

**REPORT TO: POLICY & RESOURCES COMMITTEE- 9 FEBRUARY 2004**  
**REPORT ON: REVISED GUIDANCE ON RESERVES AND BALANCES**  
**REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)**  
**REPORT NO: 70-2004**

**1 PURPOSE OF REPORT**

To advise the Committee of revised guidance issued recently by CIPFA on Reserves and Balances and to set out proposals for satisfying the requirements of that guidance.

**2 RECOMMENDATIONS**

The Committee is asked to:

- i note the terms of the revised guidance on Reserves and Balances recently issued by CIPFA, as outlined in Section 7 of this report.
- ii agree the proposed protocol for the operation of the Council's various Reserves, as outlined in Section 9 of this report.
- iii note the procedures for the establishment of any new Reserves, as outlined in Paragraph 10.1 of this report.
- iv note the statutory requirement to establish a new Pension Fund Reserve, as outlined in Paragraph 10.2 of this report.

**3 FINANCIAL IMPLICATIONS**

There are no financial implications arising directly from this report. A separate report on the Revenue Budget and Council Tax 2004/05 to 2006/07 will include a statement by the Depute Chief Executive (Finance) detailing the proposed strategy for the use of the Council's various Reserves over the budget period. This report will be considered at the Special Meetings of the Policy & Resources and Finance Committees on 12 February 2004.

**4 LOCAL AGENDA 21 IMPLICATIONS**

None.

**5 EQUAL OPPORTUNITIES IMPLICATIONS**

None.

**6 BACKGROUND**

6.1 Section 12 (1) of the Local Government in Scotland Act 2003 states that: "It is the duty of a local authority to observe proper accounting practices". Section 12 (2) of the Act specifies the three main sources of "proper accounting practices". These are:

- i statutory sources ie Acts of the Scottish and UK Parliaments.
- ii guidance issued by Scottish Ministers.
- iii generally recognised accounting codes and guidance.

In terms of (iii) above, the Chartered Institute of Public Finance and Accountancy (CIPFA) is widely recognised as the appropriate body for issuing guidance on proper accounting practices in the public sector.

- 6.2 In February 2003, CIPFA issued Local Authority Accounting Panel Bulletin 55 (LAAP 55). This bulletin contained revised guidance on Local Authority Reserves and Balances. In terms of the Local Government in Scotland Act 2003, this guidance constitutes "proper accounting practice" and must therefore be observed by the Council. LAAP 55 applies to budget processes beginning on or after 1 April 2003 and therefore applies to the Council's current three-year Revenue Budget process.
- 6.3 The Council's revised Financial Regulations, approved by the Policy & Resources Committee on 10 November 2003, includes the following statement:
- "27.2 The Depute Chief Executive (Finance) has a fiduciary duty to the local taxpayers and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds. The Depute Chief Executive (Finance) and his/her staff shall therefore observe the guidance laid down in the CIPFA Guidance Note on Local Authority Reserves and Balances."
- 6.4 CIPFA's view is that, in Scotland, local authorities may operate reserves only where there is a statutory power to do so. This is a different position to that applicable in England and Wales, where there is a greater degree of discretion. Reserves can be classified as either "general" or "ear-marked": those falling into the latter category can be used only for specific purposes whereas the use of general reserves is unrestricted. A further important distinction is between "notional" and "cash-backed" reserves: the latter can be used to fund future expenditure whereas notional reserves are not available to be spent. It is considered that only cash-backed reserves fall within the scope of LAAP Bulletin 55.
- 6.5 The magnitude of this area is evidenced by the fact that, as at 31 March 2002, Scottish local authorities held cash-backed reserves amounting to some £687m. It is considered, however, that Dundee City Council operates with a relatively low level of reserves (with cash-backed reserves of £8.449m at 31 March 2002).

