

Committee: **Executive Committee**
Date of meeting: **26 July 2021**
Report Subject: **Use of General and Earmarked Reserves 2020/2021**
Portfolio Holder: **Cllr Nigel Daniels, Leader / Executive Member
Corporate Services**
Report Submitted by: **Rhian Hayden, Chief Officer Resources**

Directorate Management Team	Corporate Leadership Team	Portfolio Holder / Chair	Audit Committee	Democratic Services Committee	Scrutiny Committee	Executive Committee	Council	Other (please state)
	08/07/21	15.07.21			26/07/21	26.07.21		

1. Purpose of the Report

- 1.1 To report to the members of the Executive Committee the draft outturn reserves position for 2020/2021 as at 31 March 2021 (subject to audit).

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 One aspect of the revised protocol concerns the enhancement of Elected Member engagement and scrutiny. To this end quarterly reports are prepared and presented to Executive and Joint Budget Scrutiny Committee during the financial year. These detail the actual and forecast use of general and earmarked reserves, changes to the requirement to hold specific reserves and the level of reserve balances.

- 2.5 In order to adopt a long-term approach to the need to provide services to the citizens of Blaenau Gwent, the protocol was amended and agreed by Council in March 2016 to include 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).

3. Options for Recommendation

3.1 That the Executive Committee considers the use of general and earmarked reserves during 2020/2021 and:

- Note the significant increase in general and earmarked reserves as a result of the exceptional circumstances in the 2020/2021 financial year;
- note that the draft outturn position of the General Reserve at £7.820m represents 5.78% of net revenue expenditure, above the 4% target level;
- consider the need for ongoing prudent financial management given the potential for future public spending restrictions required to fund the impact of Covid-19; and
- continue to challenge budget overspends and implement appropriate service Action Plans, where required.

3.2 Maintenance of usable 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 does this topic supports the achievement of the Corporate Plan / Statutory Responsibilities / Blaenau Gwent Well-being Plan

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.

4.2 Corporate Priorities

This report supports the Council Corporate Plan 2020/22 proposed outcome statement “An ambitious and innovative council delivering the quality services we know matter to our communities”.

5. Implications Against Each Option

5.1 Financial Impact

5.1.1 Section 6 provides an overall summary of the financial position in relation to the balances in general and earmarked reserves at 31 March 2021.

5.1.2 The overall level of reserves (both general & specific/earmarked) has increased during the year from £14.7m to £28.6m, an increase of £13.9m.

5.1.3 A number of factors have contributed to this exceptional increase, including:

- Service underspends resulting from reduced expenditure due to closure of facilities, reduced service provision, delays in filling vacant posts, etc.
- receipt of additional specific grants (e.g. Highways Maintenance, Education Maintenance) and unhypothecated grants (Digital Transformation, Unachieved Savings, Council Tax Collection compensation) which have offset in year core costs;
- In year achievement of 'Bridging the Gap' projects of £1.1m
- Increase in school balances of £2.5m
- Unwinding of provisions where liabilities have reduced in value or probability of payment (e.g. Insurance and Part 1 Land Compensation Claims)

5.1.4 The positive impact of the above on the 2020/21 revenue provisional outturn and the year-end assessment of provisions and reserves has enable the Council to establish a number of new reserves and enhance some current reserves to strengthen its financial resilience as well as setting aside amounts to assist with the ongoing response to Covid-19 and the transformation and delivery of services post-pandemic.

5.1.5 The draft outturn position for the general reserve at year-end 2020/2021 is £7.820m, an increase of £1.421m. This balance represents 5.78% of net revenue expenditure, £2.406m above the 4% target level of £5.414m, and provides a buffer to deal with unexpected future issues.

5.1.6 Table 1 at 6.1.4 (below) shows the actual level of earmarked reserves at 31 March 2021 to be £20.781m, an in year increase of £12.509m.

5.1.7 Significant elements of these earmarked sums relate to grant funding held in respect of specific projects or services that will be utilised in delivering the relevant service outcomes. In future years, it is probable that there will be restrictions on public spending in order to mitigate the extraordinary levels of borrowing incurred by Central Government in dealing with Covid-19. It would therefore be prudent to retain appropriate levels of earmarked and general reserves to assist with a funding situation potentially similar to that experienced during the last decade.

5.1.8 Further details of earmarked reserve movements are included in Appendix 1.

5.2 Risk

5.2.1 The Council must ensure an appropriate level and use of reserves to support its financial sustainability and to meet future liabilities arising from risks for which a specific provision has not been made.

- 5.2.2 The 2020/2021 budget included a planned increase in the general reserve of £0.2m and in earmarked reserves of £1.4m, the actual increases exceeded that budgeted. Additional increases to the general reserve of £0.2m per annum are planned for the life of the current Medium Term Financial Strategy and a further contribution to the Financial Resilience Reserve of £1m is planned for 2021/22. However potential ongoing cost pressures and reductions in income associated with the response to Covid-19 may adversely impact on the Council's ability to maintain and increase the level of reserves.
- 5.2.3 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.
- 5.2.4 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, which includes provision for an increase in reserves of £0.2m per annum over the life of the Strategy.
- 5.2.6 There is a risk that failure to maintain reserves at an appropriate level will attract adverse criticism from regulators. This risk can be mitigated by application of the Council's Reserves Policy including increases to the General Reserve if required.

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**

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 for the financial year ended 31 March 2020 was £6.399m equating to 4.73% of net revenue expenditure (as reported in the 2019/2020 Revenue Outturn forms). The current 4% target level of general reserves is £5.414m.

6.1.2 Appendix 1 gives details of the total earmarked reserves held at the start of the 2020/2021 financial year (£8.272m) with actual reserve movements to the end of quarter 4 (31 March 2021).

6.1.3 The level of earmarked reserves has been determined in accordance with the agreed reserves protocol. The level of earmarked reserves available to the Authority increased by £12.509m in 2020/2021.

6.1.4 The current summary outturn position for earmarked reserves at 31 March 2021 is as follows:

Table 1: Earmarked Reserves	£000
Balance at 31 March 2020	8,272
Increases in Earmarked Reserves	13,687
Decreases in Earmarked Reserves	(156)
Actual Expenditure	(1,022)
Balance at 31 March 2021	20,781

6.1.5 For those reserves that have been utilised to fund actual expenditure to 31 March 2021 (£1.022m), details of the expenditure funded have been provided in Appendix 2. Details of additional amounts transferred to earmarked reserves (£13.687m) have been provided in Appendix 3.

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

Appendix 2

Appendix 3