



Reserves Strategy

2009-2013

DRAFT

Contents

| | |
|--|---------------|
| Summary | 3 |
| 1. Types of Reserves | 4 |
| 2. General Reserves | 6 |
| 3. Earmarked Reserves | 11 |
| 4. Capital Reserves | 17 |
| 5. Conclusion | 18 |
| Background Papers | 19 |
| Appendix 1 ~ Role for the CFO | 20 |
| Appendix 2 ~ Detail of Reductions in Reserves | 22 |

Executive Summary

Cheshire East Council will maintain reserves for two main purposes:

- 1. to protect against risk, and;**
- 2. to support investment**

The Reserves Strategy sets out the requirements with regard to the maintenance of adequate financial reserves and provides statements on the types of reserves and current and predicted balances.

This strategy describes the particular local factors which need to be taken into account by the Council, including the assessment of key risks, and sets out principles for the management of balances for the period 2009 – 2013.

The report follows guidance issued by the Chartered Institute of Public Finance & Accountancy ~ *LAAP Bulletin 55 – February 2003: Guidance Note on Local Authority Reserves and Balances*. Compliance with the guidance is recommended in the Institute's 2003 Statement on the Role of the Finance Director in Local Government. And the regulatory framework and role of the Chief Finance Officer are set out in Annex 1.

The opening balances for Cheshire East Council reserves come from the information supplied on the draft balance sheets of the 4 predecessor local authorities in Cheshire east area. This strategy represents a total review of the balances previously held to ensure they meet the needs of Cheshire East Council.

1. Introduction

Types of Reserves

1. When reviewing medium term financial plans and preparing annual budgets, the council must consider the establishment and maintenance of reserves. These can be held for three main purposes:
 - a **working balance** to help manage the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
 - a **contingency** to cushion the impact of unexpected events or emergencies – this also forms part of general reserves
 - a means of building up funds, often referred to as **earmarked** reserves, to meet known or predicted liabilities

Assessing the Adequacy of Reserves

2. In order to assess the adequacy of unallocated general reserves when setting the budget, the Borough Treasurer will take account of the strategic, operational and financial risks facing the authority. The council will therefore adopt formal risk management processes. The Audit Commission Code of Audit Practice make it clear that it is the responsibility of the audited body to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. The financial risks will be assessed in the context of the authority's overall approach to risk management.
3. There is now a requirement for local authorities to include an Annual Statement of Governance with the statement of accounts. The Chief Finance Officer will ensure that the authority has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.
4. Setting the level of general reserves is just one of several related decisions in the formulation of the medium term financial strategy and the budget for a particular year. Account will also be taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements.
5. **Table 1** (below) sets out the significant budget assumptions that are relevant when considering the adequacy of reserves that are in addition to the issue of cashflow:

Table 1: Holding adequate reserves will depend on a number of key factors

| Budget Assumptions | Financial Standing & Management |
|--|--|
| The treatment of inflation and interest rates | The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates etc) |
| Estimates of the level and timing of capital receipts | The authority's track record in budget and financial management including the robustness of the medium term plans |
| The treatment of demand led pressures | The authority's capacity to manage in-year budget pressures |
| The treatment of planned efficiency savings/productivity gains | The strength of the financial information and reporting arrangements |
| The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments | The authority's virement and end of year procedures in relation to budget under/overspends at authority and departmental level |
| The availability of other funds to deal with major contingencies and the adequacy of provisions | The adequacy of the authority's insurance arrangements to cover major unforeseen risks |

Source: CIPFA ~ LAAP Bulletin 55, 2003

6. These factors can only be assessed properly at local level. A considerable degree of professional judgment is required. The Borough Treasurer may choose to express advice on the level of balances in cash and/or as percentage of budget (to aid understanding) so long as that advice is tailored to the circumstances of the authority for that particular year.
7. Advice will be set in the context of the authority's Medium Term Financial Strategy and not focus on short term considerations, although balancing the annual budget by drawing on general reserves may be a legitimate short term option. However, where reserves are to be deployed to finance recurrent expenditure this should be made explicit, and will occur only to pump prime investment and not to provide on-going support for such costs. Advice should be given on the adequacy of reserves over the lifetime of the Medium Term Financial Strategy.
8. The current guidance requires the purpose, usage and the basis of transactions of earmarked reserves to be identified clearly. A review of the levels of earmarked reserves will be undertaken as part of annual budget preparation.
9. Capital reserves will be maintained as part of the Capital Strategy monitoring and review. Such balances will inform decisions on borrowing and general management of the capital programme.

