

Committee: **Executive Committee**
Date of meeting: **9th December 2020**
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)
	04/11/20	24.11.20			23/11/20	09/12/20		

1. **Purpose of the Report**
 - 1.1 To report to the members of the Executive Committee the forecast reserves position for 2020/2021 as at Quarter 2 (30 September 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 That the Executive Committee considers the forecast use of general and earmarked reserves for 2020/2021 and:

- consider the impact of the £0.248m adverse variance for 2020/2021 would have on the budgeted contribution to the General Reserve; and
- note the forecast decrease of the General Reserve in 2020/2021 to £6.387m, being 4.72% of net revenue expenditure (above the 4% target level).
- 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 forecast financial position in relation to the balances in general and earmarked reserves at 31 March 2021.

5.1.2 Table 1 at 6.1.3 (below) shows the forecast position for the general reserve at year-end 2020/2021 to be a decrease of £0.048m, to £6.387m. This balance would represent 4.72% of net revenue expenditure, £0.973m above the 4% target level of £5.414m, 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 decrease in general reserves is a result of:

- currently forecast net portfolio overspends of £0.248m offset by;
- an agreed budget contribution in 2020/21 of £0.200m to support medium term financial planning and strengthen the Council's financial resilience

5.1.4 Table 2 at 6.1.7 (below) shows the forecast level of earmarked reserves at 31 March 2021 to be £8.661m, an in year increase of £0.956m. 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 includes a planned increase in earmarked reserves of £1.4m. Additional increases to the general reserve of £0.2m per annum are planned for the life of the current Medium Term Financial Strategy. However, the cost pressures and reductions in income associated with the continuing response to Covid 19 may adversely impact on the Council's in-year budget and 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 In comparison to all other Welsh Authorities, at 31 March 2020 Blaenau Gwent still had one of the lowest levels of general and earmarked reserves expressed as a percentage of Net Revenue Expenditure. Comparative information indicates that this position has improved to the end of 2019/2020, as follows:

	2019/2020
Blaenau Gwent Usable Reserves	£14.056m
Blaenau Gwent Usable Reserves as a percentage of Net Revenue Expenditure	9.45%
Ranking in Comparison with all Wales Local Authorities	18
All-Wales Average	£26.390m
All-Wales Average	17.74%

5.2.7 In order to meet the Welsh average, general and earmarked reserves would need to increase significantly to approximately £26.4m.

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 General 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 £6.435m equating to 4.75% 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 The revenue budget forecast year-end position for 2020/2021 (as at end of Quarter 2) indicates a deficit of £0.248m.

6.1.3 Therefore, the potential impact on the forecast outturn position for the general reserve at 31 March 2021 would be as follows:

Table 1: General Reserve	£000
Balance at 31 March 2020	6,435
Budgeted Contribution to General Reserve	200
Contribution from the Reserve: Net Portfolio Overspends	(248)
Forecast Balance at 31 March 2021	6,387

6.1.4 Appendix 1 gives details of the total earmarked reserves held at the start of the 2020/2021 financial year (£7.705m) with actual reserve movements to the end of quarter 2 (30 September 2020) and forecast movements to 31 March 2021.

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 £0.956m in 2020/2021.

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

Table 2: Earmarked Reserves	£000
Balance at 31 March 2020	7,705
Budgeted Contribution to Earmarked Reserves	1,444
Actual Expenditure to Q2	(51)
Forecast Expenditure to Q4	(437)
Provisional Balance at 31 March 2021	8,661

6.1.7 For those reserves that have been utilised to fund actual expenditure to 30 September 2020 (£0.51m), details of the expenditure funded have been provided in Appendix 2.

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*)
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 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 – Qtr 2 Reserves

Appendix 2 – Qtr 2 Reserves