



Reserves Strategy

2009-2013

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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 presents information about the requirements to maintain adequate financial reserves and provides statements on the types of reserves and current and predicted balances.

This strategy sets out a clear purpose for the holding of reserves, using risk assessments and setting 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 Appendix A.

The opening balances for Cheshire East Council reserves come from the information supplied on the balance sheets of the 4 predecessor local authorities in Cheshire east area. It is important to recognise that, although the overall total of the former Cheshire County Council reserves will not change, the allocation between Cheshire East and Cheshire West & Chester is still subject to ongoing review.

This strategy represents the latest position, following further review of the balances previously held, to ensure they meet the needs of Cheshire East Council.

Lisa Quinn

Borough Treasurer & Head of Assets
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. Two types of Revenue Reserves will be held:

General Reserves

This represents the non-ringfenced balance of council funds. There are two main purposes to general reserves: firstly to operate as a **working balance** to help manage the impact of uneven cash flows and avoid unnecessary temporary borrowing, and; secondly to provide a **contingency** to cushion the impact of emerging events or genuine emergencies. The level of reserves retained will be risk based. General Reserves must be adequate and will increase and decrease as follows:

: **Increasing General Reserves**

- *Planned repayment* as set-out in the budgeting process, usually to recover to an adequate level in relation to a detailed risk assessment, or to prepare in advance for future risks
- Allocation of an *operating surplus* at the close of the financial year

Decreasing General Reserves

- *Planned draw-down* of reserves to create investment, and to counteract the possibility of over-taxing in any financial year
- Allocation of an *operating deficit* at the close of the financial year

Earmarked Reserves

This provides a means of building up funds, for use in a later financial year, to meet known or predicted policy initiatives. Discipline is required around setting up and maintaining earmarked reserves, and this strategy sets out the Council's approach to this. Earmarked reserves will increase through decisions of the council and will decrease as they are spent on specific intended purposes.

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 Codes 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 regularly support 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;
11. Finance Procedure Rules allows the use of general reserves, with the following limitations:
 - a. Estimates for unfunded use of reserves must be approved by Council
 - b. Fully funded estimates may be approved as follows:
 - Up to £0.1m Chief Officers
 - £0.1m to £0.5m Chief Officers in consultation with Cabinet Member and Cabinet Member for Resources
 - Over £1m Council
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 £24.449. This balance picks up balance sheet totals for predecessor authorities, with a reduction for earmarked reserves created by Cheshire East members as part of the 2009/2010 Budget setting process.
14. The opening balance reflects current estimates and it is important to note that there is still some scope for amendments, following final agreement on disaggregation of the County Council balance sheet, so figures are still provisional at this stage.
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).
16. **Table 2** (below) summarises the current estimated movements in general reserves from 2009 to 2012. This position makes a clear assumption that any recently identified in-year, or future, emerging financial pressures will be met from within the council's funding envelope.

Table 2: Reserves should remain higher than the 'Risk Assessed Minimum Level'

| Detail | 2009/10 £000 | 2010/11 £000 | 2011/12 £000 |
|--|-------------------------|-------------------------|-------------------------|
| Estimated Balance @ 1st April | 24,449 | 23,725 | 28,301 |
| Increases in Reserves | | | |
| - Transfer from Capital to General Reserves | 1,030 | | |
| - Contingent Asset (VAT reclaim) net of fees | 3,450 | 600 | |
| - Contribution from Earmarked Reserves* | 4,589 | 42 | 42 |
| - Business Finance Loan Repayments | 392 | 278 | 146 |
| - Unbudgeted 2009/2010 LABGI Income | 291 | | |
| Decreases in Reserves | | | |
| - Recession Group | (331) | | |
| - Crewe Masterplan | (125) | | |
| - Carbon Reduction Commitment (2009/2010 energy programme spend) | (75) | | |
| - Policy & Performance Structure (2009/2010 affect) | (200) | | |
| - VR Round 2 (and ongoing actuarial costs) | (5,000) | (833) | (833) |
| - Social Care Redesign (and ongoing actuarial costs) | (3,008) | (250) | (250) |
| Recommended Balances to Earmarked Reserves* | | | |
| - People into Jobs | (138) | | |
| - Invest to Save | (2,000) | | |
| - Enablement of Local Working | (625) | | |
| Impact of Transition Costs | | | |
| - Net impact of Transition (ie Repayments less actuarial & relocation costs) | 1,026 | 4,739 | 4,739 |
| Sub total – Forecast General Reserves @ 31st March | 23,725 | 28,301 | 32,145 |
| Risk Assessed Minimum Level | 23,521 | | |
| Un-Allocated Balance | 204 | | |

Source: Cheshire East Finance ~ August 2009

*for a detailed breakdown of earmarked reserves please refer to Section 3

17. The reserves position for 2009/10, as detailed in **Table 2** (above), reflects 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.

