

AGENDA MANAGEMENT SHEET

Name of Committee Resources, Performance And Development Overview and Scrutiny Committee

Date of Committee 24th April 2007

Report Title A Review of Warwickshire County Council Reserves and the Development of a Reserves Policy

Summary This report examines the level of reserves and proposes a policy for the operation of reserves for the County Council.

For further information please contact: David Clarke Strategic Director, Resources Tel: 412003 davidclarketr@warwickshire.gov.uk Rob Phillips Corporate Accountant Tel: 412860 robertphillips@warwickshire.gov.uk

Would the recommended decision be contrary to the Budget and Policy Framework? No.

Background papers None

CONSULTATION ALREADY UNDERTAKEN:-

Details to be specified

- Other Committees
- Local Member(s)
- Other Elected Members Cllr Booth, Cllr Hicks, Cllr Atkinson – for clearance
- Cabinet Member Cllr Cockburn – for information
- Chief Executive
- Legal Sarah Duxbury – for clearance
- Finance David Clarke – reporting officer
- Other Chief Officers

- District Councils
- Health Authority
- Police
- Other Bodies/Individuals

FINAL DECISION No

SUGGESTED NEXT STEPS:

Details to be specified

Further consideration by this Committee

To Council

To Cabinet Following consideration by O&S the report will go on to Cabinet for approval

To an O & S Committee

To an Area Committee

Further Consultation

Executive Summary

Background

This report reviews the County Councils reserves and presents a draft policy for the operation of reserves.

Legislation requires the County Council to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

It is the responsibility of the Chief Financial Officer to advise the authority about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.

Reserves are assessed as part of the CPA Use of Resources assessment. Warwickshire County Council currently stands at level 3. In order to achieve level 4 the Council must put in place a system of reporting excessive levels of reserves to members and informing them of the opportunity cost of keeping those excesses.

Review of Reserves

The Council is expected to have £35.1 million in reserves at the end of the financial year.

For general reserves, the Strategic Director, Resources completed a risk assessment for 2007/08. This confirmed that the minimum level of general reserves it is prudent to retain in 2007/08 is £10.0 million.

It is forecast there will be £12.2 million in designated Schools Reserves, at the end of 2006/07. The statutory basis of schools delegated funding means decisions about the use of these reserves are a matter for the individual schools themselves.

A review of Directorate earmarked reserves has been undertaken. The total amount of Directorate held reserves is approximately £15.7m.

Directorates have been asked to suggest the overall level of reserves they believe is necessary for the smooth running of their Directorate over the medium term.

Draft Policy on Reserves

To ensure a consistency of approach between years a policy on reserves has been drafted. The approval of such a policy will also ensure the authority meets all the requirements of the statutory, regulatory and best practice framework.

Members are asked to comment on the draft policy, and to recommend it to Cabinet for approval subject to any comments made.

Resources, Performance And Development Overview and Scrutiny Committee - 24th April 2007

A Review of Warwickshire County Council Reserves and the Development of a Reserves Policy

Report of the Strategic Director, Resources

Recommendation

That members note the review of the County Council's reserves and recommend the draft policy for the operation of reserves to Cabinet for approval.

1 Purpose of the Report

- 1.1 Warwickshire County Council, like other Councils, holds financial reserves. These reserves are used as a contingency to fund unexpected expenditure or as a method of building up funds towards a known or predicted future spending need.
- 1.2 The main aim of the report is to recommend a policy on reserves for approval. In doing this the report examines the regulatory and legislative framework surrounding reserves and reviews the level of reserves held by the authority, establishing guidelines by which the Council can monitor its reserves in the future and meet stricter reporting requirements.
- 1.3 The review covers all reserves. However, it will not go into detail concerning schools reserves, as a report reviewing these reserves was discussed at Cabinet on 11 January 2007.

2 Types of Reserves

- 2.1 Reserves are held by an authority for three main purposes:
 - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary borrowing. This forms part of general reserves.
 - A contingency to cushion the impact of unexpected events or emergencies. Such reserves could be held corporately (as part of general reserves) or by Directorates.

- A way of building up funds to meet known or predicted liabilities. These are known as earmarked reserves and again could be held corporately or by Directorates.

2.2 The most common earmarked reserves are:

- **Specific schemes.** To build up resources in anticipation of planned future expenditure, for example capital developments or asset purchases or to fund a major reorganisation.
- **Insurance Reserves.** Most local authorities carry an element of self-insurance and it is prudent to set aside amounts to meet potential liabilities.
- **Trading or Business Unit Reserves.** Surpluses may be retained to cover potential future losses or to finance capital expenditure.
- **Directorate Savings.** Directorate under spends at the end of the year may be carried forward into the following year.
- **School Balances.** The unspent balances of budgets delegated to individual schools.

3 Regulatory, Legislative and Best Practice Framework

3.1 This section outlines the statutory, regulatory and best practice requirements within which any policy on the holding of reserves must be developed.

3.2 Legislative Background

3.2.1 The Local Government Finance Act 1992 requires the County Council, like all billing and precepting authorities, to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

3.2.2 To ensure local authorities follow this guidance and do not over commit themselves there are several safeguards:

- **The balanced budget requirement** – Councils must prepare a balanced budget, i.e. they must have sufficient resources to cover all planned expenditure.
- **Chief Financial Officers' S114 powers** – this reinforces the balance budget requirement. Section 114 of the Local Government Finance Act 1988 'requires the Chief Financial Officer to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget'.
- **The responsibility of external audit to verify the Authority's financial standing** – External auditors have a responsibility to review the

arrangements of the authority and to ensure that the financial standing of the authority is soundly based and to report and review the level of reserves.

3.3 The Role of the Chief Financial Officer (CFO)

3.3.1 It is the responsibility of the CFO to advise the authority about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.

3.3.2 The protocol for each reserve held by the authority should state:

- The reason/ purpose of the reserve
- How and when the reserve can be used
- The reserve's management and control procedures
- A process and timescale for the review of the reserve. This is to ensure that the reserve is still relevant and the level held is adequate.

