

# WEST DUNBARTONSHIRE COUNCIL

## Report by the Executive Director of Corporate Services

Corporate & Efficient Governance Committee – 24 March 2010

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### Subject : Prudential Reserves Policy

#### 1. Purpose

- 1.1 The purpose of this report is to review the calculation methodology of the current general services prudential reserves policy approved by the Council on 25 June 2003.

#### 2. Background

- 2.1 In February 2003, CIPFA issued guidance on local authority reserves and balances and recommended that it should be followed for budget processes beginning on or after 1 April 2003. The original policy statement has been attached as Appendix 1 for information.
- 2.2 The policy tasks the Council with a formal review every three years. Each year the Council formally reviews the calculated reserves level, but not the calculation methodology.

#### 3. Main Issues

- 3.1 The prudential reserves policy was developed to comply with good practice and to help ensure sound financial health of the Council. The main purpose of the prudential reserves policy is to identify a target minimum level of reserves which the Council will seek to establish. This minimum level of reserves will be used to deal with financial risk and unforeseen events during the year. It should not be available for use in budgets, but any reserves greater than the minimum amount will be available for planned expenditure. Since the approval of the prudential reserve, the target is revised annually.
- 3.2 The current general services policy recommends a minimum reserves level of 2% of net expenditure and equates to £4.980m (2010/11 budget setting).
- 3.3 Many organisations base their prudential reserves on their salary bills to ensure that they hold a minimum of one month's salary bill in reserve. This would be in excess of £12m for the Council. Given the relative stability of the Council's income, it is felt that the prudential reserves level should be lower and based on expenditure instead.

- 3.4** With costs of single status over the past few years, the Council has worked towards the restoration of the targeted figure. As at 31 March 2009, the General Fund had a balance of £0.258m. The Council has agreed to commit a sum per annum from the revenue budget until the targeted reserves are met. It is likely that the balances held will be below the prudential level for some time. The Council would not wish to reduce the targeted level of reserves, increasing their financial risk, simply to allow the targeted reserves to be met on a shorter term basis.
- 3.5** The most recent 3-year settlement rolled up a number of grants previously ringfenced which were historically held as income within departments. The effect of this was to increase the budgeted net spend funded through government grants and council tax by around £20m – equivalent to £0.400m increase in the prudential reserve target. However, it is difficult to exclude this change in funding as it is no longer clear what the previously ringfenced element would now be.
- 3.6** The Council's budget has included within it payments for requisitions to Police, Fire, SPT and VJB (including an element for loan charges) totalling in excess of £30m. These organisations do consider their own prudential reserves and manage their own risks. Thus, the Council should consider whether or not including these expenditure lines are actually appropriate. To reduce the target to 2% of the net position of service expenditure would reduce the prudential reserve target in 2010/11 to £4.1m.
- 3.7** Under the current economic climate, risks are considerably higher than in a stable environment. There are a number of unknown factors due to businesses failing, unemployment and benefits level, government funding, etc. The risks for additional expenditure and reduced income to balance the budget of the Council could be considerably higher than in other climates. Thus, it could be argued that the target of 2% of net budget should be increased.
- 3.8** The Council must consider some of the services it provides with a competitive slant – ie 'trading accounts'. The prudential reserve target is used to identify possible statutory trading operations and should be considered when reviewing the calculation.
- 3.9** The Prudential Reserve methodology was discussed and considered at the Strategic Finance Working Group on 19 February 2010 and the recommendation noted takes account of this.

#### **4. Personnel Issues**

- 4.1** There are no personnel issues.

#### **5. Financial Implications**

- 5.1** There are no financial implications.

## **6. Risk Analysis**

- 6.1** The prudential reserve target aims at helping to ensure sound financial health of the Council, which may be used to deal with financial risk and unforeseen events during any year.

## **7. Equalities Impact**

- 7.1** No significant issues were identified in a screening for potential equality impact.

## **8. Conclusions Recommendations**

- 8.1** Due to the current economic climate, consideration to the trading operations and the position of current reserves level, there would appear to be no real reason for changing the current 2% calculation methodology. However, with the Joint Boards managing their own risks and providing their own prudential reserves, there appears little reason for the Council to also provide a reserve for this.
- 8.2** It is recognised that the Council may not be able to afford to set aside sufficient balances to meet the targeted prudential reserve in the short term. The Council works towards building up reserves over the medium term and maintain at least this minimum level in the longer term.
- 8.3** It is recommended that Members agree the prudential reserve is calculated at 2% of the Council's net budget (excluding requisitions), with immediate effect.

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**Joyce White**  
**Executive Director of Corporate Services**  
**Date: 5 March 2010**

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**Appendix:** Original Policy Statement: Prudential Reserves

**Background Papers:** Council Minute 27 January 2010

**Wards Affected:** n/a

West Dunbartonshire Council

**Original Policy Statement: Prudential Reserves**

**1. Purpose of Policy Statement**

- 1.1 The purpose of the policy statement is to set out West Dunbartonshire Council's approach to maintaining a minimum level of reserves to guard against financial risk. Following this statement will ensure that the Council complies with the guidance issued by CIPFA on local authority reserves and balances (LAAP Bulletin 55, February 2003).

**2. General Statement**

- 2.1 West Dunbartonshire Council wishes to ensure that it is able to cope with unforeseeable adverse fluctuations in budgeted income and expenditure by holding a minimum level of reserves. This minimum level of reserves will be known as the prudential reserves. They include accumulated general fund and HRA balances as well as any specific named reserves which the Council is allowed to create by law.
- 2.2 Any accumulated balances above the prudential reserves level will be available for planned use, but the prudential reserves will only be used for genuinely unforeseeable events or emergencies. The prudential reserves are not intended to be used to compensate for poor budgeting. The Council will continue to produce robust budgets and to exercise strong management of these budgets.

**3. Level of Prudential Reserves**

- 3.1 The target level of prudential reserves will be set at 2% of net expenditure for the General Fund and 2% of gross expenditure for the HRA, though it is recognised that these will require to be reviewed year on year.

**4. Review of Policy**

- 4.1 The policy will be formally reviewed every 3 years.