## 7 LAAP BULLETIN 55

- 7.1 LAAP Bulletin 55 replaces previous guidance that was contained in an occasional paper issued by CIPFA in 1995. The previous guidance was fairly informal in that it was largely the responsibility of the Chief Finance Officer to ensure that a sensible and prudent approach was taken in this area. Recent developments such as three year budgeting and Prudential Code have, however, focused greater attention on the levels and application of reserves and balances. This higher profile is reflected in the revised guidance which is more formal and rigorous and is intended to form part of the overall Corporate Governance framework of local authorities. It is important to note that the revised guidance does not, however, make recommendations as to the required levels of reserves and balances. This is very much a matter for local judgement, in light of local circumstances.
- 7.2 The key requirements of the revised guidance, as they affect the Council, are two-fold:
- i the setting out of a clear protocol covering the purpose, utilisation, management, control and review of reserves and balances.
  - ii the inclusion in the annual budget report of a statement on reserves and balances detailing the proposed strategy over the budget period, after taking into account the strategic, operational and financial risks facing the Council.

The second requirement above will be dealt with separately in the report on the Revenue Budget and Council Tax 2004/05 to 2006/07. This report will be considered at the Special Meetings of the Policy & Resources and Finance Committees on 12 February 2004. Accordingly, the remainder of this report deals with the first requirement.

## 8 THE COUNCIL'S RESERVES

- 8.1 The Unaudited Statement of Accounts 2002/03 was presented to the Special Finance Committee on 30 June 2003. These Accounts show that the Council had the following cash-backed Reserves as at 31 March 2003:

<u>Revenue Reserves</u>	<u>£m</u>
General Fund (including DSM Balances)	6.432
Renewal & Repair Fund	4.352
Car Park Reserve	0.720
Dundee Contract Services Reserve	0.237
Insurance Fund Reserve	<u>0.399</u>
	<u>12.140</u>

The above figures have been confirmed through the audit process and will be reflected in the Audited Statement of Accounts 2002/03, which will be submitted to the Finance Committee in due course.

- 8.2 The Policy & Resources Committee on 8 September 2003 considered Report No 586-2003 by the Depute Chief Executive (Finance), titled "Future of Tayside House and City Centre Accommodation". The Committee agreed a number of recommendations, including the establishment of a Capital Fund to facilitate the resourcing of the office accommodation projects. Capital receipts from the sale of surplus properties will be paid into the Capital Fund. Thereafter, £1m to £1.5m per annum of accrued receipts will be used to fund general capital expenditure, with the remaining accumulated balances available to fund the New City Centre Office Accommodation project. The Capital Fund may also be used generally to accommodate timing differences between capital expenditure and capital receipts. Capital Funds are effectively "cash-backed" and available to fund future expenditure. Accordingly, the Council's new Capital Fund must be considered in terms of the new guidance.
- 8.3 In terms of the reserves identified above that fall within the scope of LAAP Bulletin 55, the nature and purpose of each reserve is as follows:

### General Fund

This is established and operated under Section 93(1) of the Local Government (Scotland) Act 1973. The General Fund is a general reserve and has been built up over a number of years from net surpluses accruing on the Council's annual revenue account. This reserve provides a contingency against unexpected events and also acts as a working balance to minimise overdraft positions resulting from uneven cash flows. The General Fund may be used to fund any unexpected items of expenditure not already budgeted for and/or may be used as a source of income in the Council Tax setting process. In this connection, Elected Members will recall that an amount of £1.5m was taken from General Fund balances in the setting of the 2003/04 Council Tax. The General Fund also incorporates specific amounts earmarked for schools participating in the Devolved School Management Scheme. The General Fund Balance at 31 March 2003 of £6.432m includes £208,000 held in respect of DSM Schools. Decisions on the spending of DSM Balances are delegated to individual Head Teachers.

### Renewal & Repair Fund

This is established and operated under Schedule 3, Paragraph 22(1)(b) of the Local Government (Scotland) Act 1975. The Renewal & Repair Fund is an earmarked reserve and has been built up over a number of years by net contributions from the Council's annual revenue account (including net contributions from the Housing Revenue Account). It may be used to meet the costs of repairing, maintaining, replacing and renewing any assets belonging to the Council.

In Report No 586-2003, the Renewal & Repair Fund was identified as the funding source for the purchase of sites at North Lindsay Street for the replacement of Tayside House. Further, the Council's latest Capital Plan identifies the Renewal & Repair Fund as the funding source for the demolition of the Whitfield Multi Storey Development. Given these commitments, the balance on the Renewal & Repair Fund is now fully utilised.

### Car Park Reserve

This is established and operated under Section 55 of the Road Traffic Regulation Act 1984. The Car Park Reserve is an earmarked reserve and has been built up over a number of years from net surpluses accruing on the Council's car parking operations. It may be used to meet the costs of providing new and/or upgraded car parking facilities. In the event that no further car parking provision is required, the reserve may then be used to fund other public transport or roads projects.

