
EARMARKED RESERVES

To: **Cabinet – 3 April 2014**

Main Portfolio Area: **Corporate**

By: **Financial Services Manager**

Classification: **Unrestricted**

Ward: **All**

Summary: **To advise Cabinet Members of the process for approving the drawdown of earmarked reserves**

For Decision

1.0 INTRODUCTION

1.1 The process for approving draw-downs from earmarked reserves needs to be formalised. This report therefore shows the purpose of each reserve and the proposal for approving how the money will be drawn down.

2.0 PURPOSE OF EARMARKED RESERVES

2.1 Earmarked reserves are sums specifically held to enable funds to be built up to meet known or predicted expenditure. They can be set up using one-off funds (such as year-end under-spends or grants) or by budgeting for a fixed amount to be taken from the revenue account each year and “saved” separately. Any expenditure then incurred within the year is taken from this “savings account”, thereby smoothing the impact on Council Tax.

3.0 TYPICAL APPROACH TO DRAWING DOWN EARMARKED RESERVES

3.1 This Council has historically designated the authority to draw down from earmarked reserves to the S151 Officer or relevant Director. The budget report approved by Full Council each year sets out the purpose of each earmarked reserve and any draw downs have been in accordance with the approved criteria. The Council’s auditors have also ensured that such draw downs are appropriate as part of their annual audit of the Statement of Accounts.

3.2 It has been confirmed that this approach has also been adopted by the other East Kent authorities of Canterbury, Dover and Shepway. The only exception to this is Dover’s Special Projects Reserve (which is of a similar nature to Thanet’s Priority Improvement Reserve) where a project appraisal is taken to Cabinet for approval for each project to be funded from this reserve.

4.0 CURRENT EARMARKED RESERVES

4.1 The earmarked reserves currently held by the Council are detailed below, together with their purpose and how it is proposed that the monies will be drawn down. Some discretion will be needed due to the varied nature of each of the

reserves. There is scope for the use of these earmarked reserves to become more flexible but the current criteria has been agreed so as to give the Council greater resilience and flexibility moving forward.

Earmarked Reserves Held as Accountable Body

Decriminalisation – This budget holds monies collected on behalf of Kent County Council for on street parking which is surplus to the contribution towards the costs of delivery of that service. There are set rules over how this can be spent which have been agreed with KCC and these are that it is only available to support future parking, transport or environmental initiatives. The budget assumes draw down of £40k per annum. Draw downs are agreed by officers in accordance with the operating rules of the decriminalisation account.

East Kent Services – The Council holds this budget as accountable body for EK Services. The Chief Executives from TDC, CCC and DDC have agreed that this budget is the delegated responsibility of the Director of EK Services.

Designated Earmarked Reserves – These are reserves specifically set aside from a professional accounting perspective or are ring-fenced for Housing Revenue Account use:

Revenue Projects – The annual budget is developed to meet the costs of the purchases and services planned for that financial year, however, due to accounting rules, any goods or services that are delivered late (beyond 31 March) are unable to be counted within the financial year. To enable all planned costs to be contained within budget, Members have approved the establishment of a reserve to carry forward budget that remains unutilised as a result of slippage of a significant value. The reserve is simply used to roll the amount forward into the accounts of the following year to settle the account once the purchase is complete. Failure to do this would result in an under-spend in one financial year and an overspend in the following year. All such spend carried forward to this reserve is approved by SMT to ensure it meets set criteria. Finance ensure that any spend against the reserve is only to meet the agreed committed expenditure which was budgeted for in the previous financial year.

HRA Properties Reserve – A sum of £500k is held in this reserve to support the purchase and refurbishment of HRA properties. Spend against this reserve is to be approved by the Director of Community Services in consultation with the Portfolio holder.

Non-Designated Earmarked Reserves

Insurance Risk Management Reserve –The purpose of the reserve is to meet potential increases in insurance premiums and to cover the additional insurance premiums relating to Dreamland. The reserve is also held to support the cost of large excesses relating to insurance claims or one-off premiums. Any draw downs are agreed by officers but must relate to insurance/management of risk.

Capital Projects – Any surplus on the capital programme is carried forward in this reserve to provide flexibility for the programme. Cabinet are to approve any drawdowns from this reserve which will be reported within the budget monitoring report.

