

**PROVISIONS AND RESERVES
POLICY 2016/17**

(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.
- 1.4 This policy only relates to useable provisions and reserves relating to the General Fund and Housing Revenue Account. As such the following unusable reserves (and any other Collection Fund items) are excluded:

Collection Fund Adjustment Account	Revaluation Reserve
Pension Reserve	Capital Adjustment Account
Financial Instruments Adjustment Account	Deferred Credits Account
Accumulated Absences Account	

2. Role of the Chief Financial Officer (s151 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. The Housing Revenue Account minimum level is currently £350K and is to remain at that level. However, the General Fund level will increase by £0.5M to £1.5M from 2016/17 onwards. This is in recognition of future funding reductions and the risks inherent in delivering major budget reductions.
- 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 to 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.	This reserve will be closed at the end of 2016/17 as it is no longer required. Apprenticeships are now covered through existing annual budgets.		
Business Rates Retention	This reserve has been established to support the budget in the event that Business Rates Income does not reach budgeted levels.	Use of the Reserve to be determined and reported to Cabinet by Chief Officer (Resources).	Resources.	Budget & Outturn & mid-year MTFS review
Capital Support	To cover contractual liabilities 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.	Budget & Outturn, & mid-year MTFS review
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.	As a result of the County Council taking back the highways function, this reserve will be closed at the end of 2016/17 once any costs or deficits have been cleared following the winding up of the highways account.		
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. Salt Ayre Redevelopment takes priority for this reserve. 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.	Budget & Outturn, and mid year MTFS review
Markets Reserve	The funding will be used to make improvements to the existing markets in operation.	This reserve has now been merged into the Corporate Property Reserve.		
Morecambe Area Action Plan (MAAP)	To support implementation of the MAAP (Cabinet report 11 February 2014).	Contributions to and from the reserve to be approved by Cabinet.	Regeneration & Planning / Resources.	Budget & Outturn.
Corporate Property Reserve	To provide for feasibility studies, 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). In addition, to provide cover for any in-year rental shortfalls.	Use of the reserve to be determined and reported to Cabinet by Chief Officer (Resources) (or her nominated representative).	Resources. Any change of use to be approved by Cabinet.	Quarterly reporting, Budget & Outturn

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
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 the renewal of facilities and infrastructure needed for service delivery, 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 (Budget Support) Reserve	To fund the costs associated with early termination of staff (in the interests of efficiency / redundancy) / Pay and Grading Review. In addition, it will fund any ancillary costs associated with delivering approved budget changes or other Council / Cabinet approved actions. (For example – providing expert / professional support on Canal Corridor, Museums feasibility, and future potential decommissioning of CCTV or other facilities, etc.)	Use to be agreed by the Chief Officer (Resources) (or her nominated representative), and reported to Cabinet. 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
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
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
Welfare Reforms	To help manage the cost pressures of any welfare reforms (in particular, localisation of council tax support).	Use of the reserve to be determined and reported to Cabinet by Chief Officer (Resources) (or her nominated representative).	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.	Reserve to be closed at the end of 2016/17.		

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

Provision	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.	Resources.	Budget, Outturn & mid-year MTFS review
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
Legal	This provision is to be used to cover the cost of any specific high value cases.	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) and the Monitoring Officer.	Governance Services / 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 the normal monitoring, budgeting and outturn reporting arrangements.

7 Provisions & Reserves Protocol : Housing Revenue Account

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
Capital Reserves				
Business Support Reserve	The first call on this reserve will be required to support existing commitments over the lifetime of the 30-year business plan, and secondly to help fund any new build, subject to viability.	Use of the reserve to be approved by Cabinet. Contributions to the reserve to be approved annually as part of the budget.	Health & Housing /Resources.	Budget & Outturn.
Major Repairs Reserve (MRR)	Set up following the introduction of Resource Accounting in the HRA. Credited with the amount of depreciation charged to the HRA and topped up with additional funds required to finance the capital programme in-year.	Applied in full to capital improvements to HRA housing stock (specifically excluding demolition).	Health & Housing /Resources.	Budget & Outturn.

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
Revenue Reserves				
Flats – Planned Maintenance Reserve	Established to smooth the costs of major revenue and capital works to flats funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to major works to communal facilities in flats.	Health & Housing /Resources.	Budget & Outturn.
Central Control Equipment Reserve / Telecare	Established to smooth the costs of major renewal or replacement of Central Control Equipment and systems	Reserve is to be closed in due course, once new arrangements have been implemented.		
Non-sheltered scheme equipment	Established to fund purchases of equipment for non-sheltered schemes funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to purchases of equipment for non-sheltered schemes.	Health & Housing /Resources.	Budget & Outturn.

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
IT Replacement	Established to fund future major IT systems replacement.	To be applied to future replacements.	Health & Housing /Resources.	Budget & Outturn.
Office Equipment Reserve	Established to fund purchases of minor IT and other office equipment.	Used to fund ad-hoc purchases of major office furnishings resultant from health & safety legislation and risk assessments (desk, chairs, cabinets etc) and minor office equipment items e.g. pc upgrades.	Health & Housing /Resources.	Budget & Outturn.
Sheltered Equipment Reserve	Established to fund purchases of equipment for Sheltered schemes funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to purchases of equipment for common area services for Sheltered schemes.	Health & Housing /Resources	Budget & Outturn
Sheltered – Planned Maintenance	Established to smooth the costs of major revenue and capital works to flats funded from Service Charges	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to major works to communal facilities in Sheltered schemes.	Health & Housing /Resources.	Budget & Outturn.
Sheltered – Support Grant Maintenance	Established to fund purchases of equipment for Sheltered schemes funded from Service Charges, but classed as Support Costs under County Guidelines.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. .	Health & Housing /Resources.	Budget & Outturn.

PROVISIONS				
Bad Debts	This provision is used to write off all Housing Revenue Account 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.