

Aberdeenshire Council 2024/25 Budget – Appendix 12

RESERVES

1. What are reserves?

1.1. Reserves are in the main a revenue resource that the Council has accumulated over time and set aside for a particular purpose as part of an integrated approach to the financial management of the Council over the short and medium term. The Council will also hold unusable reserves in accordance with Generally Accepted Accounting Practice in the UK (UK GAAP) and Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice.

2. Types of reserves held

2.1. The Council holds reserves for specific reasons that are included within the Medium-Term Financial Strategy. These include a working balance to cover unexpected events and to meet forthcoming events where the precise event, date and amount required cannot accurately be predicted. In addition, the Council is required to hold non-cash backed reserves to adhere to proper accounting requirements when preparing its annual Statement of Accounts. There are five types of reserves, each of which are explored in more detail below:

Usable Reserves

- Working Balance
- Statutory Funds
- Earmarked Reserves – Capital
- Earmarked Reserves

Unusable Reserves

- Unusable Reserves for Statement of Accounts

2.2. Working Balance

The Council will hold a general reserve Working Balance which sets out the minimum amount of reserves the Council is required to hold for the following purposes:

- To meet forthcoming events where the precise date and amount required cannot be accurately predicted.
- A contingency to cushion the impact of unexpected events or emergencies.
- A reasonable amount to meet peaks and troughs in revenue and capital expenditure requirements.
- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing. This is the minimum level of reserves that the Council will hold.

2.3. Statutory Funds

The Council will hold statutory funds for the following purposes: -

- **Uninsured Losses Fund** - funding set aside to manage financial risk and volatility. The fund covers uninsured losses that are not yet fully quantified and liabilities for incidents that have happened but for which a claim has not yet been received, including major events which are not covered in full by other funding.
- **Winter Maintenance Fund** - The reserve is designated for unexpected winter and emergency operations. The current budget anticipates expenses based on a mild winter.

Whether this reserve is accessible in 2024/25 hinges on the final financial outcome of 2023/24. As of the January 2024 forecast, it's expected that this reserve will be fully utilised, there is no provision to replenish in the 2024/25 budget setting.

2.4. Earmarked Reserve – Capital

The Council will hold the following reserves: -

- **Capital Receipts Deferred Reserve.** This reserve holds the proceeds from the sale of assets and can only be used for capital purposes in accordance with the regulations.
- **Capital Grants & Receipts Unapplied** where grants have been received and are held in reserve but have not yet been set against relevant spend.

2.5. Earmarked Reserves

The Council will hold earmarked reserves for the following purposes:

- A means of building up funds to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the general reserve.
- To mitigate specific risks in relation to the economic, political, and social climate. The risks identified for 2024/25 budget setting are contained within the Budget Risk Register (**Appendix 3B**).
- To meet forthcoming capital expenditure needs where major capital schemes are being planned and the reserve will be utilised to reduce the cost of borrowing and capital charges to the revenue account. The Council does not currently hold a reserve for this purpose.
- To meet smaller projects where expenditure is only met from this reserve, and which meets specific policy requirements.

- To hold donations or bequests with specific conditions as to the use of the funding (**Earmarked - Restricted Reserve**)
- In 2022/23, the Council agreed to create a **Transformation Reserve** which was created following the change in accounting rules relating to service concessions. This funding is set aside to be made available for transformation projects which are intended to result in efficiencies and cost reduction to enable the closing of future year gaps. This is not a cash benefit, but an accounting benefit and any use of this reserve will need access to cash funds, for example through borrowing.