3.3.3 The CFO should report the factors that influence their advice to the authority. Factors that would influence the CFOs judgement would be:

- The effectiveness of the authority's risk management processes.
- The robustness of the internal financial controls as produced in the statement of accounts.
- The cash flow requirements of the authority.
- The medium term financial strategy of the authority.
- The overall financial standing of the authority.
- The authority's track record in budget and financial management including the robustness of the medium term plans.
- The authority's capacity to manage in-year budget pressures.
- The strength of the financial information and reporting arrangements.
- The authority's virement and end of year procedures in relation to budget under/overspends at authority and Directorate levels.
- The adequacy of the authority's insurance arrangements to cover major unforeseen risks.

3.3.4 For the County Council the CFO is the Strategic Director, Resources.

3.4 The Best Practice Reporting Framework

3.4.1 The key features of the best practice reporting framework are:

- The level and utilisation of general reserves should be determined formally by the Council, informed by the advice and judgement of the CFO. The CFO should report the factors that have influenced his/her judgement and this advice should be recorded formally. If the advice is not accepted this should be also be recorded formally in the minutes of the meeting.
- The budget report should include a statement showing the estimated opening general reserve balance, any anticipated additions or withdrawals, and the estimated end of year balances. Any reserves that are to be used to fund ongoing expenditure should be stated as such.

- A statement from the CFO accompanying the budget report should comment upon the adequacy of the general reserves and provisions for the forthcoming year and relate it to the authority's medium term financial strategy.
- At the same time a statement on the review of earmarked reserves should be made. Like the general reserves this statement should show the estimated opening balances for the year, any anticipated additions or withdrawals, and the estimated closing balances. The review should be done annually as part of the budget setting process. This report should state the earmarked reserves, the purposes for which they are held and advise on the appropriate levels.

3.4.2 The County Council currently reports on reserves as part of its quarterly monitoring process. This covers all reserves and includes the opening and closing balances and any anticipated movements in the year.

3.5 CPA Use of Resources

3.5.1 Reserves are assessed as part of the CPA Use of Resources assessment under the theme of financial standing. An abridged version of the assessment criteria in relation to reserves is attached at **Appendix A**. The criteria highlighted bold is the criteria that must be achieved before an authority can be assessed at the next level.

3.5.2 Warwickshire County Council currently stands at level 3, consistently above minimum requirements – performing well. In order to achieve the desired level 4 the Council must put in place a system of reporting excessive levels of reserves to members and informing them of the opportunity cost of keeping those excesses.

4 Review of Reserves

4.1 As part of Quarter 3 budget monitoring it was reported that the Council expected to have £35.1 million in reserves at the end of the financial year. Table 1 below shows how this £35.1 million is made up.

Table 1: Forecast Reserves as at 31 March 2007	£m
General Reserves	10.0
School reserves	12.2
Directorate Earmarked Reserves (inc. Other Services)	15.7
Virtual Bank	(3.8)
Capital Fund	1.0
Total	35.1

This section examines in more detail the position on each of these categories of reserves.

4.2 General Reserves

4.2.1 The Strategic Director, Resources completed a risk assessment for 2007/08 and reported it to Cabinet on 1 February 2007. This confirmed that the minimum level of general reserves it is prudent to retain in 2007/08 is £10.0 million. A copy of the risk assessment is attached at **Appendix B**. Current forecasts are that the authority will have only £0.013 million in general reserves above this minimum level at the end of financial year.

School Reserves

It is forecast there will be £12.2 million in designated Schools Reserves, at the end of 2006/07. The statutory basis of schools delegated funding means decisions about the use of these reserves are a matter for the individual schools themselves. Cabinet received a separate report on schools reserves at their meeting on 11 January 2007.

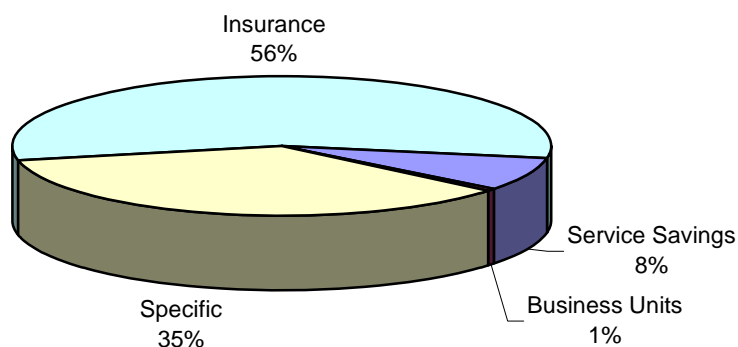
Directorate Earmarked Reserves

4.2.2 A review of Directorate earmarked reserves has been undertaken and the Strategic Director, Resources is confident that it meets the requirements laid out in Section 3 above. A brief summary of the information is set out below with a more detailed analysis attached at **Appendix C**.

4.2.3 Earmarked reserves held by the Council fall into the five categories mention in paragraph 2.2 above. These are Directorate savings, business unit's reserves, specific scheme reserves and insurance reserves. The total amount of Directorate held reserves is approximately £15.7m.