18. The in-year use of general reserves requires 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

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

20. In response to the level of un-allocated General Reserves, identified in the September 2009 report, a balance of £2m has been recommended to create an Invest-to-Save earmarked reserve (see Section 3 for more details).

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 requirement. 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 3** (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 % of the potential impact. The % 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 unidentified risks. For this reason the analysis also contains a Strategic Reserve calculated as a % 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 becomes 100% likely it should be allocated to earmarked reserves
 - f. Emerging risks will be addressed from in-year surplus or virement before any request to allocate general reserves

Table 3: A robust level of reserves is guided by an assessment of potential risks

| Class of Risk | Knock on Effects | Affect 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 |
| | Flu Epidemic | High staff sickness & absence costs / raise awareness of safety measures and introduce robust emergent response plans | £307,000 |
| | 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 | £400,000 |
| | Efficiency savings challenged by changing priorities | In-Year emerging issues / Robust plans and monitoring of progress | £4,000,000 |
| | Disaggregated Balances vary from current predictions | Impact on opening balances / apply prudent assumptions to opening balances | £1,250,000 |
| | Services not able to absorb savings and/or Corporate Priorities require additional growth bids | Potential shortfall in medium term financial strategy / early planning and consultation | £6,900,000 |
| 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 |
| Legal actions / Industrial relations / Failure of External organisations | Disruption to service and/or costs of arbitration/tribunal/damages | Loss of income, costs of providing essential services or direct costs of resolution, reduced pay budget / emergency planning | £50,000 |
| Strategic Reserve | | Strategic/Emergency risk cover, potential further invest to save options and future pay structure changes | £10,009,000 |
| OVERALL RISKS | | | £23,521,000 |
| % of Net Revenue Budget | | | 10.1% |

Source: Cheshire East Finance Aug 2009

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 £23.521m.

Adequacy of General Reserves ~ Comment from the Chief Financial Officer

28. A duty of the Chief Finance Officer is to comment on the adequacy of financial reserves (see Appendix A). 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 prevent an uneven impact from policy options, by allowing balances to be set aside for future year expenditure
 - 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 their purpose.
32. **Table 4** (below) identifies the most commonly established earmarked reserves and the rationale behind why such reserves are created and maintained.

Table 4: 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 earmarked reserves is set out below. The Borough Treasurer will monitor adherence to these protocols.

Earmarked Reserves will be:

- Set up by Full Council, on recommendation by the Borough Treasurer
- Supported by a business case
- Held for a maximum of 3 years, except where the business case justifies a 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 held earmarked reserves to the value of £13.148m. **Table 5** (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 5** (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.

39. **Table 5** (below) also highlights some balances that are recommended to be returned to general balances, to increase flexibility for those funds, and some new earmarked balances.

40. A comprehensive review is still ongoing as part of the budget setting and in-year monitoring process of Cheshire East finances. The intention is to establish balances that follow the protocols outlined above. Further balances may need to be aggregated or returned to general balances and a reserve for school transport will also need to be created.

Table 5: Earmarked Reserves can pump prime initiatives that may deliver future savings

| Directorate / Description | Cheshire East Budget 2009/2010 £000 | Actual Carried Forward Position (audited Sept 2009) £000 | Recommend amount to be returned to General Fund £000 | Balance retained for 2009/2010 £000 | Reason / Use |
|------------------------------------|-------------------------------------|--|--|-------------------------------------|---|
| Borough Solicitor | | | | | |
| Democratic Services (Ward budgets) | 0 | 7 | | 7 | Crewe East, West, South & North Wards allocation for community spend in 2009/2010 |

