

ANGUS COUNCIL

REVENUE BUDGET 2022/23

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 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 on the level of contributions to be made to/from Council Reserves. Specific commentary on the Council's main General Fund Reserve 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 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 Reserve
- (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 2021; the estimated commitments during 2021/22 based on the currently approved projects; and the consequent projected uncommitted balance at 1 April 2022. Annex A will need to be updated based on decisions to be made at the Special Council meeting on 3 March 2022.

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 which is further sub-divided into Angus Alive and Parks elements

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 2022 and ordinarily the Council should consider replenishing the core Renewal and Repair Fund the pressures on the Council's finances mean that it is not considered possible to do so for the 2022/23 budget setting process. Some recognition of the loss of this funding source has been made in the 2022/23 Capital Budget proposals.

It should be noted that the Information Technology R&R Fund has gone below the minimum balance, Annex A.

3.2 Local Capital Fund

The Local Capital Fund was established to allow local and corporate issues which are spread over a number of service 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 especially where the timing of future capital expenditure is uncertain.

It is recommended that the Council retain the remaining uncommitted balance on the Local Capital Fund on a contingency basis for 2022/23 in order to provide flexibility in addressing potential capital budget pressures in 2022/23 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 insurance 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 £1.501 million as at 31 March 2022 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 and this remain the position.

Increased insurance premiums remain an area of risk so it is important to have a sufficient balance in the Insurance Fund to be able to temporarily cover such increases in the short term should they arise.

In light of the above no contributions to or from the Insurance Fund are recommended for the 2022/23 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 trading 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. Restrictions apply on how the Car Parking Reserve can be used.

From financial year 2018/19 Angus Council began levying car parking charges but due to the COVID-19 pandemic and continued suspension of parking charges there has been no trading account in operation again for 2021/22 therefore there will be no surplus or deficit to transfer to the Reserve for 2021/22. As set out in Report 64/22 the Council's budget proposes to continue to suspend parking charges during 2022/23 and to provide for the financial impact of this on a one-off basis as part of the overall revenue budget. This means the proposed suspension will have no impact on the parking reserve balance but £0.091 million of this reserve was committed as part of the 2021/22 revenue budget setting, therefore the projected balance at 31 March 2022 is £0.266 million.

The Car Parking Reserve can be utilised to fund certain types of expenditure in accordance with the terms of the Road Transport Regulation Act 1984. Given that the funding supporting the suspension of car parking for 2022/23 is one-off it is considered prudent to leave the Reserve at its current level.

In light of the above no contributions to or from the Car Parking Reserve are recommended for the 2022/23 budget setting process.

3.5 Arbroath Harbour Reserve

The Arbroath Harbour Reserve was established by the Council to provide a means to cover extraordinary costs. An annual contribution is made to the Reserve from the operating costs of the harbour, based on 6% net harbour income received, excluding fuel recharge.

At the Communities Committee 16 January 2018 (report 17/18) it was agreed prudent and reasonable that a minimum level of funding should be held within the Harbour Reserve and this was set at £0.100 million. It was also agreed through this report that a maximum of 40% of the Harbour Reserve, after accounting for the minimum balance of £0.100 million, can be taken out in any one financial year, proposals to exceed the 40% level will require committee approval.

The Harbour Reserve has historically only been accessed for undertaking works of an emergency nature. The current balance on this Reserve is low relative to potential repair costs which can arise and in the event of emergency works being required these would need to be funded from other Council budgets.

No contributions to or from the Arbroath Harbour Reserve are therefore recommended for the 2022/23 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 Education and Lifelong 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.

A revised version of the DSM scheme is being taken to the Children & Learning committee on 24 February 2022 and if approved this paper will be updated accordingly.

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 2021/22 year end projected outturn;
- Expenditure commitments on Renewal and Repair Fund projects is such that the uncommitted balance on each at 31 March 2022 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.