nominated representatives). Any further contributions to the reserve to be approved by Cabinet.	Governance Services / Resources Any change of use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn, and mid-year MTFS review
S106 Commuted Sums – Affordable Housing	This reserve receives all sums paid to the Council from third parties in respect of affordable housing schemes.	Lump sums are credited to the reserve and appropriated either to revenue or capital dependent upon the nature of the agreement and subject to approved policy for use (Cabinet: November 2009).	Regeneration & Planning / Resources Any use of reserve must be in accordance with specific s106 agreements.	Budget & Outturn
S106 Commuted Sums – Highways, cycle paths and crossings.	This reserve receives all sums paid to the Council from third parties other than for affordable housing and grounds maintenance.	Lump sums are credited to the reserve and appropriated either to revenue or capital dependent upon the nature of the agreement.	Regeneration & Planning / Resources Any use of reserve must be in accordance with specific s106 agreements.	Budget & Outturn

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
Welfare Reforms	To help manage the cost pressures of any welfare reforms (in particular, localisation of council tax support).	Contributions to and from the reserve to be approved by Cabinet.	Resources. Any change in use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn, and mid-year MTFS review
Youth Games	The reserve has been established to even out the cost of hosting the games every four years.	Contributions to and from reserve to be approved by Cabinet (generally as part of annual budget process, rather than specifically).	Health & Housing / Resources Any change in use to be approved by Cabinet, should the reserve balance exceed spending needs.	Budget & Outturn

Reserves held in perpetuity:

Provision	Purpose	How and When Used	Procedures for management and control	Timescale for review
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 / Resources. No changes to its use are permitted.	Outturn
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 annual payments to the freemen of the City.	Resources. No changes to its use are permitted.	Outturn

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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.	Resources.	Budget, Outturn & mid-year MTFS review
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 closed in 2013/14.		
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.	Resources.	Budget & Outturn, and mid-year MTFS review

All provisions will be applied by the Chief Officer (Resources) (or her nominated representative) and reported through to Members, primarily as part of outturn.