

## **Newport City Council**

### **Reserves Policy**

#### **1.0 Introduction**

- 1.1 This policy establishes a framework within which decisions will be made regarding the level of reserves held by the Council, the purposes for which they will be maintained and used in addition to their reporting requirements.
- 1.2 The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 requires authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 1.3 There are also a range of safeguards in place that help prevent local authorities over committing themselves financially. These include:
  - The balanced budget requirement;
  - The statutory duty of the Head of Finance (S151 Officer) to report on the robustness of estimates and adequacy of reserves when the authority is considering its budget requirement (Section 25 of the Local Government Act 2003);
  - The legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the Head of Finance has responsibility for the administration of those affairs as set out in Section 151 of the Local Government Act 1972;
  - The requirements of the Prudential Code and the Treasury Management in Public Services Code of Practice.
- 1.4 The above requirements are reinforced by section 114 of the Local Government Finance Act 1988, which requires the Head of Finance 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 resources to meet its expenditure in a particular financial year.
- 1.5 This policy is based on a requirement that all reserves are corporate in nature and that individual departmental reserves are only to be permitted if agreed by Cabinet after taking the advice of the S151 Officer.

#### **2.0 Definitions**

- 2.1 Reserves are sums of money held by the Council to meet future expenditure (whilst managing risk) and should be held for a specific purpose.

### 3.0 Types of Reserve

- 3.1 As an integral part of the annual budget setting process, the Cabinet (via the Head of Finance) considers the establishment and maintenance of reserves. These will be held for three main purposes:
- A **working balance** to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
  - A **contingency** to cushion the impact of unexpected events or emergencies;
  - A means of building up funds - **earmarked reserves**, to meet known or predicted requirements. The authority categorises earmarked reserves into three categories: risk, enabling or smoothing to reflect the general purpose of each reserve. A detailed analysis of the authority's reserves can be found in Appendix 1.

The following table identifies the high-level categories of earmarked reserves held by the Council:

Category of Earmarked Reserve	Rationale
Sums set aside for major schemes, such as capital developments or asset purchases, or to fund major reorganisations	Where expenditure is planned in future years, it is prudent to set aside resources in advance, e.g. Local Development Plan, Glan Usk Private Finance Initiative (PFI).
Insurance reserves	Self-insurance is a mechanism used by most local authorities. In the absence of any statutory basis, sums held to meet potential and contingent liabilities are reported as earmarked reserves where these liabilities do not meet the definition of a provision under the requirements of the Code's adoption of IAS 37 Provisions, Contingent Assets and Liabilities.
Reserves of trading and business units	Surpluses arising from in-house trading may be retained to cover potential losses or re-organisation costs in future years, or to finance capital expenditure, e.g. Gwent Music service.

Reserves retained for service departmental use	Internal protocols permit year-end underspending at departmental level to be carried forward, where appropriate e.g. homelessness prevention.
Reserves for unspent revenue grants	Where revenue grants have no conditions or where the conditions are met and expenditure has yet to take place, surplus funds can be held in earmarked reserves for future use.
Schools balances	These are unspent balances of budgets delegated to individual schools.

3.2 Paragraph 3.1 above articulates the categories of ‘useable reserves’ held by the Council, i.e. those reserves that are ‘cash-backed’. On the technical accounting side, the Council also holds ‘unusable reserves’. These reserves are not cash backed and arise out of the interaction of legislation and proper accounting process, either to:

- a) Store revaluation gains (e.g. on property revaluations); or
- b) As adjustment accounts to reconcile accounting requirements driven by reporting standards to statutory requirements (e.g. pension reserve).

The remainder of this report will focus on the Council’s useable, and therefore, cash-backed reserves.

#### 4.0 General Fund Reserves

4.1 In assessing the appropriate level of reserves the Council will ensure that the general reserves are not only adequate but also necessary and will be appropriate for the risk (both internal and external) to which it is exposed.

4.2 The risks faced by a local authority will, in many cases, be due to the specific local context and will need to be kept under review. In assessing its financial risk the Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance on the factors that should be considered:

- Budget assumption for inflation and interest rates;
- Estimates of the level and timing of capital receipts;
- The treatment of demand led pressures;
- The authorities track record in budget and financial management;

- Treatment of planned efficiencies/savings;
  - The financial risk inherent in any significant new funding partnerships, major outsourcing and capital developments;
  - The likely level of Government support to deal with major unforeseen events;
  - The adequacy of the authority's insurance arrangements;
  - The authority's virement and end of year procedures in relation to budget under and over spends;
  - The general financial climate and future funding assumptions.
- 4.3 The risk assessment to be carried out will be based on the guidance provided by CIPFA above and any further issues, which the Head of Finance feels are relevant. This will be reviewed annually.
- 4.4 The appropriate level of General Fund Reserves will be determined annually as part of the budget setting process and medium term financial strategy plus at other periodic intervals in-year and will be subject to approval by the Cabinet and full Council.
- 4.5 The Head of Finance, within the Councils Medium Term Financial Plan and financial strategy will set out the level of planned reserve balances, including financial arrangements for any replenishing of reserves. It will also confirm acceptable thresholds above and below the balance where appropriate / relevant. If the balance falls outside of these thresholds, a plan will be agreed by Cabinet to restore balances to the appropriate level.

