

**RESERVES AND BALANCES – UPDATE AS AT 31 DECEMBER 2019**

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**1 EXECUTIVE SUMMARY**

- 1.1 The main purpose of this report is to advise Members of the overall level of reserves held by the Council as well as providing detail on the monitoring of the earmarked balances held within the General Fund.
- 1.2 The Council has a total of £187.139m unusable reserves that are not backed with resources. They are required purely for accounting purposes.
- 1.3 At 31 March 2019 the Council had a total of £55.528m of usable reserves. Of this:
- £1.696m relates to the Repairs and Renewals Fund
  - £4.352m relates to Capital Funds
  - £49.480m was held in the General Fund, with £42.936m of this balance earmarked for specific purposes.
- 1.4 Of the earmarked balance of £42.936m:
- £32.294m is invested or committed for major initiatives/capital projects
  - £3.752m has already been drawn down
  - £2.981m is still to be drawn down in 2019-20
  - £3.709m is planned to be spent in future years
  - £0.200m is no longer required and has been released back to the general fund

Appendix 1 provides further information on the unspent budget earmarkings.

- 1.5 The Council's General Fund contingency level is set at 2% of net expenditure for 2019-20 which equates to £4.838m. At the beginning of the financial year there was £1.706m of unallocated General Fund Balance (over and above contingency). After taking into consideration the balances no longer required, the agreed supplementary estimates, the current forecast outturn for 2019-20 and the Loans Fund review estimated savings, the Council is forecast to have a £1.822m contingency balance by the end of the year.

**RESERVES AND BALANCES - UPDATE AS AT 31 DECEMBER 2019****2. INTRODUCTION**

2.1 This report outlines current balances on the Council's reserves, both usable and unusable. It also provides detail on the monitoring of the earmarked balances within the General Fund.

**3. DETAIL****3.1 Types of Reserves**

3.1.1 **Usable Reserves** - Councils have powers to establish certain resource backed reserves which can be used to fund expenditure. The powers of councils to establish reserves are laid out in Schedule 3 of the Local Government (Scotland) Act 1975. These allow councils to establish a Renewal and Repairs Fund, Insurance Fund and Capital Fund. Councils can also establish a Useable Capital Receipts Reserve. The Council must also maintain a General Fund and can earmark balances for specific purposes within the General Fund.

3.1.2 **Unusable Reserves** – Councils are also required to establish certain reserves that are not backed by resources. They are required purely for accounting purposes and do not represent resources available for councils to utilise. The Pensions Reserve, Revaluation Reserve, Capital Adjustment Account, Financial Instruments Adjustment Account and Accumulated Absences Account are examples of unusable reserves.

**3.2 Reserve Balances at 31 March 2019**

3.2.1 The balances on each type of reserve at 31 March 2019 are set out in the two tables below, updated as per Audited Accounts for 2018-19.

<b>Unusable Reserves</b>	<b>£000</b>
Revaluation Reserve	115,150
Capital Adjustment Account	195,045
Financial Instruments Adjustment Account	(3,176)
Pensions Reserve	(113,768)
Accumulated Absences Account	(6,112)
<b>Total Unusable Reserves</b>	<b>187,139</b>

<b>Usable Reserves</b>	<b>£000</b>
Repairs and Renewals Fund	1,696
Capital Fund and Usable Capital Receipts Reserve	4,352
General Fund	49,480
<b>Total Usable Reserves</b>	<b>55,528</b>
<b>Total Reserves</b>	<b>242,667</b>

- 3.2.2 The Revaluation Reserve represents the unrealised gains in the valuation of fixed assets. The Capital Adjustment Account represents the difference between depreciation based on proper accounting practice and statutory charges for financing capital expenditure. The Financial Instruments Adjustment Account represents the difference between gains and losses on borrowing and statutory capital financing charges. The Pensions Reserve represents the difference between pension costs based on proper accounting practice and payments made for pension costs. The Accumulated Absences Account represents the costed difference between holiday pay entitlement and actual holidays taken at 31 March.
- 3.2.3 The Repairs and Renewals Fund was established to support funding of renewal and replacement of school equipment. Schools can only draw on the Repairs and Renewals Fund to the extent they have previously paid into the Fund and contributions must be contained within schools devolved budgets.
- 3.2.4 The Capital Fund was established to receive all capital receipts generated by the Council and can be used to support the capital plan or meet the principal repayments on loan charges. The Council decides as part of the budget process each year how it wishes to draw funding from the Capital Fund.
- 3.2.5 The Usable Capital Receipts Reserve relates to the accumulated unspent capital receipts from sale of council houses prior to transfer of the housing stock. The reserve forms part of the Council's Strategic Housing Fund and can only be used for investment in social housing. The reserve will be used in accordance with the approach to investing in housing agreed by the Council in August 2012.