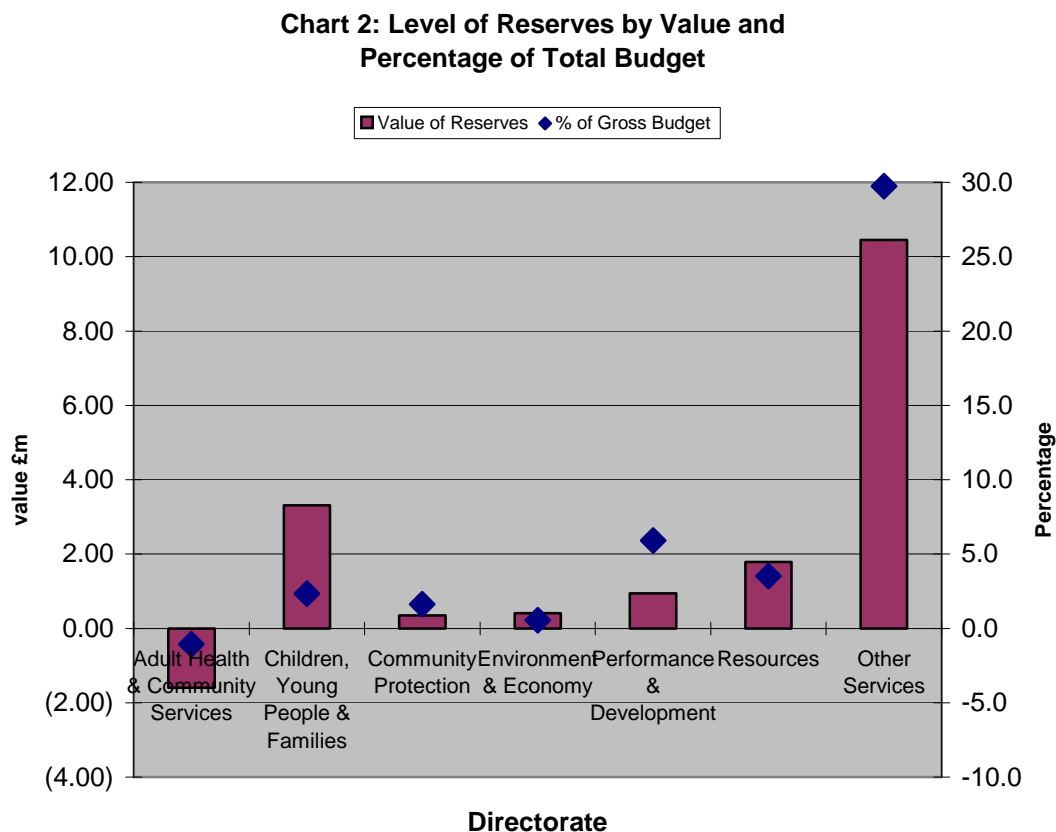
4.2.4 Chart 1, below, shows the £15.7 million of Directorate earmarked reserves by the type of reserve.

Chart 1: Earmarked Reserves by Type of Reserve



4.2.5 Insurance Reserves account for over half of all Directorate earmarked reserves. These reserves are set aside to cover any self-insurance the Council has and to meet any potential liabilities.

- 4.2.6 Just over a third of earmarked reserves are for specific reserves. These are funds set aside by Directorates for specific purposes. Service savings account for around 8% of reserves. These are Directorate under or over spends, the level of which fluctuates during the year through the quarterly budget monitoring process. Business units account for only a small proportion of reserves, as although there are several Business Units, their reserves are relatively low in value.
- 4.2.7 Chart 2, below, shows which Directorates hold these reserves and a comparison in percentage terms to their total budget.



- 4.2.8 By value Other Services holds the majority of earmarked reserves, however this is due largely to the insurance fund. As was highlighted in Chart 1 the Insurance fund accounts for over 50% of all earmarked reserves held by Directorates. The current level of insurance reserves is about £8.9 million. A comprehensive review of these reserves is due to take place later in the year to reassess the appropriate level of reserves. Overall earmarked reserves equate to around 30% of the Other Services gross budget.
- 4.2.9 Children, Young People and Families are the second largest holder of reserves in terms of value, but this equates to only 2.3% of their gross budget (excluding schools). Resources are the third largest holder of reserves in value terms at just under £1.8 million. This is equivalent to 3.5% of the Directorate's gross budget. Performance and Development have just under £1 million in reserves, equating to around 5.9% of their gross budget.

4.2.10 Adult, Health and Community Services have a negative level of reserves as they are expected to be overdrawn at the end of 2006/07 due to their forecast overspend. Their net reserves position equates to -1% of their gross budget.

4.3 **Virtual Bank**

4.3.1 In April 2001 the County Council established a Virtual Bank. This allowed Directorates and schools to borrow funds from a pool of Council reserves on a repayment with interest basis. Directorates are encouraged to borrow from the virtual bank to fund invest-to-save projects and to enable certain areas of uneven expenditure to be smoothed across years.

4.3.2 As these loans are financed from reserves it is essential that the Authority does not leave itself exposed by not having sufficient reserves available when these funds are required to be drawn down. Therefore the total of loans that can be advanced at any one time cannot exceed 25% of the projected reserves at the end of the financial year. For the year ending 31 March 2007 this level is £9.7 million. The current level of outstanding Virtual Bank loans is £3.8 million.

4.4 **Capital Fund**

4.4.1 Despite its title, the Capital Fund is a revenue reserve set up to support the capital programme. It helps meet expenses that are incurred when the authority generates capital receipts and smooth cash flow difficulties. At the end of March 2007 the Capital Fund is expected to have approximately £1 million in hand. However, this has been committed going forward as part of the capital programme approved in February 2007

5 **Medium Term Financial Plan**

5.1 The Medium Term Financial Plan seeks to summarise the financial context within which the authority is working. It aims to ensure that financial resources are available to deliver the Council's strategic priorities. The level of reserves forms a crucial part in identifying the resources available to the authority.

5.2 As part of the review of reserves Directorates have been asked to suggest the overall level of reserves they believe is necessary for the smooth running of their Directorate over the medium term. The results are shown in Table 2 overleaf including the estimated levels for corporately held reserves.

Table 2: Medium Term Estimated Reserve Levels				
	Reserves Level 2006/07 £'000	Estimated Level 2007/08 £'000	Estimated Level 2008/09 £'000	Estimated Level 2009/10 £'000
General	10,013	5,500	5,500	5,500
Virtual Bank	(3,796)	(3,675)	(2,585)	(1,995)
Capital Fund	1,060	668	965	965
Schools	12,164	12,000	12,000	12,000
Adult, Health and Community Services	(1,604)	0	0	0
Children, Young People and Families	3,310	3,310	3,310	3,310
Community Protection	351	350	350	350
Environment and Economy	407	190	190	190
Performance and Development	940	955	955	955
Resources	1,789	2,000	2,000	2,000
Other Services	10,472	10,591	10,591	10,591
Total	35,106	31,889	33,276	33,866

- 5.3 Please note that the figures for 2006/07 are the levels reported as part of Quarter 3 Budget Monitoring for the end of March 2006/07. These levels may change after closedown.
- 5.4 As mentioned in 4.4.9 Adult Health and Community Services are currently overdrawn on their reserves. In line with the draft policy on reserves, Directorates should not be overdrawn. It is hoped that the Directorate will be able to achieve a nil balance on reserves in the near future. Once a nil balance has been achieved the Directorate will be looking to maintain an appropriate contingency of reserves to smooth out fluctuations in spending patterns in future years.
- 5.5 There is an opportunity cost to the authority, in terms of expenditure foregone, of holding reserves. Therefore, whilst it is accepted that there is a minimum level of reserves the authority needs to hold to ensure the efficient and smooth operation of services, the holding of any reserves above the levels shown in Table 2 above needs to be considered as part of the annual budget process.

