

SUBJECT	2017-18 RESERVE USAGE FORECAST
DIRECTORATE	Chief Executive's Unit
MEETING	Audit Committee
DATE	11th January 2018
DIVISIONS/WARD AFFECTED	All Authority

1 PURPOSE

- 1.1 To appraise audit members of the prospective reserve usage in conjunction with a continued need 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 2015 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 that had 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

GENERAL RESERVES

- 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 2 activity) the unallocated reserve is anticipated to amount to,

	2016/17 c/fwd	Activity: Period 2 monitoring	Forecast 2017/18 outturn
	£'000	£'000	£'000
Council Fund	(7,111)	62	(7,049)
School reserves	(269)	823	554
Total	(7,380)	861	(6,515)

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

EARMARKED RESERVES

- 3.2 Revenue and Capital monitoring reflects an approved use of Earmarked reserves. At month 7, service managers' presumptions are mainly to fully utilise the reserve funding conveyed to them in 2017-18 budget.

Summary Earmarked Reserves Month 7 2017-18					
Earmarked Reserves	Apr-17	Revenue Approved Usage		Capital Usage	Mar-18
Name of Reserve		Replenishment of Reserves	Draw on Reserves		
Invest to Redesign	-960,943	-136,569	204,163	0	-893,349
IT Transformation	-727,784		153,500	11,823	-562,461
Insurance & Risk Management	-1,083,295				1,083,295
Capital Receipt Generation	-347,511		142,444		-205,067
Treasury Equalisation	-990,024				-990,024
Redundancy & Pensions	-795,297		298,484		-496,813
Capital Investments	-775,522			145,185	-630,337
Priority Investments	-1,000,171		556,420		-443,751
Museum Acquisitions	-56,760				-56,760
Elections	-133,183	-25,000	100,000		-58,183
Grass Routes Buses	-184,391	-5,000		38,307	-151,084
Sub Total	-7,054,881	-166,569	1,455,011	195,315	5,571,124
Restricted Use Reserves					
Youth Offending Team	-273,567				-273,567
Building Control Trading	-25,987				-25,987

Outdoor Education Centres	-190,280		41,000		-149,280
Plant & Equipment (Highways)	-75,000				-75,000
Homeless Prevention Fund	-4,619				-4,619
Rural Development Plan	-86,471				-86,471
CYP Maternity	-93,590				-93,590
Total Earmarked Reserves	-7,804,395	-166,569	1,496,011	195,315	6,279,638

- 3.3 Earmarked reserve usage over the MTFP is projected to decrease the balance on earmarked reserves from £6.3 million at end of 2017/18 to £5.2 million at the end of 2021/22. Taking into account that some of these reserves are specific, for example relating to joint arrangements or to fund capital projects, this brings the usable balance down to £1.4 million by the end of this MTFP window.
- 3.4 The month 7 forecast reports an anticipated £62k deficit on the Council Fund and therefore no opportunity is currently afforded to replenish earmarked reserves at year-end. However, Chief Officers are tasked with reducing the £1.333m forecast over spend on services before the year-end such that this can afford a limited opportunity to replenish earmarked reserves.
- 3.5 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. 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.
- 3.6 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 OPTIONS APPRAISAL

- 4.1 Not applicable.

5 EVALUATION CRITERIA

- 5.1 The Reserves Usage report is brought in front of Audit Committee on an annual basis and to afford members of the committee to focus its scrutiny role on reserve usage and availability. By its very nature the report offers Audit Committee the opportunity to evaluate reserve usage and levels.

6 REASONS

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

7 RESOURCE IMPLICATIONS

- 5.1 As a prudent financial planning assumption, the level of Council Fund 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 5.05%, 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

- 5.3 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.

8 EQUALITY AND SUSTAINABLE DEVELOPMENT IMPLICATIONS

- 8.1 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.

9 CONSULTEES

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

10 BACKGROUND PAPERS

None

9 AUTHOR

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10 CONTACT DETAILS

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