2.6. Unusable Reserves for the Statement of Accounts

The Council also holds other reserves that arise out of the interaction of legislation and proper accounting practice. These do not form part of the budget setting process but are reflected here for information. These reserves are technical in nature, and are only reported through the Annual Accounts, they are not cash-backed and **cannot** be used for any other purpose, as described below:

- **The Revaluation Reserve** – this is a reserve that records unrealised gains in the value of fixed assets. The reserve increases when assets are revalued upwards and decreases as assets are depreciated or revalued downwards or disposed of.
- **The Capital Adjustment Account** – this is a specific accounting mechanism used to reconcile the different rates at which assets are depreciated under proper accounting practice and are financed through the capital controls system.
- **The Financial Instruments Adjustment Reserve** – this is a specific accounting mechanism used to reconcile the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under proper accounting practice and are required by statute to be met from the General Fund.
- **The Pensions Reserve** – this is a specific accounting mechanism used to reconcile the payments made for the year to various statutory pension schemes.
- **Employee Statutory Adjustment Account** – this account represents the value of outstanding annual leave and time off in lieu as at 31st March each year.

3. Aberdeenshire Council Reserves Strategy

3.1 Our strategy when considering which reserves to hold, the level and for what purpose as part of the MTFS and Budget setting process is supported by the following three key elements: -

- **Strategic intent** – We define the purpose of holding reserves to achieve the Council's priorities or manage future risks.
- **Programme for use** – We determine the level of reserves and outline plans for their use over the 2024-2029 MTFS period.
- **Framework for use** – We establish how reserves will be assessed, managed, and utilised to support our objectives effectively.

3.2 The reserves strategy is underpinned by the following key principles: -

- Reserves are reviewed annually as part of the Budget setting report.
- Those reserves no longer required for their intended purpose are identified and made available for other defined priorities.
- The level of reserves and forecast should be re-assessed as part of the financial reporting to ensure their adequacy.
- The risk assumptions to be reviewed as part of the regular financial reporting.
- A long-term view will be used when assessing the use of reserves to ensure that existing commitments and agreed priorities can be delivered.
- Pursuing financial efficiency will serve as the foundation for the request to use the Transformation Reserve. Internal proposals for this funding will undergo peer scrutiny, requiring well-defined business cases to justify the use of the reserve. The financial outcome will be thoroughly evaluated throughout the funding period and upon completion of the project.
- When the Council is in receipt of one-off and non-recurrent resources consideration will be given in the first instance to utilise them to replenish and top-up reserves.

3.3 Why is a reserves strategy required?

The Council must plan over the short and medium term how it intends to use its resources (grants, council tax and income) to deliver its Plan and MTFS and associated priorities to the residents and communities of Aberdeenshire. As a large, complex organisation there will always be variations between actual spending/income and the budgets and plans due to variations in demand, demographic change, changes in costs and funding decisions of third parties as well as needing to deliver projects and investments spanning more than one financial year.

To ensure that the Council manages these financial risks whilst being able to maintain services, requires the Council to hold funds in reserve to meet these costs as and when they arrive. A reserves strategy enables this to be done in a planned way.

The sufficiency of the level of reserves held will be considered on an annual basis and will be predicated on the risks that the Council needs to plan for, the projects it wishes to deliver over a multi-year period and whether the working balance requires to be replenished. A reserve may be created or replenished under the following circumstances: - as a result of an under-budget outturn position at the year end, the setting aside of funding as part of the revenue budget setting process, the repurposing of an existing reserve or upon receipt of un-hypothecated additional funding.

3.4 Reserves and the MTFS

The reserves strategy is part of a suite of supporting strategies and plans that supplement the Council Plan and 2024-29 MTFS. All the supporting strategies and plans are aligned to the Council Plan and MTFS and provide an additional level of granularity that help create a bridge between the high-level over-arching plan and operational delivery. As such it forms part of a collective accountability framework for the management of the Council's financial resources.

Maintaining the current high standards of financial management across the organisation is critical to the successful delivery of the 2024/25 Budget and wider MTFS. Any weakening of financial management has a direct impact on the level of reserves needed to offset the risk of services overspending and/or the non-delivery of savings targets. The central role in the management of the Authority's reserves lies with the Chief Executive, Directors, and wider budget holders both individually and collectively, with support and advice from Finance and scrutiny through Policy Committees and Full Council.

