

Committee: Executive Committee
Date of meeting: 17th July 2019
Report Subject: Use of General and Earmarked Reserves 2018/2019
Portfolio Holder: Cllr N Daniels, Leader / Executive Member Corporate Services
Report Submitted by: Rhian Hayden, Chief Officer Resources

Reporting Pathway								
Directorate Management Team	Corporate Leadership Team	Portfolio Holder / Chair	Audit Committee	Democratic Services Committee	Scrutiny Committee	Executive Committee	Council	Other (please state)
	25/6/2019				12/7/2019	17/7/2019		

1. Purpose of the Report

- 1.1 To report to the members of the Executive Committee the draft outturn reserves position for 2018/2019.

2. Scope and Background

- 2.1 There are a number of statutory requirements concerning Local Authority Reserves, including:
- The Local Government Act 1972;
 - The Local Government Finance Act 1988;
 - The Local Government Finance Act 1992;
 - The Local Government Act 2003; and
 - The Accounts and Audit (Wales) Regulations 2014.
- 2.2 The CIPFA Local Authority Accounting Panel (LAAP) issued Bulletin 99: Local Authority Reserves and Balances in July 2014. This provides non-statutory guidance on relevant issues including:
- Proper accounting treatment; and
 - Principles to assess the adequacy of reserves.
- 2.3 To ensure compliance with CIPFA Local Authority Accounting Panel Bulletin 99 and identified best practice, the Council revised its protocol for managing reserves, with effect from April 2015.
- 2.4 In order to enhance Elected Member engagement and scrutiny quarterly reports detailing the actual and forecast use of general and earmarked reserves, including changes in requirement/amounts and risk assessments, are prepared and presented to Executive and Joint Budget Scrutiny Committee during the financial year.

- 2.5 The protocol was further amended and agreed by Council in March 2016 to adopt a long-term approach to the need to provide services to the citizens of Blaenau Gwent by setting a target level for general reserves. This was set as 4% of the last reported actual net revenue expenditure (as included in the Revenue Outturn return).

Options for Recommendation *To include Recommendation(s) / Endorsement by other groups, e.g. CMT/Committees/Other groups)*

- 3.1 This report will be considered by the Joint Finance Scrutiny Committee on 12th July 2019 and any comments will be provided verbally to the Executive Committee.
- 3.2 That the Executive Committee considers the attached report of actual use of general and earmarked reserves for 2018/2019 and:
- note the planned maintenance of the General Reserve at the 4% target level for 2018/2019 and future years; and
 - continue to challenge budget overspends and implement appropriate service Action Plans, where required.

Maintenance of general reserves at an adequate level is crucial to the Council being able to meet future liabilities arising from risks for which specific provision has not been made.

4. **Evidence of how this topic supports the achievement of Council Priorities / Statutory Responsibilities / National Well-being Goals etc.**

4.1 **National Well-being Goals**

The management of earmarked and general reserves (in recognition of the need to plan for known or predicted future obligations, unexpected events or emergencies), allows the Authority to deliver services in pursuance of its obligations under the national well-being goals.

5. **Implications Against Each Option**

5.1 **Financial**

- 5.1.1 Section 6 provides an overall summary of the financial position in relation to the remaining balances in general and earmarked reserves at 31 March 2019.
- 5.1.2 Table 1 at 6.1.3 (below) shows the position for the general reserve at year-end 2018/2019 to be an increase of £0.412m, to £5,894m. This balance represents 4.39% of net revenue expenditure, £0.506m above the 4% target level of £5.388m.

5.1.3 Table 2 at 6.1.7 (below) shows the level of earmarked reserves at 31 March 2019 to be £6.568m, an in year increase of £1.551m.

5.1.4 The Authority has accepted the need to maintain an appropriate level of reserves and as a first step towards the replenishment of General Reserves has included a contribution of £0.117m as part of the 2019/2020 budget (subject to the emergence of specific cost pressures during the year).

5.2 Risk

5.2.1 The Council must ensure an appropriate level and use of reserves to support its financial sustainability.

5.2.2 Failure to comply with the requirements set out in CIPFA LAAP Bulletin 99: *Local Authority Reserves and Balances*, which include the implementation of a clear protocol for the establishment, use, control and review of reserves, could result in adverse comments by regulators.

5.2.3 If the level of general reserves is not maintained at an adequate level, the Authority may be unable to meet future liabilities arising from risks for which specific provision has not been made. In addition, if the Authority has not maintained sufficient reserves, the successor authority may have difficulty in meeting liabilities arising and/or providing required services following a future local government reorganisation or collaboration.

5.2.4 A protocol for the management of reserves was adopted in April 2015 to mitigate the risk of non-compliance with CIPFA LAAP Bulletin 99 and identified best practice.

5.2.5 In the short-term, the level and adequacy of reserves are regularly reviewed and monitored through regular outturn/ forecast reporting. In the medium term, reserves are assessed as part of the budget-setting process and the Medium Term Financial Strategy. Maintenance or replenishment plans will be developed if necessary and implemented to maintain earmarked and general reserves in accordance with the approved protocol.