2. General Fund Reserves (Revenue)

Purpose

10. The purpose of general reserves is to minimise the possible financial impacts to the authority from:
- Emergencies;
 - In-year emerging issues;
 - Peaks in expenditure from policies spanning more than one year
11. Finance Procedure Rules require Council approval for any expenditure which is to be funded from reserves, except where an appropriation from reserves is by way of an advance which is supported by a guaranteed repayment plan.
12. In all cases the use of reserves should be approved by the Borough Treasurer.

Opening Balances

13. The opening balance for Cheshire East Council general reserves is anticipated to be £24,449m. **Table 2** (below) shows how this balance picks up balance sheet totals for predecessor authorities, deducts new earmarked reserves created by Cheshire East Council in February 2009, and adds back earmarked reserves that are no longer required.
14. **Table 2** (below) reflects current estimates and it is important to note that there is still some scope for amendments, following audit and final agreement on disaggregation of the County Council balance sheet, so figures are still provisional at this stage.

Table 2: The opening balance is still subject to Audit

| | General Reserves £000 |
|--|----------------------------------|
| Closing Balance for Predecessor Authorities | 25,545 |
| Less Additional Earmarked Reserves (Budget 2009) | (1,096) |
| Opening Balance for Cheshire East Council | 24,449 |

Source: CEC Finance August 2009

15. Transitional costs, from local government reorganisation, have been met from general reserves, and by making a contribution from revenue income each year those reserves will be replaced. In addition the level of reserves needed will be assessed each year according to the risks facing the Authority (see Risk Assessment below). **Table 3** (below) summarises the current estimated movements in general reserves from 2009 to 2012:

Table 3: Reserves should remain high enough to meet potential risks

| | 2009/10 £000 | 2010/11 £000 | 2011/12 £000 |
|---|-------------------|-------------------|-------------------|
| Balance @ 1st April | 24,449 | 29,535 | 35,152 |
| Increases in Reserves | | | |
| - Potential transfers from Capital to General Reserves* | 1,030 | | |
| - Contingent Asset (VAT reclaim) net of fees* | 3,450 | 600 | |
| - Contribution from Earmarked Reserves ^(see S.3) | 4,728 | | |
| - Business Finance Loan Repayments* | 392 | 278 | 146 |
| - Unbudgeted 2009/2010 LABGI Income* | 291 | | |
| Decreases in Reserves | | | |
| - Recession Group* | (331) | | |
| - Crewe Masterplan* | (125) | | |
| - Policy & Performance Structure* | (375) | | |
| - VR Round 2 (to earmarked Reserves)* | (5,000) | | |
| Impact of Transition Costs | | | |
| - Budgeted Repayment of Transitional Costs* | 2,750 | 6,713 | 6,713 |
| - Less Transition costs Relocation* | (500) | (750) | (750) |
| - Less Voluntary Redundancy - actuarial costs* | (1,224) | (1,224) | (1,224) |
| Sub total - General Reserves @ 31st March | 29,535 | 35,152 | 40,037 |
| Risk Assessed Minimum Level | 25,830 | | |
| Un-Allocated Balance | 3,705 | | |

Source: Cheshire East Finance ~ August 2009

*for a detailed description of each emerging issue please refer to appendix 2

**see Invest-to-Save below

16. The reserves position for 2009/10, as detailed in **Table 3** (above), demonstrates the aim of Cheshire East Council to repay Transitional Costs and Voluntary Redundancy costs over the three-year planning period, and repay resultant actuarial costs over the five year negotiated settlement period.

