

Committee: **Executive Committee**
Date of meeting: **16th March 2022**
Report Subject: **Use of General and Earmarked Reserves 2021/2022**
Portfolio Holder: **Cllr N Daniels, Leader & Executive Member for 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)
	24/02/22	01.03.22			07/03/22	16/03/22		

1. **Purpose of the Report**

1.1 To report to the members of the Executive Committee the forecast reserves position for 2021/2022 as at Quarter 3 (31 December 2021).

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 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 forecast use of general and earmarked reserves for 2021/2022 and:

- consider the impact of the £4.649m favourable variance for 2021/2022 would have on the budgeted contribution to the General Reserve;
- note the forecast increase of the General Reserve in 2021/2022 to £12.402m, being 9.39% of net revenue expenditure, above the 4% target level;
- Consider the need for ongoing prudent financial management to support the Medium Term Financial Strategy and the financial resilience of the Council; and
- continue to challenge budget overspends and implement appropriate service Action Plans, where required.

3.2 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 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 forecast financial position in relation to the balances in general and earmarked reserves at 31 March 2022.

5.1.2 The general reserve opening balance of £7.553m represents 5.72% of net revenue expenditure, which is above the 4% target level of £5.284m. Table 1 at 6.1.3 (below) shows the forecast position for the general reserve at year-end 2021/2022 to be an increase of £4.849m, to £12.402m. This balance would represent 9.39% of net revenue expenditure £7.118m above the 4% target level of £5.284m, indicating further progress towards strengthening the

financial resilience of the Council and providing a buffer to deal with unexpected future issues.

5.1.3 The forecast increase in general reserves is a result of:

- currently forecast net portfolio underspends of £4.649m and;
- an agreed budget contribution in 2021/22 of £0.200m to support medium term financial planning and strengthen the Council's financial resilience

5.1.4 Table 2 at 6.1.6 (below) shows the forecast level of specific/earmarked reserves at 31 March 2022 to be £21.065m, an in year increase of £0.284m.

5.1.5 Table 3 at 6.1.8 (below) shows the forecast level of specific/earmarked reserves per reserve category at 31 March 2022. Further details of earmarked reserve movements are included in Appendix 1.

5.1.6 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.

5.2 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 2021/2022 budget includes a planned increase in the general reserve of £0.2m and in earmarked reserves of £1.054m. Additional increases to the general reserve of £0.2m per annum are planned for the life of the current Medium Term Financial Strategy. 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 2021 was £7.553m equating to 5.72% of net revenue expenditure (as reported in the 2020/2021 Revenue Outturn forms). The current 4% target level of general reserves is £5.284m.

6.1.2 The revenue budget forecast year-end position for 2021/2022 (as at end of Quarter 3) indicates a surplus of £4.649m.

6.1.3 Therefore, the potential impact on the forecast outturn position for the general reserve at 31 March 2022 would be as follows:

Table 1: General Reserve	£000
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Balance at 31 March 2021	7,553
Budgeted Contribution to General Reserve	200
Contribution to the Reserve: Net Portfolio Underspends	4,649
Forecast Balance at 31 March 2022	12,402

- 6.1.4 Appendix 1 gives details of the total earmarked reserves held at the start of the 2021/2022 financial year (£20.781m) with actual reserve movements to the end of quarter 3 (31 December 2022) and forecast movements to 31 March 2022.
- 6.1.5 The level of earmarked reserves has been determined in accordance with the agreed reserves protocol. The level of earmarked reserves available to the Authority is forecast to increase by £0.284m in 2021/2022.
- 6.1.6 The current summary forecast outturn position for earmarked reserves at 31 March 2022 is as follows:

Table 2: Earmarked Reserves	£000
Balance at 31 March 2021	20,781
Budgeted Contribution to Earmarked Reserves	1,054
Reserve Adjustments	247
Actual Expenditure to Q3	(424)
Forecast Expenditure to Q4	(593)
Provisional Balance at 31 March 2022	21,065

- 6.1.7 For those reserves that have been utilised to fund actual expenditure to 31 December 2022 (£0.424m), details of the expenditure funded have been provided in Appendix 2. Details of increases in earmarked reserves (£0.247m) have been provided in Appendix 3.
- 6.1.8 The current summary forecast outturn position for the categories of specific/earmarked reserves at 31 March 2022 is as follows:

Table 3: Summary of Provisional Earmarked Reserve Balances at 31 March 2022	£000
Earmarked for Capital Purposes	745
Usable Earmarked Revenue Reserves	13,335
Unusable Earmarked Revenue Reserves	5,136
Revenue Grants and Contributions Unapplied	1,849
Provisional Balance at 31 March 2022	21,065

6.1.9 The reserve categories are summarised as follows:

- Earmarked for Capital Purposes are to meet expenditure or liabilities arising on Capital schemes;
- Usable Earmarked Revenue Reserves can be applied to fund revenue expenditure on specific schemes or services. These are retained at the discretion of the Council for known or potential liabilities and projects;
- Unusable Earmarked Revenue Reserves represent sums held by the Council but cannot be applied generally or specifically to fund services.
- Revenue Grants and Contributions Unapplied have yet to be applied to the specific scheme or service to which they relate, and cannot be applied to fund items other than those for which they were received.

Expected outcome for the public

6.2

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*)
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**
Not applicable.

6.6 **Collaboration / partnership working**

Not applicable.

6.7 **Integration (across service areas)**

Not applicable.

6.8 **Decarbonisation and Reducing Carbon Emissions**

Not applicable.

6.9a **Socio Economic Duty Impact Assessment**

A Socio Economic Duty Impact Assessment has not been completed for the Authority's forecast use of reserves, as it provides details of the Authority's transactions for the financial year and position at the year-end.

This information can be utilised in making decisions that might help to reduce the inequalities of outcome associated with socio-economic disadvantage.

6.9b **Equality Impact Assessment**

An Equality Impact Assessment 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 2021-2022

Appendix 2 – Expenditure Funded by Earmarked Reserves 2021-2022

Appendix 3 – Increases to Earmarked Reserves 2021-2022