6 Draft Policy for Reserves

- 6.1 To place the above analysis into context and to ensure a consistency of approach between years a policy on reserves has been drafted. The approval of such a policy will also ensure the authority meets all the requirements of the statutory, regulatory and best practice framework. Members are asked to comment on the draft policy, as attached as **Appendix D**, and to recommend it to Cabinet for approval subject to any comments made.

DAVID CLARKE
Strategic Director, Resources
Shire Hall
24 April 2007

Extract from the 2007 CPA Use of Resources Assessment Criteria for Financial Standing

3. FINANCIAL STANDING		
How well does the council safeguard its financial standing?		
Key line of enquiry		
3.1 The council manages its spending within the available resources		
Audit Focus		
Evidence that:		
<ul style="list-style-type: none"> • the council is financially sound • the council manages its levels of reserves and balances • current spending plans match available resources 		
Criteria for Judgement		
Level 2	Level 3	Level 4
<p>The council has a policy on the level and nature of reserves and balances it needs that has been approved by members and reflected in the budget and medium-term financial strategy.</p> <p>The council monitors and maintains its levels of reserves and balances within the range determined by its agreed policy.</p> <p>The budget reported to members includes a positive assurance statement from the chief finance officer about the adequacy of the proposed financial reserves, in accordance with the requirements of section 25 of the LG Act 2003.</p>	<p>The council's policy for reserves and balances is based on a thorough understanding of its needs and risks, and is properly and clearly reported to members.</p>	<p>Where target levels for reserves and balances are exceeded, the council has identified and reported to members the opportunity costs of maintaining these levels and compared this to the benefits it accrues.</p>

Risks Influencing the Level of General Reserves

This note is the summary of the review of the general reserves risk assessment. The assessment will be formally reported to Cabinet on 1 February 2007 and will form part of members' considerations when setting the budget for 2007/08.

Risk Area	Level of Risk	Provision	Comment
The potential for "Bellwin" type emergencies. Assuming such costs would attract grants under the Bellwin scheme, this provision would support circa £10 million of spend - sufficient for a major emergency.	Low to medium	£2.0 million	Remains unlikely that more than £10 million would be required in any one year before government funding became available. Climate change leading to increased flooding means risk remains at "low to medium" and the £2m provision remains adequate.
The possibility of overspending on the "Other Services" budget due to the unpredictable and potentially volatile nature of interest rates.	Low	£0.5 million	Long-term forecasts of interest rates remain low, despite recent increases. The risk of any call on reserves in 2007/08 is felt to be low. The level of risk has therefore been reduced accordingly, though the £0.5m provision remains unchanged.
The likelihood of members not requiring a Directorate to carry forward an overspending from a previous year, or meet it from their Directorate reserves. This would require a change in both council policy and custom and practice.	Very low	Nil	Remains a key element of our delegation arrangements. Strategic Director, Resources would oppose such a change in policy. No change required.
The likelihood of members making additional, in-year budget allocations to Directorates or where members have arranged for Directorates to phase the repayment of any overspends over a period of more than one year, or where there are difficulties in delivering efficiency savings.	Medium	£1.0 million	<p>Some provision will continue to be necessary in future years. The tightening of the external auditors position on negative reserves also means the potential need to use general reserves to bring all other reserves to a nil position, at least on a temporary basis, is greater.</p> <p>The only negative reserve at Q3 monitoring is for AH&CS (£1.6M) and Directorates have to a large extent, through a combination of on-going and one-off savings, met their 2006/07 efficiency target.</p> <p>Risk remains medium and the level of provision unchanged.</p>

Appendix B

Risk Area	Level of Risk	Provision	Comment
Avian flu/ flu pandemic	Medium to High	£1.0 million	<p>Risk is medium to high, as expected outbreak will occur over the next few years.</p> <p>Impact is mainly expected to be significant numbers of staff being unavailable due to illness or caring for family members. Other than some overtime costs for remaining staff costs likely to be minimal. More an issue for contingency planning as to how services would continue to operate in such an environment.</p>
Single status/equal pay	High	£4.5 million	<p>Figures unlikely to be known until June 2007 and draft government guidelines state costs will not be due until the agreement is signed. Therefore and costs will only be paid out on a phased basis.</p> <p>Provision for on-going costs of £3m will be made in the 2007/08 budget. However, there remains the need to provide for any back-pay costs. These may equate to 4.5x the on-going cost (up to £13.5m). The current funding strategy assumes all general reserves above the minimum specified elsewhere in this assessment is reserved for this purpose.</p> <p>£4.5m provision relates to 1.5 years back pay, which is the maximum likely to be called on in 2007/08.</p>
PCT Section 28 and 31 agreements	Medium	Nil	<p>PCT restructuring has yet to be fully embedded. Currently WCC has a number of section 28 and 31 agreements with the various PCTs. The knock-on effect as to who is paying for what is slowly resolving itself and is a key focus of the CSCI action plan.</p> <p>In the short to medium term the bad debt provision for the Directorate should be the first call on funding. Given the provision for funding Directorate overspends above, no further provision is needed here.</p>

Appendix B

Risk Area	Level of Risk	Provision	Comment
Local Government Re-organisation	Medium	Nil	<p>Costs of implementing the re-organisation to an enhanced two-tier authority as per the Government White Paper. Likely to involve costs at set up with payback over four years. Figures may be available end of June 2007.</p> <p>Unlikely significant progress will be made in 2007/08, therefore whilst risk is medium no provision for costs is needed at this time.</p>
Local Area Agreement (LAA). The County Council is the Accountable Body for the LAA and as such is responsible for ensuring all funds are spent legitimately and in accordance with the agreement.	Low to Medium	Nil	The level of pooled budgets within the LAA in 2007/08 is minimal. Therefore no specific provision is necessary at this stage. However, there are operational risks to the new agreement and the level of partnership working involved. Therefore the level of risk is low to medium.
Corporate Projects: shared services, business process re-engineering	Medium	Nil	<p>Large corporate developments may not proceed according to plan so some costs are incurred at a corporate level. Recent examples include the customer service centre and HRMS.</p> <p>Whilst risk is medium, any financial provision would already be covered by the other elements of the risk assessment.</p>
The possibility of any further costs arising from legal judgements, which would fall on the County Council within one year.	Low	£0.5 million	Likelihood of there being a legal judgement currently not in the pipeline that would require us to pay out significant resources in 2007/08 is low.
General contingency. This could be supplemented in any one year by a sizeable proportion of earmarked reserves, providing these were replenished as part of the budget process. These could absorb up to £3 million of costs.	Low, as most significant risks provided for separately	£0.5 million	Currently an overall under spend (approx £6.6m) is being reported after Q3 monitoring.
Total		£10.0 million	