Local Plan Reserve – Due to the variable profile of spend on this activity and the variable costs in relation to consultation and inspection, any under-spend on this budget is set aside in this reserve to be drawn down against as required. Spend

will be agreed by the Head of Built Environment as long as it is in accordance with the purpose of the reserve.

General Fund Repairs – This reserve is held to support necessary essential repairs and maintenance works to Council assets. Providing spend is in accordance with the purpose of the reserve, the Head of Economic Development & Asset Management can drawdown against the reserve as required, if agreed with the Director of Community Services and approved by SMT.

Information Technology – This reserve is held to support new information technology initiatives to improve efficiency. The detail of these projects is discussed at SMT Strategic Programme Board and all drawdowns from this reserve will be approved by the Chief Executive, following agreement from the Board. This includes the replacement of ICT equipment.

Environmental Action Plan – This reserve is held to finance various improvements to public assets throughout the district. A draw down of £40k per annum from this reserve to budget for this work has previously been agreed by Members. The balance of this reserve could be utilised to support public realm initiatives. It is proposed that the Director of Operational Services approves any expenditure against this reserve in consultation with the Portfolio Holder.

Office Accommodation – A small balance is left on this reserve which will be utilised to cover any office moves required as a result of the restructure. Any expenditure against this reserve will be approved by the Chief Executive.

Cremator and Cemeteries – This reserve was created to hold the surcharge element of the cremator fee. This was set aside to meet the cost of the cremator project undertaken in 2012/13, the purpose of which is to ensure the Council is environmentally compliant. The surcharge on both cremations and burials will continue to be set aside to support future burner replacement and works required at the cemeteries. Draw-downs have already been approved for the Margate cemetery extension and office refurbishment. Any further draw-downs will be brought to Cabinet for approval.

Priority Improvement Reserve – General under-spends have been set aside in this reserve to pump prime service improvements or to support invest to save projects. It is proposed that draw downs are approved by the Chief Executive in consultation with the Finance Portfolio Holder.

Customer Services – This reserve is held for Housing Benefit subsidy. The Housing Benefit subsidy calculation is very complex. A small error or variation can make a significant difference to the amount of subsidy the Council receives. Any under-spend against this activity is therefore set aside in this reserve to negate the impact on the General Fund of any large overspend against this budget in any one year. Although there has been no draw down against the reserve over the last few years, the move towards Universal Credit and paying claimants direct may well result in an increase in bad debts. This reserve would help to negate the impact on the budget of any such increase. It is proposed that the position against the subsidy and bad debts provision is reviewed at each year end and any proposed draw down from the reserve to negate the General Fund impact would then be approved by Cabinet as part of the year-end outturn report. The reserve will also support any potential shortfall in business rates, under the new business rates retention scheme, that won't be covered by the safety net mechanism. Again, any required draw-downs will be approved by Cabinet as part of the year-end budget monitoring report.

Area Based Grants – This holds the monies not yet spent in relation to the Working Neighbourhood Fund monies, however, this sum is fully allocated and will be drawn down as previously agreed by Members as part of the Medium Term Financial Plan.

Waste Reserve – Service under-spends have been set aside in this reserve to support future service enhancements. It is anticipated that the balance on the reserve will be fully utilised over the coming months. Spend against the reserve will be agreed by the Director of Operational Services.

Council Election – A sum of £30k is set aside each year to meet the cost of the district elections held every four years. Monies will be drawn down by the Democratic Services Manager from the reserve to support election costs when required.

Homelessness – Service underspends are held in this reserve to meet future homelessness needs. Any draw-downs will be approved by Cabinet.

CRB Reserve – This is a savings account for specific purposes based on the average annual amount required for the cost of CRB checks. It is proposed that officers draw down from this reserve for this specific purpose as required.

Performance Reward Grant – This reserve will be fully drawn down in 2013/14.

Maritime Reserve – This reserve is held to support improvement works at the Port and Harbour. The reserve may be required to support the budget shortfall as a result of the loss of Transeuropa and also due to reductions in Maritime income. Draw-downs will be approved by the Director of Operational Services for improvement works but any use to cover the budget shortfall will be approved by Cabinet as part of the year-end budget monitoring report.

