Review of Reserves

Adequacy of Reserves – working balance

Putting in place appropriate levels of reserves is essential to provide the council with a safety net for risks, unforeseen or other circumstances. The working balance must last the lifetime of the council unless contributions are made from future years' revenue budgets. The minimum level of balances cannot be judged merely against the current risks facing the council as these can and will change over time. This is critical given the volatility and unpredictable nature of the financial environment within which the budget and MTFS are being set.

Determining the appropriate levels of reserves is not a precise science or a formula but must be a professional judgement based on local circumstances including the overall budget size, risks, robustness of budgets, major initiatives being undertaken, budget assumptions, other earmarked reserves and provisions, and the council's track record in budget management.

The consequences of not keeping a minimum prudent level of balances can be serious. In the event of a major problem or a series of events, the council would run a serious risk of a deficit or of being forced to cut spending during the year in a damaging and arbitrary way.

The recommendation on the prudent level of balances has been based on the robustness of estimates information and the Corporate Risk Register. In addition, the other strategic, operational and financial risks taken into account when recommending the minimum level of the working balance include:

- There is always some degree of uncertainty over whether the full effects of any economy measures and/or service changes will be achieved. Directors have been advised to be prudent in their assumptions and that those assumptions, particularly in respect of demand-led budgets, should hold true in changing circumstances.
- The Bellwin Scheme for Emergency Financial Assistance to Local Authorities provides assistance in the event of an emergency. The Local Authority is able to claim assistance with the cost of dealing with an emergency over and above a threshold set by the Government.
- Risks surrounding the funding of equal pay compensation settlement in order to implement the single status agreement.
- Risks of rising demand and falling income during the recession.
- The risk of major legal challenge, both current and in the future.
- Risks in the financial inter-relationship between NHS partners and the council.
- The risk of losing subsidy arising from outstanding Housing Benefit and Council Tax Benefit Subsidy Claims.
- Major and unforeseeable volume increases, for example due to new legal requirements, in demand led budgets, particularly in children's services, learning disabilities, physical and sensory impairment, and housing benefits.
- The need to retain a general contingency to provide for some measure of unforeseen circumstances which may arise.

- The need to retain reserves for general day-to-day cash flow needs.

The potential financial sensitivity of the budget and financial risks has been analysed. In addition, the cash flow risk for unitary authorities is significant given the full range of services provided. £9.0m represents about 4 weeks of council tax revenue. The working balance would help cover any costs arising from delays in council tax billing. This could arise, for example, from a systems failure. It could also arise if the council had to re-bill following it or a precepting authority being designated for capping. In either of these scenarios it is likely that the first payment instalment would be missed and the council would need short term funding for its running costs.

Schools' Balances

Schools' balances, while consolidated into the Council's overall accounts, are a matter for Governing Bodies. Nevertheless, under the council's Scheme for Financing Schools the council has a duty to scrutinise whether any school holds surplus balances. The council's Scheme for Financing Schools is in line with the requirements of the Secretary of State for Children, Schools and Families and the arrangements in place are considered adequate.

Estimated Earmarked General Fund Revenue Reserves

Processes are in place to regularly review the council's earmarked revenue reserves. Details of the review of reserves are included in the table below.

	Forecast Balance 1 Apr 2010	Estimated change in 2010/11	Forecast balance 31 Mar 2011	Review arrangements	Conclusions
	£'000	£'000	£'000		
Working Balance	9,000	0	9,000	Against register of financial risks taking into account CIPFA guidelines and requirements of Local Government Act 2003.	To meet the CIPFA guideline a minimum unallocated reserve of £9m is required.
Schools LMS Balances	2,500	0	2,500	Following closure of accounts	Best estimate of usage based on latest projections of schools expenditure.
Collection Fund Working Balance	2,685	-2,685	0	Reviewed in January each year as part of council tax surplus/deficit calculation	Surplus included in the 2010/11 budget and council tax calculations for the council, the Police Authority and Fire Authority. The Councils element is £2.286m.
General Reserves - GF	2,000	-2,000	0	Following closure of accounts & through TBM monthly monitoring	Resources fully committed. £2m included in 2010/11 budget for a risk provision and investment priorities.
Pension reserve	1,400	-400	1,000	Following closure of accounts	Held to spread the cost of early retirements
Finance Costs Reserve	1,972	-777	1,195	Following closure of accounts	Held to cover reductions in investment interest. Planned contributions from this reserve are included in the financial strategy.
Insurance Reserve - General	6,948	0	6,948	Actuarial review undertaken every 5 years and an annual independent health check.	Maintain reserve at £6.9m in line with the most recent actuarial advice.
Capital Reserves	4,828	-2,575	2,253	Following closure of accounts	Committed to fund the capital programme.
Single status	14,097	0	14,097	Following closure of accounts	Earmarked for equal pay and one-off costs.