Review of Directorate Reserves

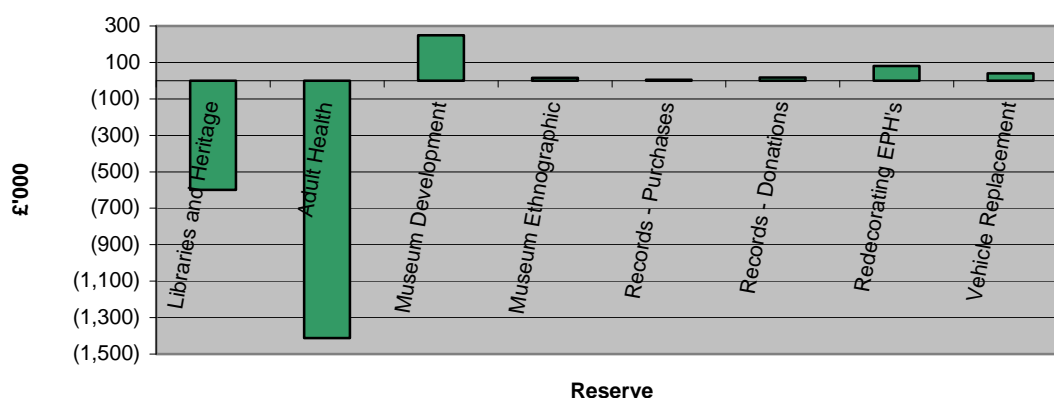
1 Introduction

- 1.1 This appendix analyses in more detail information, by Directorate, on the reserves they hold.

2 Adult, Health and Community Services

- 2.1 The Adult, Health and Community Services Directorate have a net £1.6 million overdrawn position on their reserves. They hold two savings reserves (one for Adult Health and one for Libraries and Heritage) and six specific reserves. Chart 1, below, shows the levels of these reserves.

Chart 1 : Adult Health and Community Services Earmarked Reserves

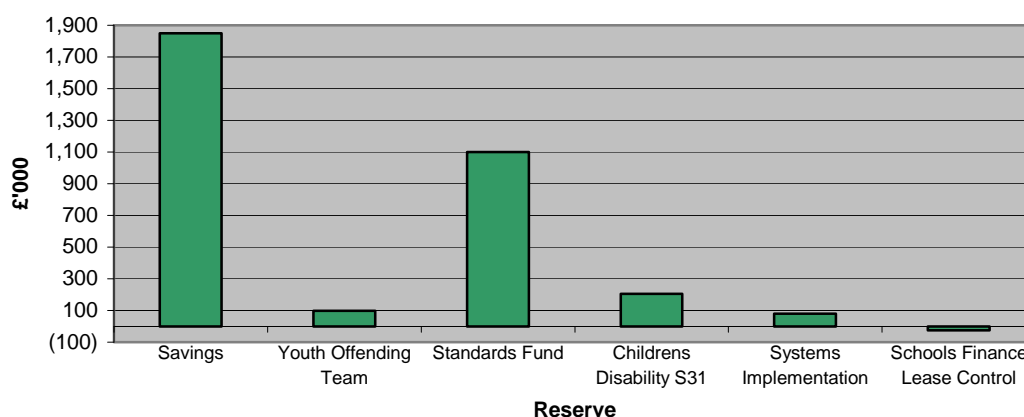


- 2.2 The chart shows that the Directorate is significantly overdrawn on its two savings reserves. This is due to the demographic pressure on the Directorate's budget, which has been reported in the budget monitoring reports throughout the year.
- 2.3 The remaining specific reserves hold small amounts. The Redecorating EPH's reserve is for the modernisation of Elderly People Homes and the vehicle replacement reserve is used to replace vehicles used for day services.
- 2.4 The four 'funds' listed in the chart, Museum Development; Museum Ethnographic; Records Purchase and Records Donations are not reserves in the strictest sense. These are funds set up by Warwickshire County Council to accept donations and bequests from organisations and members of the public to support the work of the museums and the County records office. These funds are ring-fenced as the expenditure is specified when the donation is made and therefore cannot be used to fund other expenditure.

3 Children, Young People and Families

- 3.1 The Children, Young People and Families Directorate hold approximately £3.3 million in reserves (excluding schools reserves). They hold two savings reserves and four specific reserves. Chart 2 below, shows the levels of these reserves.