## **5.0 Earmarked and Specific Reserves**

- 5.1 These are required for specific purposes and are a means of building up funds to meet known or predicted liabilities. By nature, these reserve balances do not have minimum and maximum thresholds. Creation of such reserves must be approved by the Head of Finance.
- 5.2 Balances should be reasonable for the purpose held and must be used for the item for which they have been set aside. If circumstances arise to which the reserve is no longer required for its original purpose they will transfer to other earmarked reserves or the General Fund reserve, as agreed and approved by Cabinet.
- 5.3 The authority follows best practice in that for each earmarked reserve, a clear protocol exists setting out:
- The reason for/ purpose of the reserve;
  - How and when the reserve can be used;
  - Procedures for the reserves management and control; and
  - A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

#### **5.4 Setting up of reserves**

- 5.4.1 Where officers would like to request potential transfers to/ from existing earmarked reserves or the creation of a new reserve, discussions are to be had with the Assistant Head of Finance (AHoF) and the service area Senior Finance Business Partner (SFBP) to determine whether the assumption needs to be included within the in-year financial monitoring forecasts. Any decisions on whether these requests are authorised or not will, in the majority of cases, be made at year-end when the overall Council position is known and must be approved by Cabinet.
- 5.4.2 Reserve request forms will be circulated as part of the year-end closing process.

#### **5.5 Use of reserves**

- 5.5.1 Should there be an unplanned need to utilise general reserves there must be a clear plan setting out the intended route to replenish the reserves to its minimum balance recommended. This must clearly state how the shortfall will be met and by when.
- 5.5.2 Where there is a planned use of reserves a reserve request form must be submitted to the Head of Finance to be considered at year-end as set out in 5.4 above.

### **6.0 Ring-fenced Reserves**

#### **6.1 Schools Reserves**

- 6.1.1 Schools are able to carry forward surplus and deficit balances from one year to the next and utilise these balances for managing changes in pupil numbers and funding, or the funding of projects and future liabilities. The balances are held by individual schools and are not for general Council use. Guidance on the level of balances held is documented within section D of Newport City Council Scheme for the Financing of Schools.

### **7.0 The Reporting Framework**

- 7.1 The balances and movement of all reserves is required to be reported within the authorities Annual Statement of Accounts.
- 7.2 The balance held and projected movement of useable reserves will be reported monthly/ quarterly as part of the budget monitoring report to the Senior Leadership Team (SLT)/ Cabinet. This includes the level of reserves held against each category of reserve.

- 7.3 The S151 Officer has a fiduciary duty to local taxpayers, and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.
- 7.4 The level and utilisation of reserves will be determined formally by the Cabinet, informed by the advice and judgement of the S151 Officer. To enable the Cabinet to reach its decision, the S151 Officer should report the factors that influenced his or her judgement, and ensure that the advice given is recorded formally. Where this advice is not accepted this should be reported formally in the minutes of the Cabinet meeting.
- 7.5 It is recommended that:
- The budget report to the Cabinet should include a statement showing the estimated opening general reserve fund balance for the year ahead, the addition to/ withdrawal from balances, and the estimated end of year balance. Reference should be made as to the extent to which such reserves are to be used to finance recurring expenditure;
  - This should be accompanied by a statement from the S151 Officer on the adequacy of the general reserves and provisions in respect of the forthcoming financial year and the authority's medium term financial strategy;
  - A statement reporting on the annual review of earmarked reserves (including schools' reserves) should also be made at the same time to the Council. The review itself should be undertaken as part of the budget preparation process. The statement should list the various earmarked reserves, the purposes for which they are held and provide advice on the appropriate levels. It should also show the estimated opening balances for the year, planned additions/ withdrawals and the estimated closing balances.

**APPENDIX 1 – Analysis of Reserves**

<b>Reserve</b>	<b>Purpose/ Rationale for Reserve</b>
Council Fund	General Reserve
Schools Reserve	Balances held by schools for their future use
<b>Earmarked Reserves:</b>	
<b>Risk Reserves:</b>	
Music Service	This is a general reserve retained by the Gwent wide Music Service and a traded service and belongs to all trading partners. Newport holds the reserve as the hosting authority. The reserve is held as a balance to cater for years where trading income is below expenditure and/or one off cost's for re-organisation are incurred.
Pay Reserve	To cover the risk of pay awards being higher than budgeted.
Insurance Reserve	To assist in management of the Council's insurance risks and provide funds, over and above existing insurance provisions for excessive levels of claims/costs in any year.
MMI Insurance Reserve	To assist in future funding requirements of MMI in line with the agreed 'Scheme of Arrangement'.
Health & Safety	Responding to inspections and reports from Health & Safety Executive.
Education Achievement Service	Reserve held against Newport's share of any redundancy costs that may arise from a restructure of the service as a result of funding reductions from grant allocations. Newport is a partner in the service and has to take a share of any costs that may arise.
Schools Redundancies	Reserve has been created from contributions from Schools to cater for redundancy costs that arise through schools that face financial issues. The value has been negotiated with the schools as a

