

## 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. Commissioners have been advised to be realistic 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 of rising demand and falling income given economic conditions.
- The risk of major legal challenge, both current and in the future.
- Risks in the financial inter-relationship between NHS partners and the council.
- Major and unforeseeable volume increases, for example due to new legal requirements, in demand led budgets, particularly in children's services.

- 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 is likely that an increase in the level of the working balance will be required in 2013/14 due to the significant change in the council's risk profile arising from the localisation of council tax support and the reforms to local government finance/business rates retention.

### ***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.

| Description                           | Forecast Balance at 1 April 2012<br>£'000 | Planned usage in 2012/13<br>£'000 | Forecast Balance at 31 March 2013<br>£'000 | Review Arrangements   | Conclusions  |
|---------------------------------------|---|-----------------------------------|--|---|--|
| <b>General Fund Reserves</b>          |   |                                   |  |   |  |
| General Fund Working Balance          | 9,000                                     | 0                                 | 9,000                                      | Reviewed against register of financial risks, taking into account CIPFA guidelines and requirements of Local Government Act 2003. | To meet CIPFA guideline a minimum unallocated reserve of £9.000m is required.  |
| General Fund General Reserves         | 5,327                                     | -4,152                            | 1,175                                      | Following closure of accounts and TBM monthly monitoring.   | The balance of £1.175m is committed to fund the full year effect of 2013/14 savings, years 2 and 3 of the 3 year youth grants programme and year 2 of support for transformation   |
| Capital Reserves                      | 2,364                                     | -2,364                            | 0  | Following closure of accounts.  | Committed to fund capital programme.   |
| Library PFI Reserve                   | 264                                       | -9                                | 255  | Following closure of accounts.  | Use for funding the project over the life time of the PFI.   |
| Schools PFI Project Reserve           | 1,738                                     | -35                               | 1,703                                      | Following closure of accounts.  | Use for funding the project over the life time of the PFI.   |
| Waste PFI Project Reserve             | 7,087                                     | 1,145                             | 8,232                                      | Following closure of accounts.  | Use for funding the project over the life time of the PFI.   |
| Contribution to Single Status Reserve | 5,933                                     | 0                                 | 5,933                                      | Following closure of accounts.  | Earmarked for equal pay and one off costs. Reserve will be further increased by transfer of savings from strike pay deductions and potential release from the single status provision.   |
| Finance Costs Reserve                 | 347                                       | 252                               | 599  | Following closure of accounts.  | The reserve is being held to smooth the fluctuations in the financing costs budget over the next three years. This will cover the continuing reduction in investment income and changes as a result of the impact of HRA self financing. |

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|---|---|---|--|--------------------------------|---|
| Building Schools for the Future                       | 1,100   | -1,100                                    | 0  | Following closure of accounts. | £1.100m of reserve committed to the 2012/13 capital programme including new pupil places.   |
| Brighton Centre Redevelopment Reserve                 | 3,632   | -715                                      | 2,917  | Following closure of accounts. | Retain to support the development. £0.515m is being temporarily drawn from this reserve during 2012/13 to support the capital programme should cashflows require this. This will be replaced when planned capital receipts are generated in 2013/14. The remaining £0.200m is being used to support the Brighton Centre redevelopment proposals. The MTFS includes a planned contribution to the reserve of £1.100m during 2013/14. |
| Customer Access & Accommodation Strategy (workstyles) | 2,917   | -1,700                                    | 1,217  | Following closure of accounts. | £1.700m planned to be used in 2012/13 to support Workstyles Phase II project. Remaining £1.217m held to support Workstyles phase 3 and customer access initiatives  |
| Automatic Meter Readers (AMR)                         | 207   | -207                                      | 0  | Following closure of accounts. | Planned to be used in 2012/13.  |
| Museum Objects Acquisitions Reserve                   | 90  | 0   | 90   | Following closure of accounts. | Retain for specified purpose.   |
| Pavilion Renewals Fund                                | 39  | 0   | 39   | Following closure of accounts. | Used to support maintenance and improvements to the Royal Pavilion during 2012/13   |
| Jack Thompson - Hove Museum                           | 269   | 0   | 269  | Following closure of accounts. | Reserve for acquisitions/refurbishment at Hove Museum in accordance with bequest.   |