17. The in-year use of general reserves will require council approval and must not be used for any level of recurring spending, unless that spending will be included in revenues budgets in the following financial year or a suitable payback period is agreed in advance.

Invest-to-Save

18. In line with the purpose of holding reserves, the council can earmark funds to promote investment in more efficient ways of delivering services.

19. The un-allocated balance of General Reserves in Table 3 (above) could be used to support service aspirations in delivering lean and effective ways of working.
20. The protocol around using these reserves is set out in Section 4 (below).

General Fund Reserves - Risk Assessment

21. Local Authorities have often adopted a broad principle that General Fund Reserves would be prudent if equivalent to 5% of the net revenue budget. However, the risks facing each local area will vary, and in the case of Cheshire East the recent impact of reorganisation combined with global recession still presents the potential for significant emerging risk.
22. The desired level of reserves is therefore substantiated by a detailed risk assessment. This approach allows the council to take account of the circumstances around current structural changes and economic circumstances.
23. Where specific financial liability has not been established, or where outcomes from emerging pressures cannot be detailed, the council will assume a level of risk. This reduces the possibility that the council will be exposed to financial pressure and smoothes the impact on citizens.
24. Risks are categorised, and potential values are applied to them, this presents the potential exposure to financial risk. **Table 4** (below) shows the risk areas and the level of reserves the council should retain to mitigate that risk. In each case the value of the risk retained has been calculated as a percentage of the potential impact. The percentage is based on the likelihood of the risk actually achieving that total impact.
25. It is possible that a number of events could happen in a single year, it is also possible that the Council could be exposed to new risks, or risks which are not able to be separately assessed. For this reason the analysis also contains a Strategic Reserve based on a percentage of the net revenue budget.
26. Risks will be included and managed using the following basic principles:
- a. The risk may impact within the medium term
 - b. Risks are potential one-off events
 - c. The risk will have genuine financial consequences
 - d. Mitigating actions will be in place to minimise the potential requirement for financial support
 - e. If a risk event becomes certain (ie. probability is 100%), an earmarked reserve will be established to cover the projected financial impact.
 - f. Emerging risks will be addressed from in-year surplus or virement before any request to allocate general reserves

Table 4: A robust level of reserves is guided by an assessment of potential risks

| Class of Risk | Effects | Effect on budget / mitigating Action | Value of risk retained |
|--|--|--|-------------------------------|
| Health & Safety | Major loss of service | Increased cost to reduce further risk of breach / Robust risk assessments | £100,000 |
| | Loss of income | Substantial disruption to income streams / Robust disaster recovery | £50,000 |
| | Lost reputation | Cost of new advertising to regain confidence / Effective Communication Plans | £10,000 |
| | Effect on recruitment | Additional advertising costs to attract staff / Employment options on standby | £20,000 |
| Fire / Structural damage by flood etc | Major loss of service | Premises not operational / Robust disaster recovery plan | £100,000 |
| | High sickness levels (eg Flu Epidemic) | High staff sickness & absence costs / raise awareness of safety measures | £920,000 |
| | Insurance claims create rising premiums or cost to insurance reserves | Budget growth to cover premiums or self insurance costs / Good claims management | £25,000 |
| Budget Pressures | Income from fees and charges affected by economic downturn | Up to 5% loss of income from fees & charges from local economic pressures / prudent income targets, close in year monitoring | £1,400,000 |
| | Local Taxation Payments fall due to economic downturn | Reduced cashflow / prudent cashflow projections, sound recovery strategy | £60,000 |
| | Efficiency savings challenged by changing priorities | In-Year emerging issues / Robust plans and monitoring of progress | £5,000,000 |
| | Payback to reserves not achievable | In-Year emerging issues / Robust plans and monitoring of progress | £1,375,000 |
| | Costs of Redundancy and early access to pension is beyond scenario, outturn figures do not match current predictions | Impact on opening balances / apply prudent assumptions to opening balances | £250,000 |
| | Services not able to absorb savings | Sept 2009: Potential shortfall in medium term financial strategy / early planning and consultation | £2,650,000 |
| | Sept 2009: Corporate Priorities require additional growth bids | | |
| ICT & Security | Court Fine and need to improve security | Up to 10% fine on turnover / robust security processes | £250,000 |
| | Data corruption | ICT service days to repair, loss of service / robust security policies and firewalls | £50,000 |
| Industrial relations / External organisations failure | Disruption to service and possible costs of arbitration/tribunal | Loss of income, costs of providing essential services or direct costs of resolution, reduced pay budget / emergency planning | £50,000 |
| Strategic Reserve | | Sept 2009: Extended due to potential need for further invest to save options and future pay structure changes. | £13,520,000 |
| OVERALL RISKS | | | £25,830,000 |
| % of Net Revenue Budget | | | 11.0 % |