### Dundee Contract Services Reserve

This is established and operated under Schedule 3, Paragraph 22(1)(c) of the Local Government (Scotland) Act 1975. The Dundee Contract Services Reserve is an earmarked reserve and was inherited from the former Dundee District Council at local government reorganisation in 1996. It may be used to meet any annual trading deficits of Dundee Contract Services.

Elected Members will be aware that the Local Government in Scotland Act 2003 repealed the legislation on Compulsory Competitive Tendering. As a consequence, it is no longer legally possible to operate a DLO Reserve. Accordingly, the balance on the Dundee Contract Services Reserve (£237,000) was transferred to the Council's General Fund as at 1 April 2003. The DSO Committee on 17 November 2003 considered Report No 714-2003 by the Director of Dundee Contract Services and agreed to the establishment of a Repairs Contact Centre at Clepington Road. The cost of the Contact Centre is being met from General Fund balances ie effectively from the amounts previously held in the Dundee Contract Services Reserve.

### Insurance Fund Reserve

This is established by Schedule 3, Paragraph 22(1)(ba) of the Local Government (Scotland) Act 1975. The Insurance Fund is an earmarked reserve and may be used to meet the cost of self-insured claims incurred by the City Council and to manage the Authority's self insured and insured programmes.

### Capital Fund

This is established and operated under Schedule 3, Paragraph 22(1)(a) of the Local Government Scotland Act 1975. The Capital Fund is an earmarked reserve and the specific purpose of the Council's Capital Fund is outlined in paragraph 8.2 above.

## 9 A PROTOCOL FOR THE OPERATION OF THE COUNCIL'S RESERVES

In terms of the requirements of LAAP Bulletin 55, as set out in paragraph 7.2 above, the following proposals are made in respect of a protocol for the operation of the Council's Reserves:

- i all Reserves shall be operated in accordance with the relevant legislation and for the specific intended purposes, all as outlined in paragraph 8.3 above.
- ii any new expenditure proposals that require the use of any of the Council's Reserves (except for DSM Balances) shall be subject to the prior approval of the relevant Committee(s) and shall be clearly identified in the Financial Implications section of the Committee report.
- iii the position on the General Fund shall be subject to continuous monitoring by the Depute Chief Executive (Finance) and shall be included in the monthly Revenue Monitoring reports to the Finance Committee.
- iv the Depute Chief Executive (Finance) shall include a statement showing the movements in the Council's Reserves in the Annual Statement of Accounts.
- v in the annual budget report that is considered by the Policy & Resources and Finance Committees on Council Tax setting day, the Depute Chief Executive (Finance) shall include the following:
  - a statement showing the estimated opening and closing General Fund balances for the financial year ahead.
  - a statement advising as to the adequacy of the General Fund balances over the budget period(s) under consideration, after taking into account the strategic, operational and financial risks facing the Council.
  - a statement reporting on the annual review of earmarked Reserves.

## 10 ESTABLISHMENT OF NEW RESERVES

- 10.1 From time to time it may be necessary for the Council to establish new Reserves that fall within the scope of LAAP Bulletin 55. This will be done in line with the relevant proper accounting practices and, in accordance with the Council's revised Financial Regulations, will be subject to the prior approval of the Policy & Resources Committee, following a report by the Depute Chief Executive (Finance).
- 10.2 In order to comply with proper accounting practice Councils are required to implement new arrangements relating to the accounting treatment and disclosure of their employee pension schemes. As part of these new arrangements, the Scottish Parliament has recently issued the Local Government Pension Reserve Fund (Scotland) Regulations 2003. These regulations require all Councils to establish a new reserve that will record pension scheme deficits and surpluses. The reserve will be separate from Councils General Funds and will have no budgetary implications ie it will be a notional reserve.

## 11 CONCLUSION

The Council has a legal obligation to observe the revised guidance on Reserves and Balances, recently issued by CIPFA. The scope of the guidance means that a number of Reserves currently operated by the Council require to be considered. Recommendations have been made that satisfy the requirements of the revised guidance.

12 **BACKGROUND PAPERS**

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

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**29 JANUARY 2004**