

Committee: **Executive Committee**

Date of meeting: **14th October 2020**

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

Portfolio Holder: **Cllr 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)
	10/09/20	29.09.20			28/09/20	14/10/20		

1. **Purpose of the Report**
 - 1.1 To report to the members of the Executive Committee the reserves outturn position for 2019/2020 as at Quarter 4 (31 March 2020).
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 This report will be considered by the Joint Budget Scrutiny Committee at its meeting on 28th September 2020 and any comments from the Committee will be provided verbally to the Executive.
- 3.2 That the Executive Committee considers the attached report of use of general and earmarked reserves for 2019/2020 and:
- note the draft increase of the General Reserve in 2019/2020 to £6.348m, being 4.69% of net revenue expenditure (above the 4% target level).
 - consider the impact the £0.454m favourable 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 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 Priority, "Ambitious and Innovative 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 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 outturn position for the general reserve at year-end 2019/2020 to be an increase of £0.454m, to £6.348m. This balance would represent 4.69% of net revenue expenditure, £0.934m above the 4% target level of £5.414m, 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 net portfolio underspends and:

- £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 level of earmarked reserves at 31 March 2020 to be £7.705m, an in year increase of £0.876m, which included significant increases in the Insurance Reserve and Delegated School Balances. Further details of earmarked reserve movements are included in Appendix 1.

5.1.5 As a result of the positive provisional settlement, the Council has approved an increase to Reserves in excess of £1.5m for 2020/2021 when setting the 2020/2021 Budget, to support medium term financial planning and strengthening the Council's financial resilience.

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 Included within the 2020/2021 budget, it is planned to increase reserves in excess of £1.5m, with a further £0.2m increase per annum planned for the life of the current Medium Term Financial Strategy. There is a risk that responding to Covid 19 may have a financial impact on the Council's in year budget and its 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 In comparison to all other Welsh Authorities, at 31 March 2018 Blaenau Gwent had the lowest level of general and earmarked reserves expressed as a percentage of Gross Revenue Expenditure. Comparative information drawn from audited statutory accounts indicates that this position has improved to the end of 2018/2019, as follows:

	2017/2018	2018/2019
Blaenau Gwent Usable Reserves	£10.501m	£12.725m
Blaenau Gwent Usable Reserves as a percentage of Gross Revenue Expenditure	4.63%	5.74%
Ranking in Comparison with all Wales Local Authorities	22	20
All-Wales Average	£25.946m	£26.465m
All-Wales Average	11.44%	11.93%

- 5.2.7 In order to meet the Welsh average, general and earmarked reserves would need to increase significantly to approximately £26.5m.

- 5.2.8 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

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 for the financial year ended 31 March 2020 was £6.348m equating to 4.69% of net revenue expenditure (as reported in the 2019/2020 Revenue Outturn forms). The current 4% target level of general reserves in accordance with the reserves protocol is £5.414m.

6.1.2 The revenue budget year-end position for 2019/2020 (as at end of Quarter 4) indicates a surplus of £0.454m after the application of £1.5m from earmarked reserves.

6.1.3 Therefore, the impact on the 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
Budgeted Contribution to General Reserve	117
Reduction in Fire Authority Precept	132
Contribution to the Reserve: Net Portfolio Underspends	205
Provisional Balance at 31 March 2020	6,348

6.1.4 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 4 (31 March 2020).

6.1.5 The level of earmarked reserves has been determined in accordance with the agreed reserves protocol. The level of usable reserves available to the Authority increased by £0.876m in 2019/2020.

6.1.6 The current summary 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	2,348
Actual Expenditure to Q4	(1,472)
Provisional Balance at 31 March 2020	7,705

6.1.7 For those reserves that have been utilised to fund actual expenditure to 31 March 2020 (£1.472m), details of the expenditure funded have been provided in Appendix 2. Details of additional income transferred to earmarked reserves (£2.348m) have been provided in Appendix 3.

6.1.8 During Quarter 4, 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**

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