27. The outcome of this analysis has been to place an estimated total value on the range of risks that may arise and which are not covered by insurance. This is equivalent in total to £25.830m.

Adequacy of General Reserves

28. A duty of the Chief Finance Officer is to comment on the adequacy of financial reserves (see Appendix 1). From the evidence supporting this report and with regard to the current economic climate my assessment is that reserves levels at 1st April 2009 are within tolerance levels and can be considered adequate. I also consider them to be adequate in terms of working balances.

29. The estimates contained within the Medium Term Financial Strategy are sufficiently robust to achieve the required repayment of reserves in the medium term following transition. I take this view based on the assessment of risk particularly in regard to efficiency saving assumptions within the draft 2009/2010 Budget.

3. Earmarked Reserves (Revenue)

Purpose

30. The purpose of earmarked reserves is:

- a. To even out the impact of one-off or variable expenditure by allowing balances to be set aside for future spending.
- b. To set aside amounts for projects that extend beyond 1 year

31. Once Earmarked reserves have been established by Council it is the responsibility of Chief Officers, in consultation with the Borough Treasurer to ensure balances are spent in line with the agreed purpose.

32. **Table 5** (below) identifies the most commonly established earmarked reserves and the rationale behind why such reserves are created and maintained.

Table 5: All earmarked reserves should have a clear rationale

| 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 accounting periods, it is prudent to build up resources in advance |
| Insurance reserves | Self-insurance is a mechanism used by a number of local authorities |
| Reserves of trading and business units | Surpluses arising from in-house trading may be retained, or may have to be retained by statute to cover potential losses in future years, or to finance capital expenditure |
| Reserves retained for service departmental use | Increasingly authorities have internal protocols that permit year-end surpluses at departmental level to be carried forward |
| School Balances | These are unspent balances of budgets delegated to individual schools |

Source: CIPFA ~ LAAP Bulletin 55, 2003

33. For each earmarked reserve held by Cheshire East Council there will be a clear protocol setting out:

- the purpose of the reserve
- how and when the reserve can be used
- procedures for the reserve's management and control
- a process and timescale for review of the reserve to ensure continuing relevance and adequacy
- clear indication of payback periods and approach (if applicable)

34. When establishing reserves, Cheshire East Council will ensure that it complies with the Code of Practice on Local Authority Accounting in the United Kingdom and in particular the need to distinguish between reserves and provisions.

35. The protocol for Cheshire East Council's earmarked reserves is set out below. The Borough Treasurer will monitor adherence to these protocols.

Earmarked Reserves will be:

- Set up by Full Council, following recommendation from the Borough Treasurer
- Supported by a business case
- Held for a maximum of 3 years, except where the business case justifies longer retention.
- Subject to a minimum value, set initially at £60,000.
- Be reviewed at least annually

36. Services may also carry forward balances strictly in accordance with Financial Procedure Rules.

37. At 1st April 2009 Cheshire East Council is anticipated to hold earmarked reserves to the value of £13.866m. **Table 6** (below) shows the anticipated opening balances of earmarked reserves, having allowed for balances from each contributing local authority and for further allocations by Cheshire East Council.