4. Principles for managing and using Reserves.

The principles are:

- a. The primary purpose is to manage financial risk and promote financial sustainability.
- b. The planned use of reserves, for the following financial year, will be agreed as part of the annual budget setting and medium-term financial strategy process. Other than in exceptional circumstances, the planned use of reserves is only expected to change in year as a result of:
 - Investment projects and projects to deliver budget reductions in future years approved by Members/Corporate Board; and
 - Adjustments to reflect the impacts of the previous year's outturn that were not known at the time the budget for the year was agreed.
- c. All reserves will be subject to a year-end review to ensure the reason for holding the reserve and the plans for its use aligns with the approved Council Plan, the Delivery Plan, MTFS and this strategy.

- d. Reporting on each reserve and seeking approval for any variations to the reserves will be reported through regular performance monitoring to Committee and /or Council.
- e. Creation of new reserves will form part of the annual MTFS and budget setting process or through regular monitoring report to Council.

5. Aberdeenshire Council Reserves

3.5 Reserves are an essential part of good financial management and the Council's drivers for holding them are as follows: -

- Management of financial risk so that the risk materialising doesn't undermine the Council's overall financial position or impact on service delivery.
- Planned use of resources set aside to deliver a project over time.
- Smoothing out of uneven cashflows to negate the need for unnecessary temporary borrowing.
- Retain any other accumulated underspends prior to decisions on their use.

The Council will always need to retain reserves for each of these categories.

3.6 Aberdeenshire Council's reserves are forecast to be **£98.473 million** at the start of 2024/25, these balances are subject to a revenue break even position in 2023/24 and no further draw down on reserves to fund planned smaller projects.

The level of reserves is contingent upon the Council's External Auditor's scrutiny of the annual accounts. In the event of an over budget position upon final assessment, any shortfall would need to be covered by reserves, with the proposal to use the Risk and Inflation Reserve – General Fund and the Risk and Inflation Reserve HSCP for any budgetary shortfall by the Aberdeenshire Health and Social Care Partnership.

The reserves are being held for the following reasons: -

- £23.540 million to manage financial risk, including volatility, this includes £11 million of Working Balances.
- £7.010 million of investment in projects to deliver the Council's priorities.
- £19.778 million to meet externally set conditions.
- £12.637 million of capital grants and capital receipts carried forward to future years to be invested within the Capital Plan.
- £35.508 million available from to invest in transformation projects to bring about service redesign, reduction in costs and increased reserves over the period of the MTFS and to balance future years budget gaps.

3.7 In 2023/24, the Council undertook a voluntary severance scheme and as a result accepted a number of applicants at a cost of £1.88 million to the General Fund, with recurring savings expected of £1.99 million. Members are requested to approve the use of the Transformation Reserve to fund these one-off costs.

3.8 Working Balances

It has previously been established that the General Fund Working Balance will be maintained at **£9million**. No change to this level is proposed for 2024/25.

The HRA Working Balance of £2 million is recommended for approved as part of the separate item on the Full Council agenda at its meeting on 22 February 2024 as part of the HRA Budget setting for 2024/25.

	Proposed Balance at 1 April 2024 £000
Working Balances	
General Fund Balance	9,000
Housing Revenue Account	2,000
Total Working Balances	11,000

As the net budget position changes and risks are reviewed the level of Working Balance must be monitored to ensure that a minimum level is maintained. In the event of a draw down on the Working Balances solutions must be identified to replenish to the agreed level, this will require the identification of revenue expenditure savings or the reallocation of an existing reserve.

