

Committee: **Executive Committee**

Date of meeting: **18th December 2019**

Report Subject: **Use of General and Earmarked Reserves
2019/2020**

Portfolio Holder: **Cllr N Daniels, Leader / Executive Member
Corporate Services**

Report Submitted by: **Rhian Hayden, Chief Officer Resources**

Reporting Pathway								
DMT	Corporate Leadership Team	Portfolio Holder / Chair	Audit Committee	Democratic Services Committee	Scrutiny Committee	Executive Committee	Council	Other (please state)
	25/10/2019	02.12.19			18/11/2019	18/12/2019		

1. Purpose of the Report

- 1.1 To report to the members of the Executive Committee the forecast reserves position for 2019/2020 as at Quarter 2 (30 September 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 One aspect of the revised protocol concerns the enhancement of Elected Member engagement and scrutiny, and to this end 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 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 attached report of forecast use of general and earmarked reserves for 2019/2020 and:

- note the planned forecast increase of the General Reserve to 4.58% (above the 4% target level) for 2019/2020 and future years strengthening the Council's Financial Resilience.
- consider the impact the £0.007m forecast adverse variance for 2019/2020 would have on the General Reserve target; 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.

4.2 Corporate Priorities

This report supports the Council Priority, "Efficient Council", as it is part of the financial planning and reporting arrangements which support the Council's financial resilience.

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 remaining balances in general and earmarked reserves at 31 March 2020.

5.1.2 Table 1 at 6.1.3 (below) shows the forecast position for the general reserve at year-end 2019/2020 to be an increase of £0.242m, to £6.136m. This balance would represent 4.58% of net revenue expenditure, £0.775m above the 4% target level of £5.361m, indicating some progress towards strengthening the financial resilience of the Council and allowing a buffer to deal with unexpected future issues.

5.1.3 The increase in general reserves is due to:

- £117,000 contribution as agreed by Council during the 2019/2020 budget setting process
- £132,000 as a result of a reduction in the Fire Service Precept charge following additional funding from Welsh Government for the increase in employers pension contributions.

5.1.4 Table 2 at 6.1.7 (below) shows the forecast level of earmarked reserves at 31 March 2020 to be £3.600m, an in year reduction of £3.229m. A substantial element of this reduction relates to school balances which are currently estimated to reduce by £1.061m over the financial year.

5.1.5 To maintain the general reserve at the 4% target level will potentially require further transfers into the reserve, dependent on budgeted use of the reserve and in-year over/under spends against service budgets. Further reserve adjustments should therefore be considered as part of the Medium Term Financial Strategy and will impact upon the Council's savings targets for future years.

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 should develop a replenishment/maintenance plan as part of the Medium Term Financial Strategy for 2020/2021 and future years.

- 5.2.7 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 indicates 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%).
- 5.2.8 In order to meet this Welsh average, general and earmarked reserves would need to increase significantly to approximately £20.7m.
- 5.2.9 There is a risk that failure to increase reserves further will attract adverse criticism from regulators. This risk can be mitigated by increasing the Council fund Reserve.

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 draft statutory accounts presented to Audit Committee in June 2019 for the financial year ended 31 March 2019 was £5.894m equating to 4.40% of net revenue expenditure (as reported in the 2018/2019 Revenue Outturn forms). The current 4% target level of general reserves in accordance with the reserves protocol is £5.361m.
- 6.1.2 The revenue budget forecast year-end position for 2019/2020 (as at end of Quarter 2) indicates an overspend of £0.007m after the application of £0.369m from earmarked reserves.

6.1.3 Therefore, the potential impact on the forecast outturn position for the general reserve at 31 March 2020 would be as follows:

Table 1: General Reserve	£000
Balance at 31 March 2019	5,894
Contribution to General Reserve	117
Reduction in Fire Authority Precept	132
Use of reserve: funding of forecast overspend	(7)
Forecast Balance at 31 March 2020	6,136

6.1.4 The forecast general reserve balance at 31 March 2020 of £6.136m would represent 4.58% of net revenue expenditure as reported in the 2018/2019 Revenue Outturn forms. The general reserve would therefore be £0.775m above the 4% target level of £5.361m

6.1.5 Appendix 1 gives details of the total earmarked reserves held at the start of the 2019/2020 financial year (£6.829m) with actual reserve movements to the end of quarter 2 (30 September 2019) and forecast movements to 31 March 2020.

6.1.6 The level of earmarked reserves has been determined in accordance with the reserves protocol agreed by Corporate Management Team in April 2016. The level of usable reserves available to the Authority increased by £1.720m in 2018/2019.

6.1.7 The current summary forecast outturn position for earmarked reserves at 31 March 2020 is as follows:

Table 2: Earmarked Reserves	£000
Balance at 31 March 2019	6,829
Reserve Adjustments	2
Actual Expenditure to Q2	(369)
Forecast Expenditure to Q4	(2,862)
Forecast Balance at 31 March 2020	3,600

6.1.8 For those reserves that have been utilised to fund actual expenditure to 30 September 2019 (£0.369m), details of the expenditure funded have been provided in Appendix 2. Details of additional income transferred to earmarked reserves (£0.002m) have been provided in Appendix 3.

6.1.9 During Quarter 2, earmarked reserves have been assessed for purpose, requirement and adequacy and adjusted where necessary to meet identified liabilities.

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** (*State how the work will be monitored e.g. through scrutiny or directorate performance management 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 – Reserves to Quarter 2

Appendix 2 – Reserves to Quarter 2

REF: UOGER18/19.120