| Directorate / Description | Cheshire East Budget 2009/2010 £000 | Actual Carried Forward Position (audited Sept 2009) £000 | Recommend amount to be returned to General Fund £000 | Balance retained for 2009/2010 £000 | Reason / Use |
|---|-------------------------------------|--|--|-------------------------------------|---|
| Electoral Administration Act | 0 | 11 | -11 | 0 | Return to Balances |
| Electoral Inspections | 0 | 4 | -4 | 0 | Return to Balances |
| Borough Treasurer | | | | | |
| NEW RESERVE | 0 | 0 | | 2,000 | Central reserve to support invest-to-save projects |
| Invest-to-Save Projects | | | | | |
| Insurance Reserve | 1,368 | 698 | | 698 | Claims experience |
| Interest Free Loans | | 624 | -382 | 242 | Full amount will be returned to General Reserves as debtor balances are paid |
| Benefits appeals reserve | 400 | 400 | -400 | 0 | Return to Balances (year-end provision may be created if required) |
| Deferred VR Payments | 0 | 222 | | 222 | To be paid in 2009-10 |
| Public Buildings repair & maintenance | 0 | 265 | | 265 | £145,000 Condition Survey-led repairs, £65,000 General; £55,000 for Queens Park Café restoration |
| Environmental Warranties | 188 | 168 | | 168 | self-insurance for possible claims from Cheshire Peaks and Plains, related to LSVT |
| Collection Fund Discretionary Relief | 142 | 139 | | 139 | Balance available to give discretionary relief on business rates |
| Commuted Community Sums | 0 | 82 | | 82 | Deferred Grants related to S.106 funding |
| Crewe Business Park - Marketing Office rent | 46 | 46 | | 46 | approved for repairs/ costs in the event of transfer of management of Park |
| Insurance Fund (ACP) | 0 | 39 | | 39 | Transfer to Insurance Fund |
| Repairs/Renewals Fund | 0 | 17 | | 17 | Outstanding payment due in 2009-10 |
| Industrial Estates - repairs | 0 | 16 | | 16 | |
| Leased Htg Terminations | 0 | 5 | | 5 | |
| LPSA Reserve | 245 | 1,766 | -1,766 | 0 | Continuation Funding Split out to services, includes accrued funding for 2009/2010, remainder to return to General Balances |
| United Utilities | 60 | 60 | -60 | 0 | Return to Balances |
| Treasury - Temporary staff | 20 | 37 | -37 | 0 | Return to Balances |
| Local Authority Business Growth | 0 | 625 | -625 | 0 | Return to Balances |

| Directorate / Description | Cheshire East Budget 2009/2010 £000 | Actual Carried Forward Position (audited Sept 2009) £000 | Recommend amount to be returned to General Fund £000 | Balance retained for 2009/2010 £000 | Reason / Use |
|--|-------------------------------------|--|--|-------------------------------------|---|
| Incentive | | | | | |
| ICT Investment Reserve | 0 | 250 | -250 | 0 | Return to Balances |
| Pension Adjustment | 0 | 109 | -109 | 0 | Return to Balances |
| Contingency | 0 | 71 | -71 | 0 | Return to Balances |
| WLC Rates Refund | 0 | 49 | -49 | 0 | Return to Balances |
| PLC Rates Refund | 0 | | | | |
| HR & OD | | | | | |
| Job Evaluation | 300 | 300 | | 300 | intended to be used to offset final protected pay in 2009/10 |
| Single status/ job evaluation | 150 | 186 | | 186 | intended to be used to offset final protected pay in 2009/10 |
| Childcare Vouchers | 1 | 0 | | 0 | Balance used 2008-09 |
| Home Computing Initiative | 0 | 4 | -4 | 0 | Return to Balances |
| People | | | | | |
| Children's – Extended Schools Services | 0 | 573 | | 573 | Underspent Area Based grant |
| Education All Risks | 307 | 308 | | 308 | Carried forward surplus of premiums paid by schools ~ operated as a trading account |
| S117 Reserve | 130 | 130 | | 130 | Based on Population |
| LPSA Reserve (continuation funding) | 0 | 128 | | 128 | Continuation Funding Improving Quality of life for older people, includes accrued funding for 2009/2014 |
| Leisure Services Review | 0 | 54 | | 54 | £54,000 from Residual balance from ongoing leisure review project + £70,000 other leisure commitments and ongoing repairs |
| Long Term Sickness | 135 | 96 | | 96 | LTS Insurance Scheme, surplus premiums paid by schools ~ operated as a trading account |
| LPSA Reserve (continuation funding) | 0 | 62 | | 62 | Continuation Funding Employment opportunities for people with disabilities, includes accrued funding for 2009/2012 |
| Part-time Rangers (H & W) | 62 | 62 | | 62 | earmarked for spending on additional hours for ranger service |
| LPSA Reserve (continuation funding) | 0 | 43 | | 43 | Continuation Funding Increasing safety from domestic abuse, includes accrued funding for 2009/2015 |