38. **Table 6** (below) identifies the original balance anticipated within the 2009/2010 Budget, then the actual balance clarified as part of the accounts closure process for previous authorities. Some balances are recommended to be returned to general balances to increase flexibility for those funds. A further, comprehensive, review will take place as part of the Mid-Year Review of Cheshire East finances, the intention being to establish balances following the protocols outlined above.

Table 6: Earmarked Reserves can pump prime initiatives that may deliver future savings

| Description | Cheshire East Budget 2009/2010 | Actual Carried Forward Position | Recommended amount to be returned to General Fund | Balance to be retained for 2009/2010 | Reason / Use |
|--------------------------|--------------------------------|---------------------------------|---|--------------------------------------|--|
| | £000 | £000 | £000 | £000 | |
| Insurance Reserve | 1,368 | 698 | | 668 | Claims experience |
| Economic Development | 650 | 650 | | 650 | To provide capacity for statutory and development requirements in 2009/2010 |
| Benefits appeals reserve | 400 | 400 | (400) | 0 | relates to Alternative Futures case, still needs to be reserved |
| Building Control Surplus | 329 | 581 | | 581 | ring-fenced surplus (could be used to offset service deficit, if applicable) |
| Education All Risks | 307 | 308 | | 308 | Premiums paid by schools |
| Job Evaluation | 300 | 300 | | 300 | intended to be used to offset final protected pay in 2009/10 |

| Description | Cheshire East Budget 2009/2010 | Actual Carried Forward Position | Recommended amount to be returned to General Fund | Balance to be retained for 2009/2010 | Reason / Use |
|--|--------------------------------------|--|--|--|--|
| | £000 | £000 | £000 | £000 | |
| LPSA Reserve (continuation funding) | 246 | 2,904 | (2,411) | 493 | Now includes accrued funding for 2009/2010 |
| Crewe town centre development transitional shortfall (LABGI-funded) | 219 | 219 | | 219 | earmarked to cover costs and income shortfalls (car parks etc.) during Crewe town centre re-development |
| Environmental Warranties | 188 | 168 | | 168 | self-insurance for possible claims from Cheshire Peaks and Plains |
| Customer Access | 177 | 177 | | 177 | To maintain service levels in 2009/2010 and allow development of invest to save options |
| Single status/ job evaluation | 150 | 186 | | 186 | intended to be used to offset final protected pay in 2009/10 |
| Markets - Disturbance costs/ new stalls (LABGI-funded) | 150 | 154 | | 154 | intended for spending during and after Crewe town centre re-development |
| Collection Fund Discretionary Relief | 142 | 139 | | 139 | Balance available to give discretionary relief on business rates |
| Local Development Framework | 141 | 150 | | 150 | Service budget balance brought forward |
| Long Term Sickness | 135 | 96 | | 96 | Premiums paid by schools |
| S117 Reserve | 130 | 130 | | 130 | Population |
| Tatton Park - accumulated surplus | 114 | 1,374 | | 1,374 | Tatton Park in East |
| Disturbance Payments | 111 | 122 | | 122 | Set aside sum covering costs from relocation of staff due to office centralisation |
| Community Safety | 109 | 109 | | 109 | To provide additional capacity in 2009/2010, which will enable invest to save options to be adapted for future years |
| Local Development Framework | 100 | 100 | | 100 | To provide additional capacity in 2009/2010 only |
| Grants Panel | 71 | 73 | | 73 | Balance available for community projects |
| Part-time Rangers | 62 | 62 | | 62 | earmarked for spending on additional hours for ranger service |
| Economic & physical development projects (LABGI-funded) | 474 | 842 | | 842 | approved for strategy development/ business promotion initiatives |
| United Utilities | 60 | 60 | (60) | 0 | no longer required, transfer to GF WB |
| Trading Standards | 60 | 60 | | 60 | To protect against possible shortfall in essential service during 2009/2010 |
| M/S Car Park Repair | 54 | 54 | | 54 | return to service budget |
| Queens Park | 52 | 29 | | 29 | |

