

### Strategy for the Use of Balances and Reserves

#### Introduction

1. The purpose of this strategy is to outline how the Council intends to utilise its financial balances and reserves over the medium term financial planning period 2008/11.
2. It is a statutory requirement for the Council's S151 Officer, to undertake an annual assessment of the adequacy of financial reserves and balances. This strategy, therefore, will be subject to an annual review.

#### Financial Strategy and Medium Term Financial Plan 2008/11

3. The use of financial reserves and balances is an integral element of the Council's Financial Strategy for 2008/11. More directly, the use of reserves as outlined in this strategy will be reflected in the Council's Medium Term Financial Plan which, given it is a rolling plan looking forward over 3 financial years, will be updated on an annual basis as and when the base budget for each year is set.

#### Working Balances

4. Working Balances normally comprise two elements. The first is a sum of money which is not earmarked for specific purposes but rather set aside to deal with unexpected events or emergencies. This is referred to as the minimum working balance. Any amount held in excess of this is available to fund Spend to Save Schemes, subject to Executive approval.
5. The proposed strategy for the Council's working balances is as follows:-
  - a) General Fund Working Balance – The General Fund Working Balance is currently at the level at which is considered prudent for the minimum working balance; that is £3.5m. This will be subject to an annual review with any proposed changes reported to the Members as appropriate. There is currently an excess working balance which is available to fund Spend to Save Schemes, subject to Executive approval. Any proposed use of the minimum working balance, is subject to full Council agreement.

#### General Fund Specific Reserves

6. The Council currently has a range of General Fund Specific Reserves. As the name suggests these represent amounts Earmarked for specific items of expenditure to meet known or predicted liabilities. Specific reserves can be used to 'smooth' the impact of certain expenditure commitments over a period of time.
7. The proposed strategy for reserves is as follows:-
  - a) **Office Equalisation Fund** - this balances out the PFI Financing charges, which rise during the life of the scheme. The Government Grant is fixed, being more than the costs at the start of the scheme, and less towards the end.

## Annex 2

This reserve smoothes the net increase in financing charges over the contract term.

- b) **New Offices Sinking Fund** - this fund performs a similar function as [a], but for running costs.

This reserve smoothes the net increase in running costs over the contract term.

- c) **Planning Development Grant** – this is the Government Grant to improve the performance of the planning application function. It is reducing and consequently, the budget strategy reflects this declining support.

This reserve smoothes the cost of spatial planning work which is uneven in its costs.

- d) **LABGI Grant Reserve** – the Government grant to Councils who increase their Business Rateable Value at a rate that is higher than a Government Target. It is in its second year (2007-08) of three and is subject to a review by the Treasury. It is announced after the budget has been set, is in relation to performance that is mainly outside the control of the Council, and is a scheme, the rules of which keep changing. The use of the funds reflects the fact that it might be a one off and consequently it is to be deployed over several years.

This reserve smoothes the use of, what might be one-off, income over several budget years.

- e) **S106 Agreements** – payments by contractors as a contribution to the infrastructure costs their developments require. The sums have to be deployed over an agreed period.

This reserve smoothes the income and expenditure over an agreed period.

- f) **Grounds Maintenance Amortisation** - as (e) but for grounds maintenance.

This reserve smoothes the income and expenditure over an agreed period.

- g) **Insurance Fund** – for meeting claims where there is an element of self-insurance. The Council carries excesses, for example property of £15,000, whereby the Council meets claims under that sum. The annual payment in is £20-25k.

This reserve smoothes the cost of claims.

- h) **Equipment Fund** – At 31<sup>st</sup> March 2007, the balance of the Equipment Fund was £993k. If the Fund were to continue the balance will change during 20047-08. The Equipment Fund was set aside to meet repairs and renewals to the Council's asset portfolio. However, the June 18<sup>th</sup> 2007 Treasury Management and Investment Strategy Working Group recommended that

there should be a review of the Equipment Fund, to see if there were any better ways of funding equipment of a capital nature.

The Equipment Fund is subject to review.

- i) **Project Budget (carryforwards) Reserve** – This reserve represents an accumulation of a number balances for a range of slippage from one year to the next.

This reserve will be maintained generally for miscellaneous service related balances which arise from unspent, but committed, budgets which need to be carried forward from one year to the next. This reserve will be reviewed on an annual basis.

- j) **District Election Reserve** – the District Elections take place once every 4 years and the fund is to smooth that cost. The election of May 2007 will reduce the fund in 2007-08, which will be built up for the 2011 elections.

This reserve smooths the cost of four-yearly elections and bye-elections.

- k) **Planned Maintenance** – This reserve is managed by the Maintenance Surveyor for ongoing maintenance on Council property and land. A programme of work and budget is agreed each year and if there is slippage, payments are made to the Reserve, or if there is an excess of work, money allocated from Reserves for this purpose.

This reserve smooths the cost.

- l) **Grants & Donations Fund** - This reserve is used to pay grants for Village Halls. In the past NWDC have paid £7,000 pa in this account, but this has been waived in recent years due to the significant sum already in the reserve. As a consequence this reserve has been reduced this year.

The annual payment will be reviewed when the balance has reduced.

- m) **Malmesbury HERS** - This reserve is held for Malmesbury Heritage Economic Regeneration Scheme. The remaining £4,000 is earmarked for railings work carried out by Ringway Parkman.

When the works are complete, the Reserve will be extinguished

- n) **Rent Deposit Scheme** - This is a very old reserve set aside some time ago to assist ratepayers with rent deposits.

The continuance of this Reserve will be reviewed in the next budget round.

- o) **Business Support Grants** - This reserve is intended to carry forward any unspent balance on Business Support Grants. These are small grant payments to assist new start up businesses in the District.