5.2.6 To address the potential risk that the level of general reserves will fall below the protocol target level, the Council has taken the first steps in developing a replenishment/maintenance plan as part of the Medium Term Financial Strategy for 2019/2020 and future years.

5.3 Legal

5.3.1 The Local Government Finance Act 1992 requires authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

5.3.2 Section 25 of the Local Government Act 2003 places a duty on chief finance officers' to report on the robustness of estimates and adequacy of reserves when the authority is considering its budget requirement.

5.3.3 Section 114 of the Local Government Finance Act 1988 requires the chief finance officer to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

5.4 Personnel

5.4.1 There are no direct personnel/staffing implications arising out of this report.

6. Supporting Evidence

6.1 Performance Information and Data

6.1.1 The level of the Council's general reserve disclosed in the statutory accounts presented to Audit Committee in September 2018 for the financial year ended 31 March 2018 was £5.482m equating to 4.08% of net revenue expenditure (as reported in the 2017/2018 Revenue Outturn forms). The current 4% target level of general reserves in accordance with the reserves protocol is £5.388m.

6.1.2 The revenue budget year-end position for 2018/2019 (as at end of Quarter 4) indicates an overspend of £0.071m after the application of £0.822m from earmarked reserves.

6.1.3 The Draft outturn position for the general reserve at 31 March 2019 is as follows:

Table 1: General Reserve	£000
Balance at 31 March 2018	5,482
Budgeted use of reserve	0
Council Fund Surplus	412
Balance at 31 March 2019	5,894

6.1.4 The general reserve balance at 31 March 2019 of £5.894m (subject to audit) represents 4.39% of net revenue expenditure as reported in the 2017/2018 Revenue Outturn forms. The general reserve is therefore potentially £0.506m above the 4% target level of £5.388m.

- 6.1.5 Appendix 1 gives details of the total earmarked reserves held at the start of the 2018/2019 financial year (£5.017m) with actual reserve movements to the end of quarter 4 (31 March 2019).
- 6.1.6 The level of earmarked reserves has been determined in accordance with the reserves protocol agreed in 2016.
- 6.1.7 The Draft outturn position for earmarked reserves at 31 March 2019 is as follows:

Table 2: Earmarked Reserves	£000
Balance at 31 March 2018	5,017
Reserve Adjustments	3,396
Actual Expenditure to Q4	(1,845)
Balance at 31 March 2019	6,568

- 6.1.8 For those reserves that have been utilised to fund actual expenditure to 31 March 2019 (£1.845m), details of the expenditure funded have been provided in Appendix 2.
- 6.1.9 Details of additional funding are included in Appendix 3.
- 6.1.10 During Quarter 4, earmarked reserves have been assessed for purpose, requirement and adequacy and adjusted where necessary to meet identified liabilities, details of which are included in Appendix 4.
- 6.1.11 In its Annual Audit Letter relating to the 2017/2018 financial year, the Wales Audit Office noted the continued fall in total general and earmarked revenue reserves (i.e. usable reserves). In comparison to all other Welsh Authorities, the letter indicated that, as at 31 March 2018, Blaenau Gwent had the lowest level of general and earmarked reserves expressed as a percentage of Gross Revenue Expenditure (4.63%, compared with a maximum of 23.62% and an average of 11.44%).
- 6.1.12 In order to meet this Welsh average, general and earmarked reserves would need to increase significantly to approximately £25.9m.
- 6.2 **Expected outcome for the public**
- 6.2.1 The management of earmarked and general reserves (in recognition of the need to plan for known or predicted future obligations, unexpected events or emergencies), helps demonstrate stewardship of the Authority's resources and its ability to provide services to the local community.

6.3 **Involvement** (*consultation, engagement, participation*)

6.3.1 Not applicable.

6.4 **Thinking for the Long term** (*forward planning*)

6.4.1 Stewardship of the Authority's resources allows for the provision of services to the local community in the short and long term.

6.5 **Preventative focus**

6.5.1 Not applicable.

6.6 **Collaboration / partnership working**

6.6.1 Not applicable.

6.7 **Integration(across service areas)**

6.7.1 Not applicable.

6.8 ***EqIA***

6.8.1 An EQIA is not required as this report provides an estimated outturn position in relation to the Authority's reserve balances for the financial year, on an objective basis in accordance with relevant accounting standards, codes, concepts, principles, guidance and legislation.

7. **Monitoring Arrangements**

7.1 In the short-term, the level and adequacy of reserves are regularly reviewed and monitored through regular outturn/forecast reports.

7.2 There are legal requirements in respect of the reporting of reserves when setting the annual budget and the statutory outturn position is considered by the Authority's external auditors in their audit of the annual Statement of Accounts.

7.3 In the medium term, reserves are assessed as part of the Medium Term Financial Strategy.

Background Documents /Electronic Links

- Appendix 1 – Earmarked Reserves Movements 2018/19
- Appendix 2 – Expenditure Funded by Earmarked Reserves 2018/19
- Appendix 3 – Additional Income Transferred to Earmarked Resources 2018/19
- Appendix 4 – Adjustments to Earmarked Reserves in Quarter 4 2018/19