

## REPORT TO ABERDEENSHIRE COUNCIL – 17 MARCH 2021

### COUNCIL RESERVES

#### 1. Reason for Report / Summary

- 1.1 This report provides the Council with proposals for the utilisation of reserves as part of the Council's Medium Term Financial Strategy (MTFS).

#### 2. Recommendations

**The Council is recommended to:**

- 2.1 **Agree to the proposed reserves as set out in this report and Appendix 1**
- 2.2 **Agree to a minimum working balance of £9 million.**
- 2.3 **Agree that Reserves will be reported as part of the Financial Performance Monitoring**

#### 3. Purpose and Decision-Making Route

- 3.1 Reserves are an essential part of good financial management. They provide a working balance to smooth out uneven cashflows, protect against the financial impact of unexpected events, as well as enabling funds to be built up for known financial commitments. The level, purpose and planned use of reserves are important factors for the Council to consider when considering the [Usable Reserves Strategy](#), developing the Medium Term Financial Strategy (MTFS) and setting the annual budget.
- 3.2 The MTFS highlights the estimated level of resources available to the Council over the medium term and further estimates the financial consequences of the demand for Council services whilst delivering the Council's Priorities.
- 3.3 As part of the annual budget setting process the Council reviews the level of reserves to ensure that there is adequate protection against unforeseen events and that the allocation and planned use of reserves is still appropriate.
- 3.4 It is intended that the reserves will be reported to Full Council as part of the financial performance monitoring on a quarterly basis.

#### 4. Discussion

- 4.1 A key part of the MTFS is a review of the level of reserves held by the Council and their intended use. Reserves are one-off money and, therefore, the Council generally aims to avoid using reserves to meet on-going financial commitments other than as part of a sustainable budget plan.

- 4.2 The Council's Strategic Leadership Team (SLT) have considered the available reserves as part of their monitoring of the Council's financial performance throughout the year and as part of the budget setting process. This has resulted in the proposal to use reserves to help address the anticipated out with budget position at year end, as set out in paragraph 4.11.
- 4.3 Much like using savings to offset monthly household bills, the use of financial reserves should not be viewed as a solution to solve an ongoing budgetary shortfall, rather reserves allows for smoothing of impacts or enables the Council time to address any short-term crisis before a return to business as usual.
- 4.4 Reserves are held for the following reasons:
- providing a working balance to provide financial resilience for unforeseen events or emergencies
  - to carry out statutory duties – e.g., winter maintenance
  - smoothing the impact of uneven expenditure profiles between years
  - holding funds for future spending plans for Council priorities
  - meeting future costs and liabilities where an accounting 'provision' cannot be justified.
  - meeting future costs and liabilities so as to cushion the effect on services for example the Uninsured Losses Fund for self-funded liabilities arising from insurance claims.
  - to provide resilience against future risks.
  - to create policy and transformational capacity in a context of forecast declining future funding
- 4.5 Current legislation and the Chartered Institute of Public Finance & Accountancy (CIPFA)'s regulatory framework requires the Head of Finance to consider the Council's future commitments together with the resources available and advise on the desirable levels of reserves. The Council's External Auditors review and comment on the level and use of reserves as part of the annual audit process.
- 4.6 The reason for this is to ensure that the financial resources remain sustainable, however, the levels and utilisation of these reserves are a matter for Council to determine.
- 4.7 The Council's 2019/20 audited annual accounts showed £44.522 million of reserves within the General Fund and a further £2 million in the Housing Revenue Account (HRA).
- 4.8 To achieve a near breakeven position for the 2019/20 financial year, Council approved the use of several reserves including the Devolved Education Management (DEM) balances of £2.288 million. However, in recognition of outstanding commitments against these balances, it was agreed that a review be undertaken, and the reserve adjusted to ensure these commitments could be met.