| Directorate / Description | Cheshire East Budget 2009/2010 £000 | Actual Carried Forward Position (audited Sept 2009) £000 | Recommend amount to be returned to General Fund £000 | Balance retained for 2009/2010 £000 | Reason / Use |
|---|-------------------------------------|--|--|-------------------------------------|---|
| Cumberland pitch renewal (CNBC share) | 31 | 30 | | 30 | following major investment, using annual additional surplus to build a fund to renew in future |
| Leisure | 0 | 70 | | 70 | Various CNBC commitments, including premises repairs |
| LPSA Reserve (continuation funding) | 0 | 50 | -50 | 0 | Return to Balances |
| LPSA Reserve (continuation funding) | 0 | 67 | -67 | 0 | Return to Balances |
| Silk Museum | 10 | | | 0 | used in 2008/2009 |
| Places | | | | | |
| Economic & physical development projects (LABGI-funded) | 474 | 842 | | 842 | Various economic and business development projects |
| Economic Development | 650 | 650 | | 650 | To provide capacity for statutory and development requirements in 2009/2010 |
| Building Control Surplus | 329 | 581 | | 581 | ring-fenced surplus (could be used to offset service deficit, if applicable) |
| Crewe town centre development transitional shortfall (LABGI-funded) | 219 | 219 | | 219 | Projects & Initiatives to support and develop town centres |
| Mercury Emissions abatement scheme | | 138 | | 138 | investment in improved cremation facilities (funds built up via ringfenced income for mercury emissions abatement) |
| Local Development Framework | 141 | 150 | | 150 | to manage peaks in LDF spending |
| Housing Survey (LPSA) | | 578 | -408 | 170 | housing stock condition survey utilising part of the LPSA2 Performance Reward Grant |
| Markets - Disturbance costs/ new stalls (LABGI-funded) | 150 | 154 | | 154 | Displacement of market during Lyceum Square development, and maintenance/improvement initiatives |
| NEW RESERVE | 0 | 0 | | 138 | Per Cabinet Report February 2009 |
| People into Jobs | | | | | |
| Disturbance Payments | 111 | 122 | | 122 | Set aside sum covering costs from relocation of staff due to office centralisation (also funding shuttle bus service) |

| Directorate / Description | Cheshire East Budget 2009/2010 £000 | Actual Carried Forward Position (audited Sept 2009) £000 | Recommend amount to be returned to General Fund £000 | Balance retained for 2009/2010 £000 | Reason / Use |
|---|--|---|---|--|--|
| Tatton Park - accumulated surplus | 114 | 120 | | 120 | Ring-fenced surplus on Tatton Park trading account |
| 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 |
| Waste Performance & Efficiency Grant | 0 | 65 | | 65 | Contract delay |
| On-Street Parking | 0 | 90 | | 90 | Fund for repayment of set-up costs for DPE |
| LPSA Reserve (continuation funding) | 0 | 63 | | 63 | Continuation Funding creating sustainable communities, includes accrued funding for 2009/2017 |
| Queens Park | 52 | 29 | | 29 | For relocation of an occupant of a lodge and contingency re project management/delivery |
| LPSA Reserve (continuation funding) | 0 | 78 | | 78 | Continuation Funding tackling poor footways and street lighting, includes accrued funding for 2009/2016 |
| Safer Communities – PCSOs and Alley gates maintenance | 66 | 74 | | 74 | earmarked for PCSOs/ ASB Co-ordinator commitments (£45,874) and maintenance of alley gates (£28,501) |
| Trading Standards | 60 | 60 | | 60 | To protect against possible shortfall in essential service during 2009/2010 |
| Infrastructure Surveys - public open spaces | 0 | 52 | | 52 | survey of minor bridges, lighting etc to ascertain ownership/maintenance liability |
| Community Led Public Realm | 0 | 28 | | 28 | Local Community Led small environmental improvement projects |
| Community Wardens - Fixed penalties income | 24 | 34 | | 34 | ring-fenced for improving cleanliness of public spaces |
| Land Charges | | 22 | | 22 | |
| M/S Car Park Repair | 54 | 54 | | 54 | |
| Environmental Protection Act | 14 | 14 | | 14 | |
| Environmental Fund | 8 | 8 | | 8 | |
| M/c Airport Partnership Fund | 6 | 6 | | 6 | |

