

REPORT TO ABERDEENSHIRE COUNCIL – 14 FEBRUARY 2019

COUNCIL RESERVES

1. Recommendations

It is recommended that the Council:

- 1.1 Agree to the proposed reserves as set out in this report;**
- 1.2 Agree to a minimum working balance of £9 million;**
- 1.3 Agree that reserves will be reported to Committees as part of the financial monitoring information.**

2 Discussion

- 2.1 Aberdeenshire Council's financial reserves are an important part of the Medium Term Financial Strategy (MTFS). A Reserves Strategy has been in place since 2012, setting out a framework for the creation, use and value of specific reserves. The reserves are considered by Council each year as part of the MTFS; however, a review of reserves was agreed at the Council meeting in February 2018.
- 2.2 The review has now been undertaken following conclusion of the audit of the Council's accounts and with the latest information affecting some reserve balances as expanded upon within this report.
- 2.3 Audit Scotland have reviewed reserve balances across Scottish Local Authorities and produced two reports: Local Government in Scotland: Financial Overview 2015/16 and 2016/17. There are a number of issues raised by Audit Scotland around the level of reserves held by local authorities and the use of reserves.
- 2.4 In their 2015/16 report, Audit Scotland noted an increase in the usable reserves held by councils compared to 2014/15 of £2.4 billion. This was an increase of £0.1 billion on 2014/15. Audit Scotland went on to comment that several Councils were planning to use reserves as one means of closing financial gaps in future years.
- 2.5 In their 2016/17 report, which was considered by the Audit Committee on 24 May 2018, Audit Scotland strengthen their language around the use of reserves and state that a net £32 million has been used from reserves, with many more councils drawing on reserves compared to 2015/16. The views of Audit Scotland will be assessed when current reports are available.

- 2.6 Behind the financial statistics on reserves is a fundamental point, and that is regarding the strategic intent surrounding the creation, value and use of a reserve. By definition, the creation of a reserve suggests that the council has a purpose in mind for that reserve and therefore the planned spending of that reserve is appropriate.
- 2.7 Therefore, the focus is to maintain the scrutiny and effectiveness of that intent, deliver on the outcomes and achieve the council's strategic priorities, and not limit attention to the percentage increase or decrease in the value of reserves. Audit Scotland do recognise there are a range of reasons why councils would use reserves.
- 2.8 The Council holds reserves for three main reasons. Firstly, to cope with any unforeseen events that cannot be accommodated within approved budgets, secondly, to carry out statutory duties and thirdly for specific purposes that the Council has determined as a priority. The source of reserves will largely have originated from previous years' budget management outcomes where the Council has been within its budget provision and therefore a surplus has been carried into reserves.
- 2.9 The General Fund Reserve or Minimum Working Balance has previously been set at approximately 2% of the net revenue budget. A number of factors have led to a review of this level.
- Firstly, the current year's forecast position could, if maintained, result in an immediate reduction to the General Fund Reserve balance by some £3 million.
 - Secondly, the application of the Prudential Code permits Councils to borrow at prudent, sustainable and affordable levels, making an immediate call on Reserves less likely if a significant asset had to be replaced.
 - Thirdly, the review of reserves is undertaken as part of the MTFs process to ensure that total reserves are reflective of current circumstances.
- 2.10 Taking these factors into account has resulted in a General Fund Reserve proposed at £9 million.

3. Reserves

- 3.1 Within the existing statutory and regulatory framework it is the responsibility of the Head of Finance to advise the Council on the level of usable reserves that it should hold, and to ensure that there are clear protocols for their establishment and use. The level of reserves is not subject to legislation or specific guidelines and it is a matter for the Council to determine.
- 3.2 The review of reserves has resulted in the following:
- Current year end position: the objective from Strategic Leadership Team is to return a break-even position for the current year. To enable this to happen the reserves created for Provision for Pay Strategy and Year End Pressures will require to be used.

- General Fund Reserve: By utilising the Year End Pressure reserve, which is contained within the General Fund Reserve and assuming no more in year calls on this reserve will enable a balance of £9 million to be retained.
- Pay Strategy Reserve: fully utilise the current balance within this reserve in the current year as planned to offset pay awards above the budgeted amount. As a result of the Review, replenish the balance with £2 million.
- Aberdeen Western Peripheral Route (AWPR): Discussions are ongoing with the AWPR contractor regarding payment required to restore non trunk roads in Aberdeen. An additional amount of £2 million is expected and is proposed that this is added to a new earmarked reserve.
- Roads Maintenance Reserve: It is proposed that the current limit of £1.5 million on this reserve is removed and the balance required determined annually.
- Winter Maintenance & other Emergency Reserve: it is proposed to increase the balance on this reserve to £1.5 million to add resilience when required. It is also proposed that the current limit of £3 million on this reserve is removed and the balance required determined annually.
- Affordable Housing: it is proposed that the Second Homes Council Tax reserve is merged into this reserve and that the use of this reserve is linked to the Capital Plan to deliver the agreed objectives of Affordable Housing.
- Workforce reserve: to rename and increase the provision currently held within the Transitional Reserve for Severance Costs to enable the Council to respond to any structural changes.