VAT Reserve – Monies received in respect of the Council's Fleming VAT claim were put into this reserve. If the Council were to breach its partial exemption VAT limit, the potential cost to the Council would be between £400k and £500k. The Council is currently very close to this limit and therefore there is a real risk that this money may be required, although it would only cover a breach for one year. The VAT partial exemption calculation is undertaken by Finance officers and therefore it is proposed that officers will draw down from this reserve if required but only to meet a breach in the exemption calculation or to cover the cost of VAT advice.

Pensions Reserve – Savings on pension costs have been set aside in this reserve to meet any additional costs that may arise as a result of future actuarial valuations. The latest valuation shows that additional contributions are required of £660k over the next three years which means that this reserve will be drawn down in full over this period. The S151 Officer will approve these draw-downs.

New Homes Bonus – Allocations of New Homes Bonus have been set aside in this reserve to support one-off projects. An annual draw down of £185k has been agreed to support the events and floral grants budgets. The reserve will also be used to support shortfalls in the budget due to cuts in formula grant. The required draw-downs have been approved as part of the budget process. Any further draw-downs will also require Cabinet approval.

Housing Intervention – This reserve is held to support the associated one-off costs (e.g. Compulsory Purchase Orders) of the housing intervention project.

Draw downs from this reserve will be agreed by the Director of Community Services in discussion with the Portfolio Holder.

Economic Development and Regeneration Reserves – This reserve is held to support one-off service improvements and initiatives encouraging economic growth. This may include consultancy costs associated with such projects. Spend is to be agreed by the Director of Community Services in discussion with the Leader.

Pay and Reward – This reserve has been set up to support the new pay and reward scheme. Draw-downs will be approved by the S151 Officer.

Vehicle, Plant and Equipment Replacement – The Council has identified that there are a number of vehicles, plant and equipment that will be coming to the end of their useful lives over the next few years. Any service in-year underspends in relation to waste, street cleansing, maritime, parks and grounds will be set aside in this reserve to support a replacement programme. Draw-downs will be approved by the Director of Operational Services.

Dreamland – Monies have been set aside to bolster the contingency for the Dreamland project. Draw-downs will be approved by the Leader and Finance Portfolio Holder.

Coastal Infrastructure – Monies have been set aside from the New Homes Bonus to support the objectives of the Destination Management Plan by enhancing council assets that help to support and encourage tourism. All draw-downs are to be approved by Cabinet.

5.0 OPTIONS

5.1 Members approve the proposed usage of the earmarked reserves as outlined above and the proposed method of draw down.

5.2 Members put forward alternative usages and draw down methods.

6.0 CORPORATE IMPLICATIONS

6.1 Financial

Some spend has already been committed against the earmarked reserves. The Section 151 Officer undertakes an annual review of the level of earmarked reserves to ensure that they are sufficient to meet all of the Council's obligations and have been based on a detailed risk assessment

6.2 Legal

Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the Council's finances. For this Council, this is the Chief Executive (S151 Officer), Sue McGonigal, and this report is helping to carry out that function.

Under the Local Government Act 2003 the Statutory Finance Officer (the 151 Officer) is required to give Members an opinion of the robustness of the budget estimates and the adequacy of reserves. This opinion is reported as part of the budget approval process.

6.3 Corporate

Corporate priorities can only be delivered with robust finances. The level of earmarked reserves as identified in this report is believed to be sufficient to meet these priorities.

6.4 Equity and Equalities

6.4.1 There are no equity or equality impacts arising directly from this report.

7.0 RECOMMENDATIONS

7.1 That Members approve the proposed usage of the earmarked reserves as highlighted in this report;

7.2 That Members approve the proposed draw down process against each earmarked reserve.

8.0 Decision Making Process

8.1 This is a non-key decision and is subject to call-in.

Contact Officer:	Sarah Martin, Financial Services Manager, Ext 7617
Reporting to:	Sue McGonigal, CEx

Annex List

None	N/A
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Background Papers

Title	Where to Access Document
None	N/A

Corporate Consultation Undertaken

Finance	N/A
Legal	Harvey Patterson, Corporate & Regulatory Services Manager