| Directorate / Description | Cheshire East Budget 2009/2010 £000 | Actual Carried Forward Position (audited Sept 2009) £000 | Recommend amount to be returned to General Fund £000 | Balance retained for 2009/2010 £000 | Reason / Use |
|--|--|---|---|--|---------------------|
| Macclesfield Crematorium mercury credits | 0 | 131 | | 131 | |
| Electric unmetered supplies | 0 | 55 | | 55 | |
| Direct Action Planning - Local Plan | 0 | 74 | -74 | 0 | Return to Balances |
| Transport - Shredder | 0 | 42 | | 42 | |
| Town Centres Entertainment | 0 | 40 | | 40 | |
| Gateways & Corridors | 0 | 23 | | 23 | |
| 08/09 ABG Climate Change Grant | 0 | 20 | | 20 | |
| Housing Strategy Planning - Office furniture/ DIP | 0 | 22 | | 22 | |
| Economic Development - Rent review | 0 | 14 | | 14 | |
| Rigg St open space improvements | 0 | 11 | | 11 | |
| Cemetery & Crematorium | 0 | 10 | | 10 | |
| Economic Development Marketing | 0 | 9 | | 9 | |
| Public conveniences | 0 | 6 | | 6 | |
| Economic Development - H&S furniture/ equipment | 0 | 5 | | 5 | |
| Economic Development - Small projects | 0 | 3 | | 3 | |
| Home Safety Initiative | 0 | 3 | | 3 | |
| Economic Development - Village stores | 0 | 1 | | 1 | |
| Traffic management/ modelling | 0 | 1 | | 1 | |
| Policy & Performance | | | | | |

| Directorate / Description | Cheshire East Budget 2009/2010 £000 | Actual Carried Forward Position (audited Sept 2009) £000 | Recommend amount to be returned to General Fund £000 | Balance retained for 2009/2010 £000 | Reason / Use |
|---|-------------------------------------|--|--|-------------------------------------|---|
| NEW RESERVE | 0 | 0 | | 625 | available to promote local working |
| Enabling Local Working Grants Panel | 71 | 73 | | 73 | Funding issued to groups who meet the council's criteria. |
| Cheshire Community Action Grant Funding | | 67 | | 67 | Funding Allocated to Cheshire Community Action to support work in rural communities and the development of parish plans. Spent in 2009/2010 |
| Community Development | | 37 | | 37 | £15,853 Youth Fund, £12,950 LSP Project Officer, £5,213 Health Improvement, £2,600 Local Safeguarding Board |
| Lottery Partnership | | 69 | -35 | 34 | Match Funding issued to groups who meet the council's criteria |
| Local Strategic Partnership | | 12 | | 12 | Speed Funding for LAP projects |
| Customer Access | 177 | 177 | -177 | 0 | Return to Balances (included in 2009/2010 base budget) |
| Lottery | 10 | 10 | -10 | 0 | Return to Balances |
| European Links | 8 | 0 | | 0 | Balance available to match fund community projects |
| Totals | 6,442 | 13,148 | -4,589 | 11,322 | |

Source: Statutory Accounts for Cheshire County & Cheshire East Districts June 2009; Cheshire East Finance review October 2009

41. **Table 5** (above) shows a value of £4.589m being returned to General Reserves in October 2009. However, further reserves for Invest-to-Save projects, Local area working and the People in to Jobs project are proposed. Details of each reserve will be held to demonstrate compliance with the protocols above.
42. 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

43. 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
44. 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.
45. 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. Funding held in capital reserves may then be released to fund new capital schemes.
46. 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

47. 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.
48. The establishment of protocols around the use of balances improves control and increase openness in financial reporting and management. This should reflect well in external assessment of the council's financial standing.
49. 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 A

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.