| Description | Cheshire East Budget 2009/2010 | Actual Carried Forward Position | Recommended amount to be returned to General Fund | Balance to be retained for 2009/2010 | Reason / Use |
|---|--------------------------------------|--|--|--|---|
| | £000 | £000 | £000 | £000 | |
| Safer Communities – PCSOs and Alley gates maintenance | 66 | 74 | | 74 | earmarked for PCSOs/ ASB Co-ordinator commitments and maintenance of gates |
| Crewe Business Park - Marketing Office rent | 46 | 46 | | 46 | approved for repairs/ costs in the event of transfer of management of Park |
| Cumberland pitch renewal (CNBC share) | 31 | 30 | | 30 | following major investment, using annual additional surplus to build a fund to renew in future |
| Community Wardens - Fixed penalties income | 24 | 34 | | 34 | ring-fenced for improving cleanliness of public spaces |
| Treasury - Temporary staff | 20 | 37 | (37) | 0 | will be used to cover temp staff for closure of 2008/09 Accounts |
| Environmental Protection Act | 14 | 14 | | 14 | intended for environmental emergency response situations |
| Lottery | 10 | 10 | (10) | 0 | Balance available for community projects or transfer to General Fund WB |
| Macclesfield Silk Heritage | 10 | 0 | | 0 | Balance used 2008-09 |
| Environmental Fund | 8 | 8 | (8) | 0 | Balance available for community projects or transfer to General Fund WB |
| European Links | 8 | 0 | | 0 | Balance available to match fund community projects |
| M/c Airport Partnership Fund | 6 | 6 | (6) | 0 | Balance available for community projects or transfer to General Fund WB |
| Childcare Vouchers | 1 | 0 | | 0 | Balance used 2008-09 |
| Local Authority Business Growth Incentive | | 625 | (625) | 0 | |
| Interest Free Loans | | 624 | (624) | 0 | Available to transfer to GF WB |
| ICT Investment Reserve | | 250 | (250) | 0 | |
| Deferred VR Payments | | 222 | | 222 | To be paid in 2009-10 |
| Mercury Emissions abatement scheme | | 138 | | 138 | |
| Macclesfield Crematorium mercury credits | | 131 | 0 | 131 | Ring-fenced for future investment in crematorium plant |
| Pension Adjustment Contingency | | 109 | (109) | 0 | Available to transfer to GF WB |
| On-Street Parking | | 90 | | 90 | |
| Commuted Community Sums | | 82 | | 82 | Deferred Grants related to S.106 funding |
| Direct Action | | 74 | (74) | 0 | Available to transfer to GF |

| Description | Cheshire East Budget 2009/2010 | Actual Carried Forward Position | Recommended amount to be returned to General Fund | Balance to be retained for 2009/2010 | Reason / Use |
|--|--------------------------------------|--|--|--|---|
| | £000 | £000 | £000 | £000 | |
| WLC Rates Refund | | 71 | (71) | 0 | WB Available to transfer to GF WB |
| Leisure | | 70 | | 70 | |
| Lottery Partnership | | 69 | (35) | 34 | Some outstanding payments due, balance available to transfer to GF WB |
| Leisure Services Review | | 54 | | 54 | Residual balance from ongoing leisure review project |
| PLC Rates Refund | | 49 | | 49 | Return to service budget |
| Insurance Fund (ACP) | | 39 | | 39 | Transfer to Insurance Fund |
| Community Development | | 37 | | 37 | |
| Repairs/Renewals Fund | | 17 | | 17 | Outstanding payment due in 2009-10 |
| Electoral Administration Act | | 11 | | 11 | Earmarked for Elections |
| Electoral Inspections | | 4 | (4) | 0 | Available to transfer to GF WB |
| Home Computing Initiative | | 4 | (4) | 0 | Available to transfer to GF WB |
| Public Buildings repair & maintenance | | 265 | | 265 | |
| Electric unmetered supplies | | 55 | | 55 | |
| Infrastructure Surveys - public open spaces | | 52 | | 52 | |
| Planning - Local Plan | | 42 | | 42 | |
| Transport - Shredder | | 40 | | 40 | |
| Community Led Public Realm | | 28 | | 28 | |
| Town Centres | | 23 | | 23 | |
| Entertainment | | 22 | | 22 | |
| 08/09 ABG Climate Change Grant | | 22 | | 22 | |
| Land Charges | | 22 | | 22 | |
| Gateways & Corridors | | 20 | | 20 | |
| Industrial Estates - repairs | | 16 | | 16 | |
| Housing Strategy | | 14 | | 14 | |
| Local Strategic Partnership | | 12 | | 12 | |
| Planning - Office furniture/ DIP | | 11 | | 11 | |
| Economic Development - Rent review | | 10 | | 10 | |
| Rigg St open space improvements | | 10 | | 10 | |
| Cemetery & Crematorium | | 10 | | 10 | |
| Economic | | 9 | | 9 | |