- 4.9 Education and Children's Services Committee agreed on 3 December 2020 that £1 million be transferred to the Devolved School Management (DSM) Reserve. The £1million was allocated to schools in advance of this transfer to allow them to fulfill their spending plans, resulting in a minus position on the reserve. The transfer to the reserve will be completed as part of the year end process as explained in paragraph 4.11 and once completed the reserve position will be reduced to zero.
- 4.10 On 19th November 2020, Council was advised of a projected out of balance position of £24 million for the current financial year rising to £46.6m by the end of 21/22 and one of the options to be considered to address the shortfall was the use of £5 million from reserves.
- 4.11 This has since been revised and a projected out of balance position of £21m is now expected for 21/22. This out of balance position which includes the £1m to fund the DSM reserve will necessitate the use of around £1.5m of General Fund reserves to achieve a break-even position. The out of balance position is indicative as of 28 February 2021, this will be subject to change throughout the year end and subsequent audit process. Full Council will receive information as to any future changes through the financial monitoring reports.
- 4.12 **Appendix 1** shows the current level of reserves held on 28 February 2021. It should be noted however that these values do not include existing commitments.

#### 4.13 **Minimum Fund Balances**

The Council holds a General Fund balance of £9 million. This has been the agreed level since 2017/18 and is in accordance with the [Usable Reserves Strategy](#). This level continues to be considered adequate for 2021/22. It is anticipated that around £1.5m of this reserve will be required to return a break-even position for this financial year, and this will be replenished as part of the 21/22 budget setting process. The Housing Revenue Account minimum fund balance is £2 million.

#### 4.14 **Earmarked Reserves**

There is currently £19 million of available earmarked reserves which are available to meet Service priorities. There are no proposed changes for these reserves in 2021/22.

### 5 **Council Priorities, Implications and Risk**

- 5.1 This report helps deliver all six of the Council's Strategic Priorities and the key principle that underpins them of responsible financial planning.
- 5.2 The table below shows whether risks and implications apply if the recommendation is agreed.

Subject	Yes	No	N/A
Financial	X		
Staffing		X	
Equalities			X
Fairer Scotland Duty			X
Town Centre First			X
Sustainability			X
Children and Young People's Rights and Wellbeing			X

- 5.3 An Equalities Impact Assessment is not required because the report forms part of the MTFs for which all the elements referenced have their own Equality Impact Assessments where appropriate.
- 5.4 Any staffing and financial implications that arise will be discussed and scrutinised by the relevant Policy Committee.
- 5.5 The following Risk has been identified as relevant to this matter on a Corporate Level: Budget Pressures [Corporate Risk Register](#). The following Risk has been identified as relevant to this matter on a Strategic Level: Balancing the Books [Directorate Risk Registers](#). Actions being taken to mitigate these risks are set out in the report.

## 6. Scheme of Governance

- 6.1 The Monitoring Officer within Business Services has been consulted in the preparation of this report and is satisfied that the report complies with the Scheme of Governance and relevant legislation.
- 6.2 The Council is able to consider and take a decision on this item in terms of the general powers conferred by Section A of the List of Committee Powers in Part 2A of the Scheme of Governance. A decision on this item is linked to the approval of the annual estimates and setting of the Council Budgets contained within Section A.8.1 of the List of Committee Powers in Part 2A of the Scheme of Governance.

**Mary Beattie**  
**Interim Head of Finance**  
04 February 2021

**List of Appendices**  
Appendix 1 – Reserve Balances at February 2021

Appendix 1

Reserve Balances – 28 February 2021

<b>Reserve/Fund</b>	<b>Balance Feb-21 £'000</b>
<b>Working Balances</b>	
General Fund Balance	9,000
Housing Revenue Account	2,000
<b>Earmarked Reserves</b>	
Aberdeenshire Farming Museum Purchase Fund	61
Aberdeenshire Heritage Artefact Acquisition Fund	11
Estate of the late William Paterson Beedie Bequest	20
Tolbooth Restoration Fund	55
Community, Culture & Tourism	140
Regeneration & Priority Town Reserve	3,141
Renewable Energy Reserve	356
AWPR Reserve	1,319
CCI Reserve	29
Government Grants	10,489
Affordable Housing	3,765
Supporting Council Priorities	700
Devolved School Management	(1,000)
<b>Capital Reserves</b>	
Capital Receipts Deferred	424
Capital Grants Unapplied	18,994
<b>Statutory Reserves</b>	
Uninsured Losses Fund	1,225
Winter Maintenance Fund	1,098
	<b>51,827</b>