Chart 2 : Children, Young People and Families

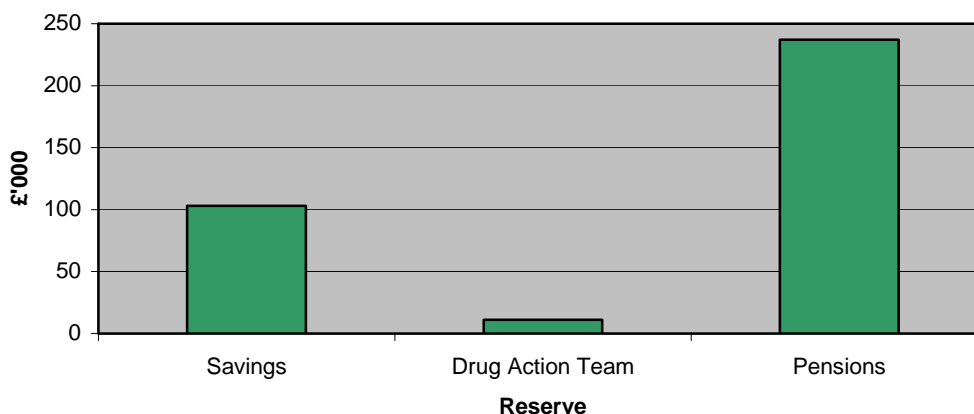


- 3.2 The savings reserve is used to carry forward Directorate under spends. It is deemed necessary to carry a significant under spend due to the demand led nature of some of the services which results in a high risk of overspending. Although this seems to be a large reserve, compared to the overall budget for the Directorate it is only a small percentage (1%).
- 3.3 The Youth Offending Team reserve has accumulated as a result of prior year under spends and has historically been used to fund the Youth Offending Team budget. The current levels of reserves are to fund previously agreed commitments.
- 3.4 The Standards Fund can be spent over a period of seventeen months. The resultant reserve is the necessary carry forward of this money into the new financial year.
- 3.5 The Section 31 Children's Disability reserve was set up to establish an Integrated Disability Service. The development of this service is still continuing, with the co-locating of three multi professional teams across the county amongst other developments.
- 3.6 Systems implementation is used to help fund the implementation of Social Services ICT projects. The schools finance lease reserve is a technical accounting reserve that will increase to nil overtime.

4 Community Protection

- 4.1 The Community Protection Directorate holds £0.350 million of Directorates Earmarked Reserves. They hold one savings reserve and two specific reserves. Chart 3 below, shows the level of these reserves.

Chart 3 : Community Protection Reserves

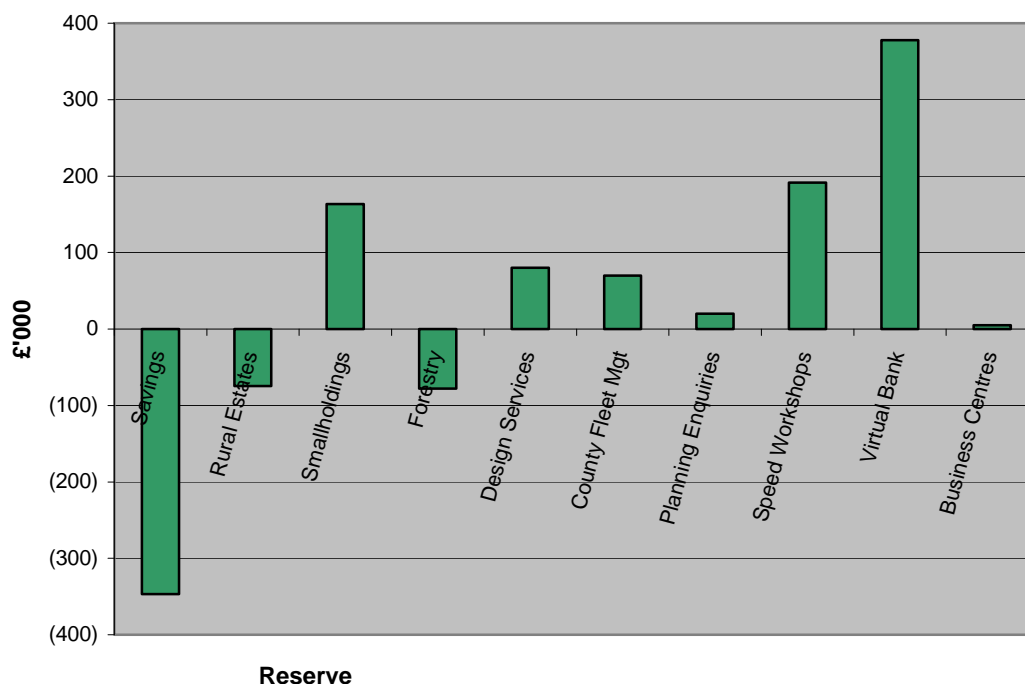


- 4.2 The savings reserve is used to carry forward Directorate under spends. The current level of the reserve reflects LPSA 2 funding that has only recently been allocated.
- 4.3 The Pensions Reserve is required to meet the liabilities of the Fire-fighters Pension Scheme. The authority is responsible for managing the employer's contributions, ill health retirements and for injury award payments. This level can show significant fluctuations depending upon the number of ill health retirements or injury awards the authority has to deal with.
- 4.4 The Drug and Alcohol Action Team reserve is ring fenced funding from the Home Office and the National Treatment Agency. It is used to implement a range of drug and alcohol prevention and intervention schemes.

5 Environment and Economy

- 5.1 The Environment and Economy Directorate accounts for approximately £0.4 million of Directorate earmarked reserves. They hold ten reserves; one savings reserve, five business unit reserves and four specific reserves. Chart 4 overleaf, shows the levels of these reserves.