### 3.3 General Fund

- 3.3.1 The General Fund balance at 31 March 2019 can be analysed as follows:

	<b>Balance 31/03/19 £000</b>
Balance on General Fund as at 31 March 2018	50,342
Decrease to General Fund balance at end of 2018-19	(862)
Earmarked Balances	(42,936)
Contingency allowance at 2% of net expenditure	(4,838)
<b>Unallocated balance as at 31 March 2019</b>	<b>1,706</b>

3.3.2 The General Fund includes balances that the Council has agreed to earmark for specific purposes. Some of these earmarked balances will be spent during the current financial year and some of them will be held over and spent in later years. The table below shows the balance at 31 March 2019, the amounts that are currently invested or set aside for major initiatives, the amount already spent and planned to be spent in the current year, the amount to be spent in future years and any sums no longer required to be earmarked. Appendix 1 provides further details on the breakdown of unspent budget. Officers have reviewed and updated the spending profiles.

<b>Earmarking Category</b>	<b>Balance 31/03/19</b>	<b>Invested or committed for major initiatives/ capital projects</b>	<b>Drawn-down to 2019-20 Budget as at 31/12/19</b>	<b>Still to be drawn-down in 2019-20</b>	<b>Planned Spend Future Years</b>	<b>Balance no Longer Required</b>
	£000	£000	£000	£000	£000	£000
Strategic Housing Fund	6,310	5,674	536	100	0	0
Investment in Affordable Housing	4,200	4,000	0	0	0	200
Capital Projects	5,579	5,579	0	0	0	0
Lochgilphead and Tarbert Regeneration	2,917	2,683	234	0	0	0
Inward Investment Fund	935	935	0	0	0	0
Rural Resettlement Fund	180	152	28	0	0	0
Asset Management Investment	2,507	2,507	0	0	0	0
Piers and Harbours Investment Fund	240	240	0	0	0	0
Scottish Government Initiatives	500	0	153	68	279	0
Transformation	78	0	4	74	0	0
CHORD	142	0	0	142	0	0
DMR – Schools	815	0	747	68	0	0
Energy Efficiency Fund	137	0	0	137	0	0
Existing Legal Commitments	796	0	25	771	0	0
Unspent Grant	1,579	0	1161	356	62	0
Unspent Third Party Contributions	132	0	19	113	0	0
Other Previous Council Decisions	11,480	100	198	10,534	648	0
Unspent Budget	4,409	0	647	1,042	2,720	0
<b>Total</b>	<b>42,936</b>	<b>21,870</b>	<b>3,752</b>	<b>13,405</b>	<b>3,709</b>	<b>200</b>

3.3.3 Investment in Affordable Housing £0.200m – this earmarked balance provides cash backed reserves for loans to registered social landlords. As at 31 December 2019, the balance on the remaining loans will be £4.000m, therefore £0.200m can be released back to the general fund.

3.3.4 At the Council meeting on 27 June, the following supplementary estimates were agreed which reduce the unallocated General Fund balance:

	<b>£000</b>
Enforcement action for Planning, Housing & Regulatory Services	24
Kintyre Recycling Ltd to continue with kerbside service delivery	33
Fyne Futures to continue with kerbside service delivery	37
<b>Agreed Supplementary Estimates</b>	<b>94</b>

- 3.3.5 The review of loans charges in association with Treasury Advisors, Link Asset Services is now complete. It is estimated that this will provide savings in 2019-20 of £2.5m. The findings were presented to the elected member seminar on 27 January however note that this saving is subject to member approval.
- 3.3.6 The Council's General Fund contingency is set at 2% of net expenditure for 2019-20 and amounts to £4.838m. At the beginning of the financial year there was £1.706m of unallocated General Fund Balance (over and above contingency). After taking into consideration the balances no longer required, the agreed supplementary estimates, the current forecast outturn for 2019-20 and the estimated loans fund review savings, the Council is forecast to have a £1.822m contingency balance by the end of the year.

	<b>£000</b>
Unallocated balance as at 31 March 2019	1,706
Balance no longer required	200
Supplementary estimates agreed 27 June 2019	(94)
Current Forecast Outturn for 2019-20 as at 31 December 2019	(2,490)
*Loans fund review estimated savings	2,500
<b>Estimated Unallocated balance as at 31 March 2020</b>	<b>1,822</b>

*\* As presented to elected members at the elected member seminar on 27 January. This saving is subject to member approval.*

#### **4. CONCLUSION**

- 4.1 The report outlines the overall reserves and balances for the Council covering the purpose and level of each reserve. It also provides detail as to expenditure against earmarked balances held within the General Fund.
- 4.2 As at 31 December 2019 the estimated unallocated General Fund, after taking into consideration the forecast outturn for 2019-20 is a £1.822m contingency.

## **5. IMPLICATIONS**

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|-----|-----------------------|--|
| 5.1 | Policy -              | Earmarked funds and funds set aside for delivery of Single Outcome Agreement are available to support Council Policy.                                      |
| 5.2 | Financial -           | Outlines the balances held with the Council's usable and unusable reserves.  |
| 5.3 | Legal -               | None.  |
| 5.4 | HR -                  | None.  |
| 5.5 | Fairer Scotland Duty- | None.  |
| 5.6 | Risk -                | A contingency of £4.838m (equivalent to 2% of net expenditure) has been set aside as part of the general fund. This has been subject to a risk assessment. |
| 5.7 | Customer Service -    | None.  |

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13 February 2020**

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## **APPENDICES**

Appendix 1 – Earmarked Reserves breakdown of unspent budget