

ANGUS COUNCIL

REVENUE BUDGET 2018/19

STATEMENT ON EARMARKED RESERVES

1. Background

The following paper has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy's "Guidance Note On Local Authority Reserves And Balances" as issued in November 2014. This Guidance recommends that a statement reviewing the level of earmarked reserves should be submitted to the annual budget setting meeting of the Council to inform decisions with regard to the level of contributions to be made to/from reserves and balances. Specific commentary on the Council's main General Fund Balance is given in the body of the Council Tax Setting Report. The position on the Housing Revenue Account (HRA) balance is outlined in the Rent Setting Report.

2. Introduction

Angus Council holds various earmarked reserves within General Fund balances as part of the Council's longer-term financial management strategy. These reserves give the Council a degree of protection over the longer term from potential risk due to unforeseen significant expenditure calls where insufficient current revenue or capital budget provision may exist.

The earmarked reserves held by the Council are: -

- (a) Renewal and Repair Fund
- (b) Local Capital Fund
- (c) Insurance Fund

The above noted earmarked reserves are collectively termed the Council's "Special Funds"

- (d) Arbroath Harbour Contingency
- (e) Car Parking Reserve
- (f) Devolved School Management

Outlined below is the purpose for which each of these earmarked reserves is held by the Council and detailed in Annex A is: the projected balance on each fund at 1 April 2018; the estimated commitments during 2018/19 based on the currently approved projects; and the consequent projected uncommitted balance at 1 April 2019.

3. Purpose of Each Individual Earmarked Reserve

3.1 Renewal and Repair Fund

The Council has a single Renewal & Repair Fund (R&R Fund) to permit the defraying of expenditure which may require to be incurred from time to time in repairing, maintaining, replacing and renewing any buildings, works, equipment or articles belonging to the Council. This is particularly in relation to expenditure of a non-recurring or extraordinary nature with regard to: -

- Works or supplies approved and contracted for in any previous years;
- Approved works or supplies relevant to its purpose;
- Relevant works or supplies necessitated by some contingency and authorised after a full report to the appropriate committee and a recommendation to the Policy & Resources Committee.

Operationally the Council sub-divides the R&R Fund into 5 categories based on the nature of the works involved. This sub-division of the Council's R&R Fund covers:-

- Roads and Transport projects;
- Property projects;
- Information Technology projects;
- Print and Graphic Design projects; and
- Recreation projects

The Council has established individual policies for the above sub categories of the R&R Fund including minimum contingency balances at those levels considered sufficient to ensure that any expenditure of an emergency nature that may arise during the financial year can be addressed.

Although there is an expectation that these will be reduced to around their minimum balance levels by 31 March 2018 and ordinarily the Council should consider replenishing the core Renewal and Repair Fund the pressures on the Council's finance mean that it is not possible to do so for 2018/19 budget setting process. Some recognition of the loss of this funding source has been made in the 2018/19 Capital Budget proposals.

3.2 Local Capital Fund

The Local Capital Fund was established to allow local and corporate issues which are spread over a number of directorate responsibilities to be focused upon, as well as establishing a contingency provision to help protect the Council's overall budget position against emergency situations etc. which require funding.

Although the introduction of the Prudential Code and the consequent greater flexibility afforded to councils in incurring capital expenditure means the Local Capital Fund's role in providing for works of an emergency nature is diminished, it remains a useful tool in the management of the capital programme.

It is recommended that the Council retain the uncommitted balance on the Local Capital Fund on a contingency basis for 2018/19 in order to provide flexibility in addressing potential capital budget pressures in 2018/19 and beyond.

3.3 Insurance Fund

Angus Council operates an Insurance Fund from which payments are made in respect of: -

- Insurance premiums for property, liabilities and motor;
- All insurable losses under the respective policy excesses;
- The management costs of the function.

These payments are charged on to service revenue budgets where an allowance is made through the annual budget setting process. An Insurance Account requires to address any variance between actual costs and that allowance provided for in service revenue budgets and the annual surplus or deficit on this Account is contributed to / met from the Insurance Fund. It is necessary, therefore, to make periodic contributions to the Fund to ensure that there is a balance sufficient to meet possible calls. The minimum balance held on the Fund had been around £0.600 million, and the projected balance on the Fund of £1.200 million as at 31 March 2018 is in excess of that level. The Fund was subject to an actuarial valuation in April 2014 which indicated that there is no immediate need to replenish the Fund at this stage.

In light of the above no contributions to or from the Insurance Fund are recommended for the 2018/19 budget setting process.

The following reserves are not subject of contributions through the annual budget setting process.

3.4 Car Parking Reserve

The Council maintains a car parking trading account to which all parking income is credited and all expenditure charged. The surplus / deficit on the trading account is transferred at the year-end to the Car Parking Reserve. A deficit can only be charged to the Car Parking Reserve for so long as a sufficient uncommitted credit balance is available.

Angus Council has never, however, levied car parking charges and the resultant annual deficit on the car parking trading account has eroded the Car Parking Reserve. It is however proposed to introduce parking charges in Angus during 2018/19 and any surpluses from that activity after running costs have been taken into account will be added to the Car Parking Reserve to support other transport costs elsewhere in the budget.

No contributions to or from the Car Parking Reserve are recommended for the 2018/19 budget setting process.

3.5 Arbroath Harbour Contingency

The Council maintains the Arbroath Harbour Contingency for the purpose of defraying expenditure that may require to be incurred from time to time in undertaking works of repair, maintenance, replacement or renewal at the harbour. A contribution is made annually to the Contingency of 6% of the income on the Arbroath Harbour Trading Account.

Although no minimum balance exists, the Contingency has historically only been accessed for undertaking works of an emergency nature.

No contributions to or from the Arbroath Harbour Contingency are recommended for the 2018/19 budget setting process.

3.6 Devolved School Management Reserve Funds

The Council has adopted a scheme of Devolved School Management (DSM) that devolves a significant proportion of the Schools & Learning budget to individual schools.

Within the framework of the scheme, each participating school can carry forward up to 10% of the devolved budget for use in the following financial year. This is achieved through making contributions to General Fund balances at the financial year-end that are earmarked for the purposes of Devolved School Management.

It is recommended that members note the projected position on Devolved School Management resources available to schools.

4. **Assumptions**

In preparing the figures in Annex A, a number of assumptions have been made with regard to the activity on each earmarked reserve: -

- An estimation has been undertaken of the 2017/18 year end projected outturn;
- Expenditure Commitments on Renewal and Repair Fund projects is such that the uncommitted balance on each at 31 March 2018 will be reduced to at or around the policy minimums;
- Expenditure on the Local Capital Fund is in accordance with that allowed for in the Council's provisional capital budget.