This reserve smooths the cost

## **Annex 2**

- 8 Set out in the following pages is the review of Earmarked Balances that was reported to the June 28, 2007 Final Accounts & Audit Committee. This form of review will be undertaken as part of the annual closure of accounts.

### Annex to June 28, 2007 Final Accounts & Audit Committee Report No 8 - Movement in Earmarked Balances

#### Overview

The Earmarked Balances are in addition to the General Fund Balance. Overall there has been an increase of £1,349k.

**Table 1: Earmarked Balances - movement in 2006-07**

| Earmarked Balances   | £'000      | £'000  |
|--|------------|--------|
| Earmarked Balances as at 31 <sup>st</sup> March 2006           |            | -5,622 |
| Movements from Opening Balance to the Final Outturn:           |            |        |
| Additions:   |            |        |
| • Seven items, including Carryforwards                         | -2,250     |        |
| Reductions   |            |        |
| • Reductions – Six items, including Equipment Fund             | 175        |        |
| • Released - Eight items inc. amortisation & VAT               | <u>726</u> |        |
| Overall increase   |            | -1,349 |
| Earmarked Balances estimated as at 31 <sup>st</sup> March 2007 |            | -6,971 |

#### Process of review

A review of all Earmarked Reserves was undertaken. The results showed two main features. **Firstly**, there had been no movement on many of the items for many years; and there was no compelling reason for the item to remain. These totalled £289k, as set out at Table 2

**Table 2: Redundant items**

| Earmarked Reserves -<br>redundant items | 2006<br>£000's | 2007 Recomm<br>Initial -ended<br>£000's | 2007<br>Released<br>£000's |
|---|----------------|---|----------------------------|
| Unrecoverable VAT                       | 148            | 148                                     | 0                          |
| Grants & Donations Fund                 | 53             | 65                                      | 25                         |
| Car Parking Fund                        | 43             | 43                                      | 0                          |
| Malmesbury HERS                         | 33             | 33                                      | 4                          |
| Insurance Fund                          | 25             | 25                                      | 0                          |
| Lottery Fund                            | 14             | 14                                      | 0                          |
| Hackney Carriage Plates                 | 2              | 2                                       | 0                          |
|   | <u>318</u>     | <u>330</u>                              | <u>29</u>                  |
|   |                |   | <u>289</u>                 |

**Secondly**, there were a class of 39 items (Grounds Maintenance amortisation) on which there was an updating of the accounting treatment. It concerned the treatment of lump sums. The practice has been to support the revenue account by taking into it, interest on those lump sums. This is an incorrect treatment. Instead, the lump sum is deployed so that it is exhausted at the end of the period which it is meant to cover.

The review required the lump sums to be separately identified and attributed over the years to which they applied. Where the attribution was to years prior to 2007-08, the whole of that amount can be released. It amounts to £437k, as set out in Table 3.

**Table 3: Revised accounting treatment**

| <b>Earmarked Reserves -<br/>Revised accounting treatment</b> | <b>2006<br/>£000's</b> | <b>2007 Recomm<br/>Initial</b><br>£000's | <b>-ended</b><br>£000's | <b>2007<br/>Released</b><br>£000's |
|--|------------------------|--|-------------------------|------------------------------------|
| Grounds Maintenance amortisation                             | 953                    | 955                                      | 516                     | 437                                |
|  | <u>953</u>             | <u>955</u>                               | <u>516</u>              | <u>437</u>                         |

Therefore, in total £726k is released, as follows:

**Table 4: Overall Funds Released**

| <b>Earmarked Reserves -<br/>Overall Funds Released</b> | <b>2006<br/>£000's</b> | <b>2007 Recomm<br/>Initial</b><br>£000's | <b>-ended</b><br>£000's | <b>2007<br/>Released</b><br>£000's |
|--|------------------------|--|-------------------------|------------------------------------|
| Redundant items  | 318                    | 330                                      | 29                      | 289                                |
| Grounds Maintenance amortisation                       | 953                    | 955                                      | 516                     | 437                                |
| <b>Overall Funds Released</b>                          | <u>1271</u>            | <u>1285</u>                              | <u>545</u>              | <u>726</u>                         |

The remaining Earmarked Reserves amount to £6,970k, as set out at Table 5

**Table 5: Recommended Earmarked Reserves**

|                                   |                     |      |
|-----------------------------------|---------------------|------|
|                                   | £000's              | %    |
| Equipment Fund                    | 993                 |      |
| Grounds Maintenance amortisation  | 516                 |      |
| Office Equalisation               | 727                 |      |
| New offices sinking fund          | 917                 |      |
| Planning Development Grant        | 652                 |      |
| LABGI Grant Reserve               | 799                 |      |
| S106 agreements                   | 1,046               |      |
| Insurance Fund                    | 285                 |      |
| Project Reserves (carry forwards) | 794                 |      |
| Sub total                         | <u>6,729</u>        | 96.5 |
| 6 other items *                   | <u>241</u>          |      |
| <b>Total</b>                      | <u><u>6,970</u></u> |      |
| * Other items                     |                     |      |
| District Election Reserve         | 140                 |      |
| Planned Maintenance               | 61                  |      |
| Grants & Donations Fund           | 25                  |      |
| Malmesbury HERS                   | 4                   |      |
| Rent Deposits Reserve             | 7                   |      |
| Business Support Grants           | 3                   |      |
|                                   | <u>241</u>          |      |

The Treasury Management and Investment Strategy Working Group at its meeting of June 18<sup>th</sup> 2007, recommended that there should be a review of the Equipment Fund, to see if there are better ways of funding what is equipment of a capital nature.

**Annexes continued:**

Spreadsheet Analysis of Financial Reserves and Balances 2008/11. (to follow)