	Forecast Balance 1 Apr 2010	Estimated change in 2010/11	Forecast balance 31 Mar 2011	Review arrangements	Conclusions
Mercury Abatement Reserve	269	-90	179	Following closure of accounts	Earmarked for works required to the Crematorium to meet mercury abatement legislation.
Schools PFI Project Reserve	1,770	32	1,802	Following closure of accounts	Use for funding project over the lifetime of the PFI
Waste PFI Project Reserve	8,923	190	9,113	Following closure of accounts	Use for funding project over the lifetime of the PFI.
Library PFI Project Reserve	228	76	304	Following closure of accounts	Use for funding project over the lifetime of the PFI
Brighton Centre Redevelopment Reserve	2,812	750	3,562	Following closure of accounts	Retain to support the development. A contribution of £0.75m is included in the 2010/11 budget
Section 106 Interest	546	16	562	Following closure of accounts	Held to support section 106 schemes
Building Schools for the Future	2,000	200	2,200	Following closure of accounts	Retain to support the project development. Planned contribution and spending identified up to 2013/14 included in the budget strategy.
Civil Contingencies Reserve	35	0	35	Following closure of accounts	Held for civil emergencies
Portslade CC Adult Education balance	80	0	80	Following closure of accounts	Use at the discretion of the college
Sect 117 Mental Health Act	141	-30	111	Ongoing review & resolution of cases with potential liability	Retain at current level for potential outstanding liabilities

	Forecast Balance 1 Apr 2010	Estimated change in 2010/11	Forecast balance 31 Mar 2011	Review arrangements	Conclusions
Sustainable Temporary Accommodation reserve	204	41	244	Following closure of accounts	Held for dilapidation costs for leased temporary accommodation
HMO licence fee reserve	109	-55	54	Following closure of accounts	Retain to support annual inspections of HMO premises
Damage Deposit Guarantee Scheme	111	-20	91	Following closure of accounts	Retain for specified purpose
Winter Maintenance	100	0	100	Following closure of accounts	Options for additional resources to be identified at closure of accounts to increase to £0.25m.
Animal Welfare Vehicles reserve fund	31	-17	14	Following closure of accounts	Retain for specified purpose
Museum Objects Acquisition Reserve	96	-5	91	Following closure of accounts	Retain for specified purpose
Pavilion Renewals Fund	102	-5	97	Following closure of accounts	Retain for specified purpose
Jack Thompson - Hove Museum	268	0	268	Following closure of accounts	Retain for specified purpose
James Green Foundation	52	3	54	Following closure of accounts	Retain for specified purpose
National History Society	4	-1	4	Following closure of accounts	Retain for specified purpose
Preston Manor Fund	17	0	17	Following closure of accounts	Retain for specified purpose
Brunschwig Royalties	26	0	26	Following closure of accounts	Retain for specified purpose
Carry Forward - LPSA	1,637	-1,637	0	Following closure of accounts	Held to fund LPSA2 allocations in 2010/11

	Forecast Balance 1 Apr 2010	Estimated change in 2010/11	Forecast balance 31 Mar 2011	Review arrangements	Conclusions
Insurance Reserve - Risk Management	110	-50	60	Following closure of accounts	Earmarked for future risk management projects
Priory House dilapidations reserve	350	0	350	Following closure of accounts	Retain for specific purpose
Accommodation Strategy Reserve	250	0	250	Following closure of accounts	Retain to support the accommodation strategy
Investment properties dilapidations reserve	244	-244	0	Following closure of accounts	Retain for specific purpose and used in 2010/11
Carbon Management Fund	359	-25	334	Following closure of accounts	Retain for spend to save schemes that reduce energy usage
Cemetery - Replacement	95	1	96	Following closure of accounts	Retain for maintenance & replacement as required
Cemetery - Maint of Graves in Perpetuity	85	1	86	Following closure of accounts	Retain for maintenance & replacement as required
Cemetery - Maint of Monuments	16	0	17	Following closure of accounts	Retain for maintenance & replacement as required
Dome Planned Maintenance	200	-50	150	Following closure of accounts	Retain - subject to lease agreement with Festival Society
HRA Working Balance	3,536	-1,166	2,370	Following closure of accounts	Planned transfers included in HRA budget. Working balance in line with CIPFA guidance
Total	70,236	-10,522	59,714		