3.9 Statutory Funds

The Council maintains two statutory funds :-

	Opening Balance 1 April 2023 £000	Proposed Balance 1 April 2024 £000
Statutory Funds		
Uninsured Losses Fund	1,132	1,132
Winter Maintenance Fund	1,300	nil
Total Working Balances	2,432	1,132

3.10 Earmarked Reserves - Capital

	Opening Balance 1 April 2023 £000	Proposed Balance 1 April 2024 £000

Earmarked Reserves - Capital		
Capital Receipt Deferred	422	421
Capital Grants & Receipts Unapplied Account	13,380	11,100
Total Earmarked Reserves – Capital	13,802	11,521

3.11 Earmarked Reserves

Unlike General Reserves, earmarked reserves have been identified for specific areas of expenditure where there are anticipated costs that can only be estimated. It is therefore prudent for the Council to identify such areas of expenditure and set aside amounts that limit future risk exposure.

Expenditure relating to earmarked reserves must specifically relate to the purpose of the reserve. There is no set limit to an earmarked reserve as it is to reflect the level of need required.

Within Earmarked Reserves there are reserves that are restricted as to their use. These are made up of funds that have been donated to the Council for a specified purpose. Also grant funding received but not yet spent, where there are conditions attached to the grant and any unspent funding is required to be repaid, therefore this is carried forward to ensure that there is sufficient funding available to cover the remainder of the project expenditure or repay it if required.

Earmarked Reserves – unrestricted use are general fund reserves that have been created for the purposes reflected in Section 2 d) above.

	Opening Balance 1 April 2023 £000	Proposed Balance 1 April 2024 £000
Earmarked Reserves – restricted use		
Aberdeenshire Farming Museum Purchase Fund	61	61
Aberdeenshire Heritage Artefact Acquisition Fund*	11	11
Estate of the late William Paterson Beedie Bequest	20	20
Tolbooth Restoration Fund	55	55
Affordable Housing Reserve	7,868	8,448
CCI Reserve	29	29
Greeness Settlement	79	0
Additional Scottish Government Funding	2,527	772
Community Culture & Tourism	140	94
Total Earmarked Reserves – restricted use	10,790	9,490

The table below identifies the required reserves to mitigate against known risks for 2024/25 and confirms the continued need for the reserves previously set aside to deliver the Council Priorities.

New reserves created and changes to previously held reserves are detailed in paragraph 5.7 below.

	Opening Balance 1 April 2023	Proposed Balance 1 April 2024
	£000	£000
Earmarked Reserves – unrestricted use		
Risk and Inflation Reserve – General Fund	8,217	8,217
Risk and Inflation Reserve - HRA	300	300
Risk Reserve – Health and Social Care Partnership	3,991	2,391
Local Government Pay Award	4,600	0
Teachers Pay Award	0	0
Fiscal Flexibilities	37,498	35,508
Regeneration and Priority Town	2,108	570
Place Reserve - NEW	0	1,400
Local Authority Continued Economic Recovery Fund (LACER)	1,691	920
Tackling Poverty and Inequalities	3,447	3,061
Roads Maintenance	3,087	0
Repairs and Maintenance	500	500
ECS Holiday Recovery Programme	979	0
Digital Strategy	1,493	903
Rural Development Partnership	37	37
Carbon Budget Tool	312	102
Community Resilience Fund	43	16
Total Earmarked Reserves - unrestricted	68,308	53,926

3.12 Changes to existing reserves and creation of new reserves

Place Strategy Reserve

It is proposed that £1.400m of the Regeneration and Priority Town Reserve which currently has a forecast balance of £1.970m to the 31 March 2024, be transferred into a new Place Strategy Reserve to provide resources to deliver the Place Strategy.

As highlighted in the MTFs the Council's external auditor highlighted the need for financial resources to deliver the Place Strategy.

Regeneration and Priority Town Reserve	£000
Forecast Balance 31 March 2023	1,970
Transfer to Place Strategy Reserve - NEW	1,400
Balance 1 April 2024	570

End of programme reports will be presented to Infrastructure Services Committee in May 2024. Any outstanding funds following the conclusion of the current programmes will be transferred to the Place Strategy Reserve.