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|---|---|---------------------------------|--|--------------------------------|---|
|   | <b>£'000</b>                            | <b>£'000</b>                    | <b>£'000</b>                             |                                |   |
| Winter Maintenance                                      | 430                                     | 0                               | 430                                      | Following closure of accounts. | Held to fund exceptional costs of extreme weather.  |
| Dome Planned Maintenance                                | 208                                     | 0                               | 208                                      | Following closure of accounts. | Retain for specified purpose. Reserve held in accordance with lease agreement with Brighton Dome & Festival Society.  |
| Connexions/Prospects Pensions Reserve                   | 200                                     | 0                               | 200                                      | Actuarial pension valuation    | Held to fund the net actuarial costs of pensions transferred to Prospect. Authority still awaiting a claim from the Pension Fund.   |
| Vehicles Reserve Fund - Animal Welfare Vehicles         | 31                                      | -31                             | 0  | Following closure of accounts. | Expected to be used in 2012/13 for specified purpose.   |
| James Green Foundation                                  | 142                                     | 0                               | 142                                      | Following closure of accounts. | This reserve was set up from a donation by Colonel James Green in 1993. The James Green reserve is used to help fund the Burmese collection.  |
| Bton & Hove Natural History                             | 5                                       | 0                               | 5  | Following closure of accounts. | Reserve for maintaining the assets of Brighton & Hove Natural History Society which are held at the Booth Museum.   |
| Brunschwig Royalties                                    | 26                                      | 0                               | 26                                       | Following closure of accounts. | This reserve was set up from the royalties paid by Brunschwig, an American firm who have used the pavilion motif on wallpaper and fabrics they produce. It is used to fund conservation projects in the Royal Pavilion. |
| Sustainable Transport - Car Parks Refurbishment Reserve | 299                                     | -299                            | 0  | Following closure of accounts. | To be used to fund the Car Park Improvements Phase II, as detailed in the report to Cabinet 22/09/11.   |
| Carry Forward - LPSA                                    | 207                                     | -207                            | 0  | Following closure of accounts. | Held to fund allocations which are determined by the Public Services Board. It is expected that some of this will be used for the Troubled Families Initiative  |

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|---|---|---|--|--|--|
| Sustainable Temporary Accommodation Reserve | 244   | 0   | 244  | Following closure of accounts.   | Held for dilapidation costs for leased temporary accommodation.  |
| HMO Licensing Fees Reserve                  | 0   | 200                                       | 200  | Following closure of accounts.   | Retain to support annual inspections of HMO premises.  |
| Damage Deposit Guarantee Scheme             | 155   | 0   | 155  | Following closure of accounts.   | Retain to guarantee deposits for supporting people service users moving into the private rented accommodation.   |
| Mercury Abatement Reserve                   | 422   | -422                                      | 0  | Following closure of accounts.   | Earmarked for works required to the crematorium to meet mercury abatement legislation.   |
| Adult Services Vehicle Reserve              | 50  | -50                                       | 0  | Following closure of accounts.   | Expected to be used in 2012/13 as more vehicles are expected to be replaced.   |
| LATS Reserve                                | 45  | 0   | 45   | Following closure of accounts.   | This represents the value of unused landfill allowances carried forward to be used for landfilling biodegradable municipal waste.  |
| Restructure Redundancy Reserve              | 3,788   | 0   | 3,788  | Following closure of accounts.   | This reserve is held to spread the costs of early retirements and redundancies. There is a planned transfer of £0.700m to this reserve to support the delivery of the savings in the 2012/13 budget. |
| Insurance Reserve General                   | 6,156   | 0   | 6,156  | The insurance fund is subject to a bi-annual health check by the actuaries. The next health check is due to report back in 2013. | The Insurance Fund biennial health-check was completed in June 2011 and the level of fund recommended is in line with that currently held.   |