Chart 4 : Environment and Economy Earmarked Reserves

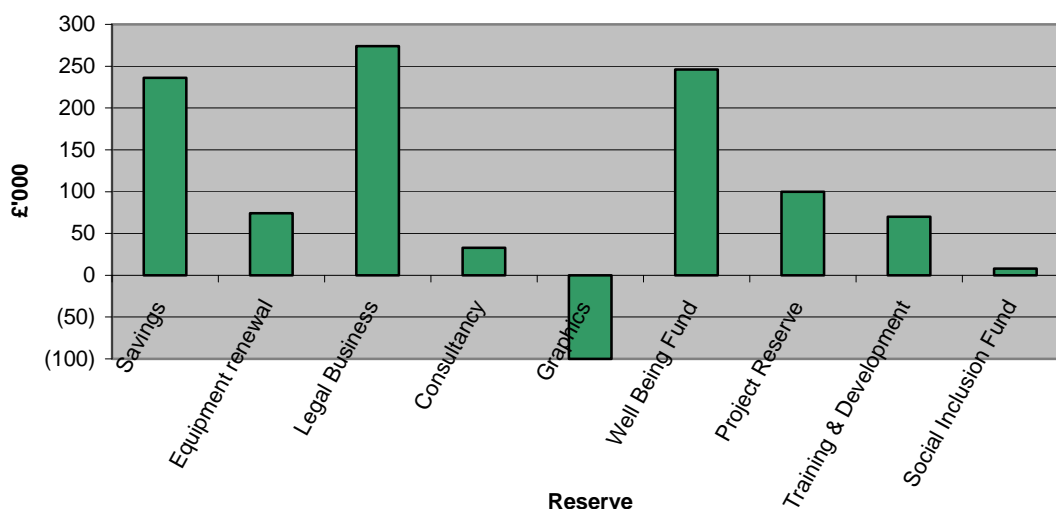


- 5.2 The savings reserve is used to carry forward Directorate under spends or overspends in year. Currently this reserve is overdrawn and reflects the levels reported through the quarter 3 monitoring report.
- 5.3 The five business units are services designated with the ability to trade. The reserves held reflect the level of subsidy or deficit that these business units have incurred during the year. Any surplus or deficit contributes to or is funded from the Directorate.
- 5.4 The planning enquiries reserve is used to fund any potential planning appeals. These are on-off costs that are unpredictable.
- 5.5 The Police and the County Council use the Speed Workshops reserve to cover any deficit on the Warwickshire Casualty Reduction Partnership and to help fund any safety education initiatives.
- 5.6 The large Virtual Bank reserve is funding for the decriminalisation project over a number of years. It is used to carry forward funds into future years.
- 5.7 The Business Centres reserve is held to cover any shortfalls that may occur on Building Maintenance.

6 Performance and Development

- 6.1 The Performance and Development Directorate hold £0.9 million of all Directorate Earmarked Reserves. They hold nine reserves in all, one savings reserve, four business unit reserves and four specific reserves. Chart 5 below, shows the level of these reserves.

Chart 5 : Performance and Development Earmarked Reserves

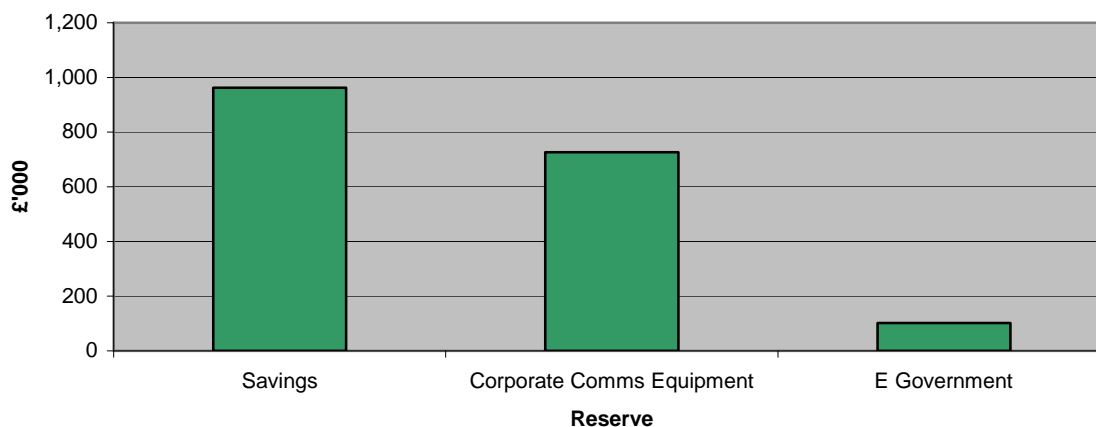


- 6.2 The savings reserve is used to carry forward Directorate under spends and reflects the level reported through the County Council's monitoring procedures.
- 6.3 The equipment renewal fund relates to Design 2 Print and is money set aside for future capital expenditure.
- 6.4 The balances on the Legal reserve and the Consultancy reserve are the surpluses generated through the business units. It is anticipated that this is sufficient to cover any future losses. The graphics business unit has already suffered a loss hence the overdrawn balance.
- 6.5 The two funds, Well Being and Social Inclusion are two reserves held on behalf of Area Committees. The members of these Area Committees decide how to distribute the money. The amounts held represent grant funding that were not allocated during the year.
- 6.6 The Project reserve is used to fund additional project support to the Directorate where required and the Training and Development Fund is used to fund Directorate training initiatives.

7 Resources

- 7.1 The Resources Directorate account for £1.8 million of Directorate earmarked Reserves. They hold three reserves; one savings reserve and two specific reserves. Chart 6 below, shows the level of these reserves.

Chart 6 : Resources Earmarked Reserves

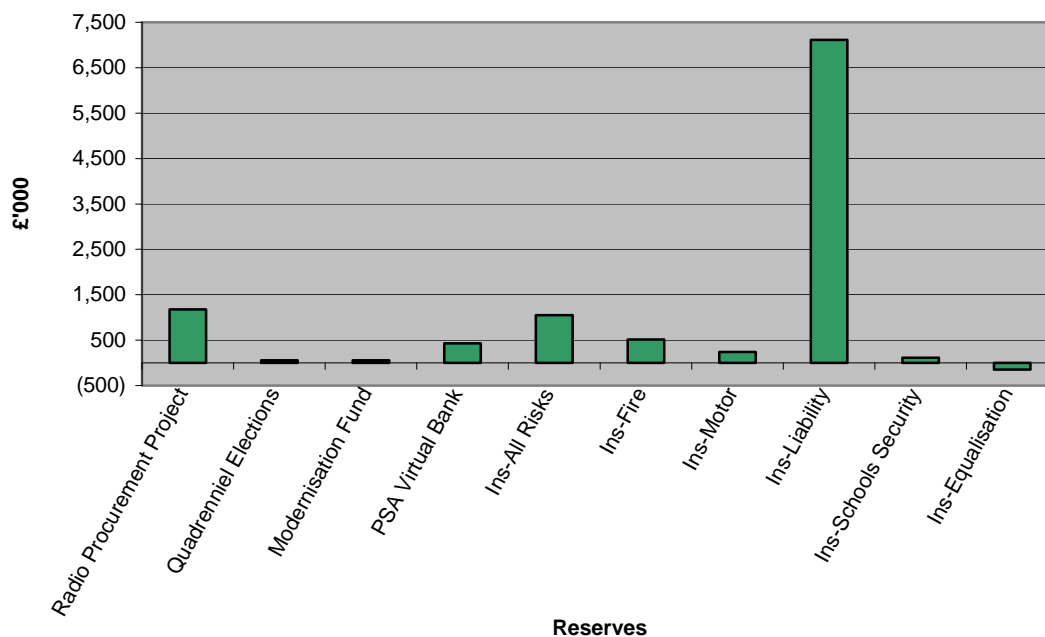


- 7.2 The savings reserve is used to carry forward Directorate under spends and to keep a contingency for any sudden requirements to spend on buildings and to help fund the provision of personal computers to all Directorates and to provide for trading difficulties in the business units.
- 7.3 The Corporate Communications Equipment reserve is held as an equipment renewals reserve for communication infrastructure. The e-government reserve holds the balance of e-government funding that was not spent during the year.