	contribution towards the costs that have to be met by the LA.
General Investment Risk Reserve	To cover the risk of the commercial estate and for the accounting requirement of this area.
European Funding I2A & CFW	To cover one off costs associated with the project. Newport is a partner with other Gwent Councils and so has to take a share of any costs that arise.
GEMS Redundancies	Reserve created from service income levels over and above grant income to cater for anticipated redundancy costs anticipated from restructuring to cater for different language sets, and potential reduction in grant income.
<b>Enabling Reserves:</b>	
Capital Expenditure	To fund capital investment.
Invest to Save	To enable funding of specific change/efficiency projects which achieve savings to the revenue budget.
Super Connected Cities	Funding for Community Safety Network over a seven-year period including project costs.
Landfill (Fines reserve)	To cover landfill fines risk associated with achieving prescribed recycling targets.
School Works	Reserve specifically for identified school works - funded by school's themselves. Reserve allows schools to build up specific scheme reserves over a number of years, where required.
Usable Capital Receipts	Holds proceeds from the sale of property, plant and equipment, used to finance new capital expenditure. Currently reserved for Council contribution to 21C Schools programme.



<b>Smoothing Reserves:</b>	
Municipal Elections	Reserve used to smooth over significant differences in annual budget required over a cyclical period whilst keeping budget at a stable annual amount.
Local Development Plan	Reserve used to smooth over significant differences in annual budget required over a cyclical period whilst keeping budget at a stable annual amount. Related to production and inspection of the LDP and SPG's
Glan Usk PFI	Established to smooth out funding differences that have arisen from funding available and payments to the contractor - reserve will balance over life of project
Southern Distributor Road PFI	Established to smooth out funding differences that have arisen from funding available and payments to the contractor - reserve will balance over life of project
Loan modification technical reserve (IFRS 9)	Technical reserve
Building Control	Funding to smooth losses and profits over the period to meet building control requirements
<b>Other Reserves:</b>	
Works of art	To fund purchases for the collections.
Theatre & Arts Centre	Council agreed reserve as condition of Art's Council funding of the Riverfront Theatre.
Cymorth Income	To fund the provision of Domestic Abuse Services.
Homelessness Prevention	A minimum amount needs to be spent on homelessness prevention on an on-going basis. The revenue budget is continually under pressure of overspending due to the obligation placed on the Authority to house clients.

Environmental Health - Improve Air Quality	To undertake highways work in a specific area to improve air quality and reduce noise pollution.
Refurbishment of a Children / Older People Homes	There is a need to refurbish residential homes on a regular basis to attract Service Users and more importantly, to ensure they meet inspection criteria.
Apprenticeship Scheme	To fund costs of NCC apprentices.
City Economic Development Reserve	To support City economic development.
Welsh Language Standards	To fund specific one off costs for ensuring NCC compliances with Welsh language standards.
Port Health	Port Health Authority reserve.
CRM	Implementation of CRM project costs.
Financial System Upgrade	Implementation costs of an upgrade/ new financial system to secure future stability of the financial platform.
Events	To fund events throughout the City.
MTFP Reserve	Allocate to existing MTFP reserve to support achievement of the corporate plan and support future budgetary challenge.
Voluntary Sector Grants	Funding for delayed implementation of previous proposal.
Bus Subsidy	Funding for delayed implementation of previous proposal.
Feasibility Reserve	To support feasibility work for capital projects.

Leisure delivery plan	To support the Leisure Masterplan.
Joint Committee City Deal reserve	To fund contribution to the City Deal project.

## Invest to Save Fund

### General guidance for applicants

#### Background

The Invest to Save fund has been operating since 2010 and has supported a wide range of projects across the council. The types of project, which have been supported, fall into general categories, which include:

- Information Technology (IT)
- New ways of working
- Business transformation.

Proposals need not fall in to any of these categories so provided ideas can satisfy the following criteria they will be considered.

#### Criteria

Invest to Save funding is **one off** investment aimed at supporting projects, which satisfy **all** of the following criteria:

- can demonstrate that they will generate cash releasing savings/ additional income;
- will maintain or improve services or the way in which the organisation operates and;
- satisfy a payback period of 3 years, i.e. the investment should recover its initial outlay within a 3-year timeframe.

In principle, the concept of cash releasing efficiencies appears straightforward but it can often be confused with efficiencies and increasing operational capacity. A successful outcome will involve not only being able to demonstrate an improved service but also reduced costs. Ideally, a budget manager will be able to identify a budget line within the organisation, which shows reduced expenditure directly as a result of the changes implemented by the project.

The decision point should also be identified as part of the approval process. This could include (i) budget process - approval of one off investments required to achieve recurring saving or (ii) specific project requiring approval outside of the budget process – [I2S application](#) required.

## **Reporting**

In year forecasts, as well as projected reserves, are reported to Cabinet on a quarterly basis and detailed transfers (into)/ from reserves are included within the year-end outturn report for Cabinets consideration and approval.