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|--|---|---------------------------------|--|--------------------------------|---|
|  | <b>£'000</b>                            | <b>£'000</b>                    | <b>£'000</b>                             |                                |   |
| Insurance Reserve Risk Management                    | 61                                      | 0                               | 61                                       | Following closure of accounts. | Earmarked for specific risk management projects during 2012/13. £0.050m of reserve released in 2011/12.                             |
| Investment Properties (Dilapidations)                | 51                                      | -22                             | 29                                       | Following closure of accounts. | Retain for specified purpose.   |
| Schools LMS Balances                                 | 3,879                                   | 0                               | 3,879                                    | Following closure of accounts. | Reserves held on behalf of individual schools for use by the schools.   |
| Portslade Community College                          | 60                                      | 0                               | 60                                       | Following closure of accounts. | Use at the discretion of the College.   |
| Transition fund for Council Tax Benefit              | 750                                     | 0                               | 750                                      | Following closure of accounts  | Fund will be used to support the introduction of the local Council Tax Benefit scheme commencing 1/4/2013                           |
| <b>General Fund Provisions</b>                       |   |                                 |  |                                |   |
| Single Status Liability Provision                    | 140                                     | 0                               | 140                                      | Following closure of accounts. | Any unused single status liability provision will be transferred to the single status reserve.                                      |
| Adult Social Care Long Term Capacity Reserve         | 753                                     | 0                               | 753                                      | Following closure of accounts. | Reserve to be held to invest in additional capacity to manage demographic pressures in the over 85 year old group of service users. |
| Cemetery Replacement                                 | 96                                      | 0                               | 96                                       | Following closure of accounts. | Retained for maintenance & replacement as required.   |
| Cemetery Maint of Graves in Perpetuity               | 86                                      | 0                               | 86                                       | Following closure of accounts. | Retained for maintenance & replacement as required.   |
| Cemetery Maint of Monuments                          | 17                                      | 0                               | 17                                       | Following closure of accounts. | Retain for maintenance & replacement as required.   |
| Modern Records Units X & Z - Dilapidations Provision | 173                                     | -173                            | 0  | Following closure of accounts. | The dilapidations agreement is expected to be settled during 2012/13  |
| Priory House Dilapidations Provision                 | 493                                     | -493                            | 0  | Following closure of accounts. | Priory House was vacated in 2011/12. The dilapidations agreement is expected to be settled during 2012/13                           |

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|--|---|---|--|--------------------------------|--|
| Land Charges Provision                   | 339   | 0   | 339  | Following closure of accounts. | The court case is yet to be resolved which will determine any liability and until this has been heard it is not proposed to revise this provision. |
| <b><i>HRA Reserves</i></b>               |   |   |  |                                |  |
| HRA Working Balance                      | 5,260   | -2,010                                    | 3,250  | Following closure of accounts. | Working balance in line with CIPFA guidance. Any residual balance can only be used to support the HRA.   |
| HRA Capital Reserves                     | 2,952   | -2,952                                    | 0  | Following closure of accounts. | Committed to fund capital programme.   |
| Estate Development Budget (EDB) Reserves | 146   | -146                                      | 0  | Following closure of accounts. | Retain for estates development. Anticipated to be used in 2012/13.   |
| HRA Auto Meter Readers Reserve           | 348   | -348                                      | 0  | Following closure of accounts. | Retain for specified purpose. Planned to be used in 2012/13.   |
| Restructure Redundancy Reserve           | 388   | 0   | 388  | Following closure of accounts. | Retain for specified purpose.  |
|  | <b>68,715</b>                                     | <b>-15,838</b>                            | <b>52,877</b>                                      |                                |  |