| Description | Cheshire East Budget 2009/2010 | Actual Carried Forward Position | Recommended amount to be returned to General Fund | Balance to be retained for 2009/2010 | Reason / Use |
|---|--------------------------------------|--|--|--|--------------|
| | £000 | £000 | £000 | £000 | |
| Development Marketing | | | | | |
| Democratic Services (Ward budgets) | | 7 | | 7 | |
| Public conveniences | | 6 | | 6 | |
| Economic Development - H&S furniture/ equipment | | 5 | | 5 | |
| Leased Htg Terminations | | 5 | | 5 | |
| Economic Development - Small projects | | 3 | | 3 | |
| Home Safey Initiative | | 3 | | 3 | |
| Economic Development - Village stores | | 1 | | 1 | |
| Traffic management/ modelling | | 1 | | 1 | |
| Overall Balances* | 6,543 | 13,866 | (4,728) | 9,138 | |

Source: Statutory Accounts for Cheshire County & Cheshire East Districts June 2009

* increases or reductions in earmarked reserves have been reflected when stating the opening General Reserves position in Section 2

39. **Table 6** (above) shows a value of £4.728m being returned to General Reserves in September 2009. However, to reflect the impact of a second round of voluntary redundancies it is also proposed to create a further earmarked reserve of £5m.

40. Earmarked reserves have the effect of transferring the tax burden across financial years as current taxpayers' funds are being used to support future years' spending. It is therefore recommended that the Council's earmarked reserves are subject to annual review, at least as part of the budget-setting process to ensure that they are still appropriate, relevant and adequate for the intended purpose.

4. Capital Reserves

41. The purpose of capital reserves is to:
- a. Minimise risk from potential emergency spending requirements on assets
 - b. Support investment in tangible and intangible assets
 - c. Hold committed balances, where spending is restricted to capital schemes, to support cashflow and investment income
42. The capital reserves held by each former authority of Cheshire East are currently being reviewed and in the main the reserves contain the funding for committed capital schemes.
43. Departments have been asked to review the current capital programme with a view to rationalising schemes where possible, and removing any which do not meet the aims and objectives of Cheshire East.
44. In considering the available funding for the capital programme, schemes will be cross referenced to Section 106 agreements and commuted sums and where possible funded from this source.

5. Conclusion

- 45. Overall the council is holding relatively high reserve balances due to the significant risks from creating a new authority in the current economic climate. This recognises local issues and allows the Borough Treasurer to comment favourably on the adequacy of reserves.
- 46. The establishment of protocols around the use of balances will improve control and increase openness in financial reporting and management. This will also reflect well in external assessment of the council's financial standing.
- 47. The next steps, in reviewing capital and earmarked reserves will complete the process of simplifying the presentation and understanding of the council's reserves position.

