

<b>SUBJECT</b>	<b>2017-18 RESERVE USAGE FORECAST</b>
<b>DIRECTORATE</b>	<b>Chief Executive's Unit</b>
<b>MEETING</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>19th September 2017</b>
<b>DIVISIONS/WARD AFFECTED</b>	<b>All Authority</b>

**1 PURPOSE**

- 1.1 To appraise audit members of the prospective reserve usage in conjunction with continuing to highlight the revised reserves protocol endorsed by Cabinet.
- 1.2 A periodic focus by Audit Committee on reserve usage is important due to
  - Future funding gap and continuing low settlements
  - Pressures arising from such issues as increasing demand, new and changing legislation, changes in the wider economy and hard to predict events.
  - Grant funding streams being reduced or stopped at short notice
  - Capital receipts and other income streams not being achieved
  - Saving proposals not being delivered and increased demand on services leading to overspends

**2 REVISED RESERVES PROTOCOL**

- 2.1 The detailed report received by Cabinet in July 15 was prompted by;
  - Faster than expected use of earmarked reserves over the last 4 year period
  - Limited opportunities to replenish reserves from in year underspends as budgets get tighter
  - Limited opportunities to redistribute reserves as various reserves are used up
  - Risks around the on-going austerity measures, the projected gap in the MTFP and the lack of clarity on the Authority's future business model or longer term financial plan to respond to this, notwithstanding the work recently commenced around 'Future Monmouthshire'.
  - Huge commitment of capital resources to Future Schools
  - The need for reserves to work harder
  - The need to consider some issues as requiring base budgets rather than continued funding from reserves e.g. redundancy costs are unfortunately going to be an ongoing feature of expense for the Authority every year.

### 3 RESERVE ACTIVITY

- 3.1 The Council has unallocated reserves in the form of Council fund balance and school reserves. At the end of 2017-18 (based on period 1 activity) the unallocated reserve is anticipated to amount to,

	2016/17 c/fwd	Activity: Period 1 monitoring	Forecast 2017/18 outturn
	£'000	£'000	£'000
Council Fund	(7,111)	164	(7,095)
School reserves	(269)	697	428
<b>Total</b>	<b>(7,380)</b>	<b>861</b>	<b>(6,667)</b>

However realistically the level of surplus/deficit affecting Council Fund will commonly fluctuate before the end of the year

- 3.2 Revenue and Capital monitoring reflects an approved use of reserves. At month 2, service managers' presumptions are to fully utilise the reserve funding conveyed to them in 2017-18 budget. Additionally there is proportion of 2016-17 reserve funded expenditure that wasn't incurred in year which was approved by Members on 6<sup>th</sup> June to transfer into 2017-18, which has been shown in a separate column for clarity purposes.

Summary Earmarked Reserves Month 2 2017-18								
Earmarked Reserves		Revenue			Slippage		Capital	
Name of Reserve	Apr-17	Budgeted Usage	Budgeted Replenishment	Total Budget	Slippage From 1617	Slippage To 1819	Predicted Usage	Mar-18
Invest to Redesign	-960,943	166,345	-134,779	-929,377	109,026		152,214	-668,137
IT Transformation	-727,784			-727,784	146,500		22,888	-558,396
Insurance & Risk Management	-1,083,295			-1,083,295				-1,083,295
Capital Receipt Generation	-347,511	121,918		-225,593	20,526			-205,067
Treasury Equalisation	-990,024			-990,024				-990,024
Redundancy & Pensions	-795,297	298,484		-496,813				-496,813
Capital Investments	-775,522			-775,522			145,185	-630,337
Priority Investments	-1,000,171	966,053		-34,118	106,454	-411,087		-338,751
Museum Acquisitions	-56,760			-56,760				-56,760
Elections	-133,183	100,000	-25,000	-58,183				-58,183
Grass Routes Buses	-184,391		-5,000	-189,391			38,307	-151,084
<b>Sub Total</b>	<b>-7,054,881</b>	<b>1,652,800</b>	<b>-164,779</b>	<b>-5,566,860</b>	<b>382,506</b>	<b>-411,087</b>	<b>358,594</b>	<b>-5,236,847</b>
<b>Restriicted Use Reserves</b>								
Youth Offending Team	-273,567			-273,567				-273,567
Building Control Trading	-25,987			-25,987				-25,987
Outdoor Education Centres	-190,280			-190,280				-190,280
Plant & Equipment (Highways)	-75,000			-75,000				-75,000
Homeless Prevention Fund	-4,619			-4,619				-4,619
Rural Development Plan	-86,471			-86,471	62,717	-62,717		-86,471
CYP Maternity	-93,590			-93,590				-93,590
<b>Total Earmarked Reserves</b>	<b>-7,804,395</b>	<b>1,652,800</b>	<b>-164,779</b>	<b>-6,316,374</b>	<b>445,223</b>	<b>-473,804</b>	<b>358,594</b>	<b>-5,986,361</b>

3.4.2 Earmarked reserves remain at limited levels unlikely to provide any material capacity/headroom to meet unanticipated volatility or significantly facilitate future service re-engineering and design. Current predicted use of the Priority investment reserve means it will expired at the end of 2017-18. Replenishment of earmarked reserves is considered at year end, subject to a favourable outturn position and if necessary redistribution of reserves will ensure positive balances are available to meet the following year's requirement.

3.4.3 Given the forecast use of earmarked reserves, Cabinet has previously approved a policy on earmarked reserves to ensure that earmarked reserves are focused on investment in areas where they can achieve most impact.

## **4 REASONS**

4.1 To comply with best practice regarding the management and review of earmarked reserves and the Financial Procedure Rules within the Authority's constitution.

## **5 RESOURCE IMPLICATIONS**

5.1 As a financial planning assumption, the level of general reserves should be between 4% - 6% of net expenditure. Based on a budgeted net expenditure (excluding Police and Community Council precepts) and before financing totalling £139.5 million, the anticipated outturn forecast reserve level equates to 5.08%, which is towards the middle of agreed acceptable levels.

5.2 There is an immaterial level of earmarked reserve replenishment built into the annual budget, and by necessity Head of Finance considers the replenishment of specific reserves where year-end surpluses allow. At the end of 2016-17, the following adhoc contributions were made,

Priority Investment Fund	£570k
Redundancy & Pension Reserve	£114k
IT Transformation Reserve	£100k
Capital Receipts Generation Reserve	£100k
Total	£884k

5.4 Earmarked reserves remain at limited levels unlikely to provide any material capacity/headroom to meet unanticipated volatility or significantly facilitate future service re-engineering and design consequential with setting an annual budget that involves generating circa £5million savings annually.

## **6 EQUALITY AND SUSTAINABLE DEVELOPMENT IMPLICATIONS**

6.1 The decisions highlighted in this report have no direct equality implications. A sensible and robust reserve usage strategy does however underpin sustainability of the organisation.

## **7 CONSULTEES**

Strategic Leadership Team  
All Cabinet Members  
All Select Committee Chairman  
Head of Legal Services

Head of Finance

**8 BACKGROUND PAPERS**

None

**9 AUTHOR**

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**10 CONTACT DETAILS**

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