

**THE RATIONALE FOR RESERVES
(Report of the Working Group).**

1. INTRODUCTION

- 1.1 On 12th July 2012, the Overview and Scrutiny Panel (Economic Well-Being) considered a briefing paper which had been prepared by Councillor M F Shellens to facilitate a discussion on the Council's approach to the setting of its reserves. As a consequence, the Panel decided to establish a Working Group to:-
- identify the combination of co-incident risks against which the Council wishes to insure by having reserves; and
 - benchmark the Council's level of reserves against other appropriate authorities.
- 1.2 Councillors R B Howe, P G Mitchell, T V Rogers and M F Shellens were appointed to the Working Group and this report contains a summary of the resulting deliberations.

2. THE WORKING GROUP'S DISCUSSIONS

- 2.1 The Working Group met on Tuesday 4th September 2012. Councillors P G Mitchell and M F Shellens were in attendance. The Head of Financial Services, Accountancy Manager, Scrutiny & Review Manager and the Democratic Services Officer were also present.
- 2.2 The Working Group has been reminded that the District Council at April 2012 held £12M in revenue reserves which would reduce to £9.5M by March 2013 in order to support revenue spending. As part of the 2012/13 Budget deliberations the Council had decided that these should not fall below £4.5M.
- 2.3 With the assistance of a briefing note prepared by the Local Authority Accounting Panel and the 2012/2013 Council Budget Report, the Working Group has been acquainted with the Legislative and Regulatory requirement for Local Authorities to hold financial reserves and the factors which should be considered when setting a level of reserves. The Working Group's discussion has focussed on general reserves.
- 2.4 The Working Group has discussed in detail the purposes to which reserves might be put and are of the opinion that this should be to give Council the opportunity to make necessary changes in response to events occurring for which reserves are established. Members have also considered the principles that are considered when setting the level of general reserves for the Authority and the likely impact and probability of various defined significant events occurring within a short period of time. These include:-

- sudden, externally imposed increases in expenditure (e.g. government delay in approving increases in planning fees);
- a reduction in income (e.g. from car parks, leisure centres, planning fees);
- Treasury Management;
- emergencies (e.g. flooding);
- Inflation (both general and pay inflation);
- changes in Interest rates;
- a reduction in government funding; and
- the elimination / reduction of Government Grants (e.g. the New Homes Bonus).

2.5 The Working Group has been satisfied that the factors identified within the LAAP briefing to assess the adequacy of reserves have all been covered by the Council's current approach. Members have undertaken an exercise to test the parameters of the Council's approach to the setting of general reserves and have examined a range of potential scenarios. This has led them to conclude that the current figure for revenue reserves is reasonable. In doing so, the Working Group has recognised the difficulties that identifying a reliable figure present and those which would be encountered if the Council wanted to increase or restore its reserves at some point in the future. In this respect, Members have been mindful that to increase revenue reserves by £1M would cost the Council taxpayer an extra £16 in Council Tax.

2.6 Members have also discussed the potential impact of future changes to the benefits regime on the Council's budget and the New Homes Bonus, which at £6.5M is significantly greater than the current minimum level of reserves. In response, the Head of Financial Services has explained that current indications appear to demonstrate that development has been progressing in line with the previous assumptions. Members have also been mindful that the building programme may increase faster than previously forecast.

2.7 In terms of benchmarking with other local authorities, the Working Group has received an updated and refined comparison of district councils' projected revenue reserves at April 2013. In doing so, Members have noted that the majority of Councils' reserves are below £5M but they have been mindful of the need to adopt a cautious approach to the reliability of the data that authorities have provided. Having examined the principles that underpin the Council's approach to the setting of reserves, the Working Group do not believe there is anything to be gained from pursuing this comparison in any more detail.

2.8 In response to comments made by the Working Group, the Head of Financial Services has undertaken to develop the section of the budget report that deals with reserves to assist members in understanding the risks and related costs that support the recommended level of reserves (see paragraph 2.4 above).

3. CONCLUSION

3.1 The Working Group has a better understanding of the purpose of revenue reserves which is to give the Council up to a year to make any necessary changes in response to events.

3.2 The Working Group has examined the principles, which are used by the District Council to establish the Council's level of revenue reserves and have indicated that they are comfortable with the current approach. Members are also of the opinion that

the figure for revenue reserves provided for in the 2012/13 Budget is reasonable, though they recognise that there may also be positive variations which may not have been taken into account.

3.3 The Panel is asked to note the contents of the report.

BACKGROUND DOCUMENTS

The Rationale for Reserves – Briefing Paper prepared by Councillor M F Shellens
LAAP Bulletin 77 November 2008 – Local Authority Reserves and Balances
2012/13 Net Revenue Budgets compared with Forecast Reserves at April 2013
District Council 2012/13 Budget & MTP

Contact Officers: **Mrs Claire Bulman**
 Democratic Services Officer
 (01480) 388234

Mr Anthony Roberts
Scrutiny & Review Manager
(01480) 388015