Background Papers

CIPFA, Local Authority Accounting Panel: Bulletin 55, Local Authority Reserves & Balances (2003)

General Fund Reserves ~ Risk Assessment Working Papers 2009

Final Accounts 2008/2009:

- Cheshire County Council
- Congleton Borough Council
- Crewe & Nantwich Borough Council
- Macclesfield Borough Council

Cheshire East Council Budget 2009/2010

Appendix 1

Protocol & Controls

The Existing Legislative/Regulatory Framework

Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

There are three significant safeguards in place that militate against local authorities over-committing themselves financially:

1. The balanced budget requirement
2. Chief Finance Officers' S114 powers
3. The External Auditor's responsibility to review and report on financial standing.

The balanced budget requirement is reinforced by section 114 of the Local Government Finance Act 1988 which requires the Chief Finance 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. The issue of a section 114 notice cannot be taken lightly and has serious operational implications. The authority's full council must meet within 21 days to consider the S114 notice and during that period the authority is prohibited from entering into new agreements involving the incurring of expenditure.

While it is primarily the responsibility of the local authority and its Chief Finance Officer to maintain a sound financial position, External Auditors have a responsibility to review the arrangements in place to ensure that financial standing is soundly based. In the course of their duties External Auditors review and report on the level of reserves taking into account their local knowledge of the authority's financial performance over a period of time. However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

The Role of the Chief Finance Officer

It is the responsibility of the Chief Finance Officer 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. There is no statutory minimum.

Local authorities, on the advice of their Chief Finance Officers, are required to make their own judgements on the level of reserves taking into account all the relevant local circumstances. Such circumstances vary. A well-managed authority, for example, with a prudent approach to budgeting should be able to operate with a relatively low level of general reserves. There is a broad range within which authorities might reasonably operate depending on their particular circumstances.

Good Governance

It is important that Members take responsibility for ensuring the adequacy of reserves and provisions when they set the budget. CIPFA recommend that the respective roles of officers and Councillors in relation to reserves should be codified locally and given due recognition in the Constitutions. This codification should:

- state which council bodies are empowered to establish reserves
- set out the responsibilities of the Chief Finance Officer and Councillor – or group of Councillors – responsible for finance
- specify the reporting arrangements

A New Reporting Framework

The Chief Finance 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.

The level and utilisation of reserves will be determined formally by the Council, informed by the advice and judgement of the Chief Finance Officer. To enable the Council to reach its decision, the Chief Finance Officer should report the factors that influenced his or her judgement and ensure that the advice given is recorded formally. Where the advice is not accepted this should be recorded formally in the minutes of the council meeting.

CIPFA recommended that:

The budget report to the Council 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 recurrent expenditure this should be accompanied by a statement from the Chief Finance 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 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 2

Detail of planned changes in general reserves

Transfer from Capital Reserves ~ £1,030,000

Some HRA and ex-district LABGI funding was previously allocated as un-allocated Capital receipts, however, to increase flexibility it is more appropriate to present these as Revenue Reserves for Cheshire East Council.

Contingent Asset ~ £3,450,000

The former Cheshire authorities entered in to a contract with Price Waterhouse Coopers, to reclaim overpaid VAT. The claim, to the total value of £3,700,000 is likely to be paid within 2009. Of this sum, £250,000 relates to overpaid VAT on Tatton Park income and this will be credited to the Tatton Park accumulated surplus shown in Table 4. The balance will accrue to general reserves.

Business Finance Loans ~ £392,000

Repayments of residual Cheshire County Council Business Finance Loans are still being allocated to general reserves

LABGI ~ £291,000

The allocation of £291,000 from central government was not sufficiently certain to include in the 2009/2010 budget.

Transitional Costs

The total cost of transition may still be subject to alteration, however the principle remains to payback within 3 years (or five years for actuarial payments). Relocation costs are subject to contribution from Cheshire West and Chester and remain estimates until the accommodation strategy has been finalised.

Recession group

Cabinet have approved an allocation to support recession mitigation activities.

Crewe Masterplan

Cabinet have approved support to this project in principle should it be required

Policy & Performance Restructure

For 2009 only, the restructure within Policy and Performance will be supported by the use of general reserves

Voluntary Redundancies (round 2)

A second round of voluntary redundancies remains likely, to the extent it is now prudent to earmark reserves, by transferring £5m from general reserves