8 Other Services

- 8.1 Other Services accounts for the other reserves, particularly the insurance reserves, which fall across Directorates. Other Services accounts for £10.5 million of Directorate Earmarked Reserves. They hold four specific reserves and six insurance reserves. Chart 7 overleaf, shows the level of these reserves.

Chart 7 : Other Services Earmarked Reserves



- 8.2 As Chart 7 demonstrates the majority of Other Services reserves are insurance reserves. These are held with regard to the self-insurance element of the particular policy. The levels for these reserves are judged according to the insurance environment at the time.
- 8.3 The Modernisation Fund holds reserves to meet the costs of implementing new ways of working.
- 8.4 The PSA (Public Sector Agreement) Virtual Bank is in respect of the PSA reward grant. The radio procurement project is money that has been set aside for the purchase of new fire communications equipment.
- 8.5 The quadrennial elections reserve is a build up of under spends over three years to cover for the expenditure incurred during elections in the fourth year.

Draft Policy on Reserves

1 Introduction

- 1.1 The following is the draft policy on reserves. The policy covers general and earmarked reserves across the authority and establishes the guidelines within which the authority should operate. The policy also establishes the monitoring and reporting requirements on reserves.

2 General Reserves

- 2.1 The level of general reserves will be consistent with the overall financial environment and the key financial risks faced by the County Council. These risks will be assessed annually and will take account of circumstances at the time of assessment and the Statement of Internal Control.
- 2.2 Any reserves in excess of the assessed amount will in the first instance be used to fund one off or time limited expenditure and secondly to support recurring revenue expenditure over the medium term subject to sustainability.
- 2.3 Interest will be calculated on the forecast balance for a full year at the appropriate interest rate at the time of reporting.
- 2.4 The target level for general reserves will be 2% of net expenditure (excluding schools) unless in any particular year the Strategic Director, Resources assessment it should be more/less than this.
- 2.5 If the target level for general reserves is exceeded this will be reported to members along with the opportunity costs of holding this excess. The opportunity cost of holding this excess will be equal to the benefits that could accrue to the Council if this excess is used as one off capital expenditure or, if these funds were used to repay debt, the saving on the capital finance budget. The opportunity cost is equivalent to the interest earned on the excess of the forecast balance.
- 2.6 When reviewing the level of general reserves and contributions to or from the reserve, the Council will note the advice of the Strategic Director, Resources.
- 2.7 A statement in the budget report should show the estimated opening general reserve balance, any anticipated additions or withdrawals, and the estimated end of year balances. Any reserves that are to be used to fund ongoing expenditure should be stated as such.
- 2.8 General reserves will be monitored and reported quarterly through the normal budget monitoring procedures.

3 Directorate Earmarked Reserves

- 3.1 Directorates will be allowed to hold earmarked reserves provided they fall within one of the following categories:
- **Insurance** – to meet the estimate of future claims not covered by insurance.
 - **Specific schemes** – to enable Directorates to build up resources in anticipation of planned future expenditure.
 - **Directorate Savings** – to enable Directorates to carry forward resources that were unable to be spent during the year.
 - **Business Units** – trading surpluses set aside to fund potential future losses or capital expenditure.
- 3.2 Directorates may be able to set up an earmarked reserve that does not fall within the above categories provided it meets the criteria for a reserve and has the approval of the Strategic Director, Resources.
- 3.3 All earmarked reserves will be managed and operated by Directorates. However, reserves can only be established with the approval of the Strategic Director, Resources.
- 3.4 At the end of the year any overdrawn earmarked reserves (except the corporate Virtual Bank, Fire Pensions and the Schools IT Loans Reserve) will be a first call on next years budget. This means that effectively the overdrawn reserve is repaid at the start of the year from the Directorates budget.
- 3.5 Any projected under spends by services form a contribution to service reserves at year-end, subject to the scheme of carry forwards. This money is then available to support spending in future years.
- 3.6 To aid identification of reserves that are held for different purposes, Directorates will assign different accounting codes to each reserve.
- 3.7 Pooled reserves should show only the amount relating to Warwickshire County Council in the reserve. This is line with Cipfa's pooled budget arrangements.
- 3.8 Each Directorate on an annual basis will specify the target level of Directorate earmarked reserves. These targets will then be pooled to form an overall target for earmarked reserves. If this target level of earmarked reserves is exceeded this will be reported to members along with the opportunity cost of holding this excess and a comparison to the benefits accrued in holding the excess reserves.
- 3.9 The opportunity cost of holding these excess reserves will be equal to the service benefits of spending these reserves.

Appendix D

- 3.10 The level of earmarked reserves will be monitored and reported as part of the quarterly monitoring procedures.
- 3.11 Directorates will set estimated target levels for their reserves during the budget setting process. The target levels required will be for the end of the financial year in which they are setting the budget plus a further three years as part of the council's medium term financial plan.
- 3.12 When setting the estimated target levels for their reserves, Directorates will take account of the overall financial environment and the key financial risks faced by their Directorate.
- 3.13 All Directorates are authorised to draw down on Directorate reserves, accumulated from previous year's savings, subject to notifying the Strategic Director, Resources. Approval for this will be sought through the inclusion of the request within the quarterly monitoring report to Cabinet.
- 3.14 If Directorates are requesting to use reserves in year the overall level of Directorates reserves should not be overdrawn.
- 3.15 Directorates cannot bid for resources to allocate to earmarked reserves as part of the budget process.
- 3.16 All earmarked reserves will be subject to an annual review during the budget setting process. This will require all Directorates to validate the reserves held, why they are held, when they will be used, and the appropriate level of reserve to be held.
- 3.17 A statement on the review of earmarked reserves will be made in the budget. This statement will show the estimated opening balances for the year, any anticipated additions or withdrawals, and the estimated closing balances.