

Appendix Ei)

Reserves Statements

The Statement of Accounts that are produced each year details all the Council's reserves and explains why they are held. Reserves are reported in two categories: unusable and usable reserves. Unusable reserves include those reserves which are kept to manage the accounting processes for non-current assets, retirement and employee benefits. Unusable reserves cannot be used to provide Council services. Usable reserves are those reserves that a Council may use to provide services or reduce local taxation, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

The level of usable reserves the Council holds is reviewed each year as part of the budgetary process. Consideration is given to the current financial standing of the Council, the funding outlook into the medium term and the financial risk environment the Council is operating in.

Councils generally hold usable reserves for a number of reasons:

- To use at a later date to support investment projects
- To temporarily hold unused portions of grants that can be legally used at a later date
- To insure themselves against major unexpected events such as flooding
- To guard against general risk
- To smooth the impact of funding reductions
- To guard against emergent specific risks, such as business rate appeals, increased demand, and the impact of social care reform.

The Council's usable reserves are as follows:

- General Reserve: held for non-specific items and risks and service risks
- Earmarked Reserves: amounts held for specific schemes and for specific purposes e.g. self-insurance

During 2020/21, earmarked reserves are expected to reduce by £6.3m. This will fund investment in the Council Strategy, a shortfall in commercial property income and the Collection Fund deficit.

A summary is shown in the following table:

Usable Reserves Summary	Actual	2019/20 Use of	Planned use	Planned increase	Estimate
	1.4.2019	Reserves	of Reserves	in Reserves	1.4.2020
	£m	£m	£m	£m	£m
General Reserve	8.16	-	0.19	-	7.97
Earmarked Reserves	19.77		-0.04	-6.35	-
Total Usable Reserves	27.93		-0.23	-6.35	21.35

The General Reserve

The purpose of the General Reserve is to act as a fund to be used in emergencies and to protect council taxpayers from any steep rises in future Council Tax if the Council over spends against its budget. The s151 officer, Executive Director (Resources) recommends that the General Reserve totals, as a minimum, £6.5m of the Council's net revenue expenditure.

The calculation of the £6.5m is based on the below. It is very unlikely that all of these risks would occur at the same time. However, there is cumulative risk of a number of these factors taking place over a short period of time. The purpose of the general reserve is enable the Council to continue to function and perform its services without significant impediment:

Item	Rationale	Amount
Pressure on demand and significant income budget	A 5% movement on demand budgets and on reduced income	£5.3m
Pressure on traded budgets	A 10% movement on traded budgets,	£0.2m
General risks to cover the items below	See items below	£1m
Total <i>minimum</i> required General Reserve		£6.5m
Current General Reserve (including service specific risks)	Service specific risks are part of general reserves	£8m

The General Reserve is expected to cover any of the following risks should they arise:

- The impact of significant increases in demand
- Lack of delivery of all savings targets
- Economy measures and service reductions always contain some degree of uncertainty as to whether their full effects will be achieved
- Unforeseen events such as the flooding during January 2014
- Litigation
- Changes from specific grants to the non ring fenced government grants
- Grants being introduced or removed mid-year
- Unforeseen circumstances
- General day to day cash flow needs and avoid unnecessary temporary borrowing
- Reduced income due to deferred income and social care clients' property decreasing in value

Within the General Reserve are Service Specific Risk Funds for:

- Adult Social Care £815k,
- Children & Family Services £441k,
- Education £120k and
- Legal Disbursements £100k.

Earmarked Reserves

The Council has other reserves which are earmarked for specific purposes.

Earmarked Reserves	Actual	2019/20	Planned use	Planned increase	Estimate
	1.4.2019	Movement	of Reserves	in Reserves	1.4.2020
	£m	£m	£m	£m	£m
Schools Balances	5.23	-	-	-	5.23
Parish Special Expenses	0.02	-	-	-	0.02
Self Insurance Fund	0.96	-	-	-	0.96
Long Term Commitment	0.77	-	-	-	0.77
Specific Earmarked Reserves	12.80	-0.04	-	6.35	-
Total Earmarked Reserves	19.77	-0.04	-6.35	0.00	13.38

Schools balances

This is an amalgamation of unspent and overspent balances.

Parish special expenses

These are explained in detail in Appendix G.

Self-insurance fund

This fund has been established to ensure that costs to the Council in relation to claims, can be met whilst limiting the impact of higher premiums on the Council's revenue budget. The fund is used to pay the first £250k of any property claim and the first £100k of other claims. External insurance covers the balance of claims.

Long term commitment

Funding specifically set aside for capital financing purposes; either funding for future capital schemes or financing costs for future principal payments on maturity loans. These vary according to the progress of capital schemes and the utilisation of s106 monies.

Specific earmarked reserves

Funds set aside to cover specific future liabilities. The main items in here are:

Specific Earmarked Reserves	Actual	2019/20	Planned use	Planned increase	Estimate
	1.4.2019	Movement	of Reserves	in Reserves	1.4.2020
	£m	£m	£m	£m	£m
Transformation	0.76	0.78	-	-	1.54
Restructuring	0.45	-0.09	-	-	0.36
Schools in Financial Difficulty	0.50	-	-	-	0.50
Waste Management	0.62	-0.47	-	-	0.15
Business Rate Volatility	4.09	-	-	3.90	-
Council Tax Volatility	0.90	0.60	-	1.47	-
Commercial Property	0.84	-	-	0.30	-
Council Strategy Support	-	1.00	-	0.68	-
Outcomes Based Budgeting	-	2.00	-	-	2.00
Other	4.64	-3.87	-	-	0.77
Total Specific Earmarked Reserves	12.80	-0.04	-6.35	0.00	6.40

Transformation - In order to support the Medium Term Financial Strategy to deliver its transformation plans, the Executive established a Transformation Reserve. This will ensure that the Council has the resources to pursue plans outlined in the MTFS and to invest in strategies that will bring future benefits to the organisation. The reserve was increased during 2019/20 to support future transformation projects.

Restructuring - used to cover the exit costs associated with some of the savings proposals. The balance remaining in the restructuring reserve at the end of the financial year will be rolled forward to fund any future restructuring costs to the Council.

Schools in Financial Difficulty - to fund any additional support that the Council may need to provide to schools in financial difficulty.

Waste Management - to support the transition to a new model of waste management.

Business Rate Volatility - to support the volatility associated with business rates in relation to estimates, appeals and timing.

Council Tax Volatility - to support the volatility associated with taxbase estimates upon which the Council Tax is collected.

Commercial Property - established to cover risks associated with the investment in commercial property. The Council may need to use £300k of this to support lower than expected income during 2020/21.

Council Strategy Support – to enable delivery of measures to support the Council Strategy as referenced elsewhere in the budget papers

Outcomes Based Budgeting – to support the re-profiling of savings *if* required as part of the MTFS; see the MTFS document

Other

Other specific earmarked reserves are in place to support specific service requirements or projects.

A full list of the Council's reserves are disclosed in the Council's financial statements 2018/19 available on our website. Please note that these reserves estimates are before any changes from the 2019/20 financial year end.