3.3 The result of these proposals is set out in Appendix 1 to this report and shows a movement in reserves from the total forecast position at this year end of £40.048 million to a proposed total of reserves to start the new financial year of £36.872 million. In summary, the changes to reserves are:

	£000's	Expenditure £000's	Income £000's	£000's
Opening Balance	40,048			40,048
Expenditure		5,176		5,176
Reprioritised reserves		8,305	8,305	0
Additional Roads money			2,000	2,000
Proposed balance	40,048	13,481	10,305	36,872

3.4 Maintaining reserves is part of a prudent financial strategy and their management has formed part of the strategic financial plans of the Council. The usable reserves balances should be viewed in context that £36.872 million represents 6.5% of the current annual spend of the Council.

- 3.5 In order to maintain a Minimum Working Balance of £9 million, the current year's General Fund revenue budget will require to break even after planned usage of specific reserves. The trend over recent monitoring reports supports this position, but it is still recognised as a substantial risk.

4. Minimum Working Balances

- 4.1 Working Balances (General Fund and Housing Revenue Account (HRA)). The Council currently has a policy of maintaining a minimum working balance of £9 million in relation to non HRA activities and £2 million in relation to the HRA.

5. Statutory Reserves

- 5.1 The Repairs and Maintenance Funds are there to smooth expenditure between years. It is proposed that current maximum limits for these funds are removed and that the funds are reviewed annually as with all other funds to establish appropriate balances.
- 5.2 The other statutory reserves are committed to specific projects and therefore it is proposed to make no change in relation to these at present.

6. Consultation

- 6.1 The Monitoring Officer within Business Services has been consulted and her comments are included in the report.

7. Scheme of Governance

- 7.1 The Council is able to consider and take a decision on this item in terms of Section A.8.1 as it relates to the approval of the Revenue Budget.

8. Implications and Risks

- 8.1 There are no direct financial implications arising from this report.
- 8.2 There are no staffing implications that arise from this report.
- 8.3 An equality impact assessment is not necessary for the purpose of this report as the recommended actions do not have a differential impact on people with protected characteristics.

Alan Wood
Head of Finance

SUMMARY OF RESERVES

	Forecast Balance at 31 March 2019	Reduce Reserve	Interim Total	Increase Reserve	Proposed Total
Reserve/Fund	£'000	£'000	£'000	£'000	£'000
General Fund Balance	11,623	-2,623	9,000	0	9,000
Earmarked Reserves					
Pay Strategy Reserve	3,000	-3,000	0	2,000	2,000
Devolved Education Management (DEM) / Devolved	2,756	0	2,756	0	2,756
Aberdeenshire Farming Museum Purchase Fund	61	0	61	0	61
Aberdeenshire Heritage Artefact Acquisition Fund	11	0	11	0	11
Estate of the late William Paterson Beedie Bequest	20	0	20	0	20
Pupil Equity Funding	806	0	806	0	806
Property Service - Central Energy Efficiency Fund	174	-77	97	0	97
Tolbooth Restoration Fund	55	0	55	0	55
Affordable Housing	3,158	-3,158	0	3,000	3,000
Gerrie Trust	15	0	15	0	15
Community Culture & Tourism	699	-241	458	0	458
Welfare Reform	196	0	196	241	437
Workforce	216	0	216	1,064	1,280
Renewable Energy Reserve	942	-590	352	0	352
Capital Reserve	161	0	161	0	161
Energy from Waste	104	0	104	0	104
Support to Community Groups	117	-65	52	0	52
Credit Unions	191	0	191	0	191
Regeneration Reserve	3,586	-350	3,236	0	3,236
Revenue Grants Expenditure not Incurred	780	-57	723	0	723
Business Transformation Fund	120	-120	0	0	0
Property Estates Renewals Fund	107	-107	0	0	0
Second Homes Council Tax Reserve	2,633	-2,633	0	0	0
Sinking Funds to replace All Weather Pitches	60	-60	0	0	0
Planning	101	-101	0	0	0
AWPR	0	0	0	2,000	2,000
Earmarked Reserves	20,069	-10,559	9,510	8,305	17,815
Housing Revenue Account	2,000	0	2,000	0	2,000
Capital Receipts Reserve	660	0	660	0	660
Usable Capital Receipts Reserve	0	0	0	0	0
Statutory Reserves					
Building Repairs & Maintenance	97	0	97	500	597
Roads Maintenance	543	0	543	0	543
Winter Maintenance and Other Emergencies	0	0	0	1,500	1,500
Capital	299	-299	0	0	0
Insurance	1,316	0	1,316	0	1,316
Statutory Reserves	2,255	-299	1,956	2,000	3,956
Capital Grants Unapplied Account	3,441	0	3,441	0	3,441
Total Usable Reserves	40,048	-13,481	26,567	10,305	36,872

