

SUBJECT	RESERVE USAGE OUTTURN 2017/18 AND 2018-19 FORECAST
DIRECTORATE	Chief Executive's Unit
MEETING	Audit Committee
DATE	5th July 2018
DIVISIONS/WARD AFFECTED	All Authority

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 being delayed
 - 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 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

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 the unallocated reserve amounted to,

	2016/17 b/fwd	2017/18 outturn
	£'000	£'000
Council Fund	(7,111)	(7,111)
School reserves	(269)	(175)
Total	(7,380)	(7,286)

At the end of the financial year, a revenue surplus of £653k resulted. Rather than this being added to General Reserves, Cabinet agreed a recommendation of acting sc151 officer to replenish earmarked reserves as follows.

Priority Investment Fund	£155k
Capital Receipts Generation Reserve	£50k
Balance Invest to Redesign Reserve	£448k
Total	£653k

EARMARKED RESERVES

- 3.2 Contrary to general reserves, these are reserves established for specific purposes. Periodic Revenue and Capital monitoring commonly reflects an approved use of earmarked reserves. Whilst traditionally managers will assume full reserve usage of amounts previously approved early in the year, as the year proceeds there are some likely deferrals in use identified together with an increased call upon reserves which account for the net difference in budgeted use of reserves against actuals in Appropriations section of financial monitoring. The year's activity was as follows,

Project	Reserve Source	Reserve funding utilised in 2017-18	Reserve funding deferred to 2018-19
		£'000	£'000
Document Management System	IT transformation	0	54
Digital Programme and Capital IT Costs	IT transformation	6	100
Accounts Payable System	IT transformation	42	5
Cash Receipting System	IT transformation	0	67
Handsets (Connected worker)	Invest to Redesign	20	29
Innovation and marketing assistance	Invest to Redesign	127	36
Inspire to Work	Invest to Redesign	17	0
Vehicle leasing	Invest to Redesign	61	0
Local Development Plan	Priority Investment	0	375
Community Infrastructure Levy Development	Priority Investment	0	30

SCH Leadership Review	Priority Investment	160	39
Future Monmouthshire	Priority Investment	130	0
Children's Service Temporary staff	Priority Investment	86	0
Legal Costs for Revocation	Priority Investment	92	88
Leisure Trust, extra Council costs	Priority Investment	0	155
Schools sickness and maternity compensation scheme	CYP sickness and maternity reserve	93	0
Rural Development Plan	Rural Development Plan Reserve	0	63
Elections Account	Election Reserve	100	0
Museums Acquisitions	Museums Acquisition Fund	1	0
Grass Routes Acquisitions	Trading Account	38	0
Youth Offending Team Partnership	Trading Account	25	0
Building Control	Trading Account	4	0
Outdoor Education Partnership	Trading Account	61	0
Redundancy Strain Costs	Redundancy & pension	298	0
Insurance Provisions and MMI costs	Insurance Reserve	37	0
Fixed asset disposal	Capital receipts generation reserve	70	72
Capital Programme costs	Capital Investment Fund	127	0
TOTAL		1,595	1,113

3.3 The reserve balances table below reflects the capital and revenue financing movements during 2017-18 and provide a prediction of 2018-19 year end level based on existing member approval levels and slippage levels above.

Account	2016/17	2017/18			2018/19		
	C/F	Net Draw on Reserve	Replenishment of Reserve	C/F	Net Draw on Reserve	Replenishment of Reserve	C/F
Sub Total Council Fund	-7,379,864	93,561	0	-7,286,303	0	0	-7,286,303
<i>Earmarked Reserves:</i>				0			
Sub-Total Invest to Redesign	-960,943	225,488	-586,888	-1,322,343	399,183	-170,681	-1,093,841
Sub-Total IT Transformation	-727,784	47,903	-55,000	-734,881	225,913	0	-508,969
Sub-Total Insurance and Risk Management	-1,083,295	36,879	0	-1,046,416	0	0	-1,046,416
Sub-Total Capital Receipt Generation	-347,511	70,372	-50,000	-327,139	153,415	0	-173,724
Sub Total Treasury Equalisation	-990,024	0	0	-990,024	0	0	-990,024
Sub-Total Redundancy and Pensions	-795,297	298,484	0	-496,813	163,978	0	-332,835
Sub-Total Capital Investment	-775,522	127,186	0	-648,336	17,999	0	-630,337
Sub-Total Priority Investment	-1,000,171	468,420	-155,000	-686,751	686,751	0	-0
Sub-Total Other Earmarked Reserves	-1,123,847	321,721	-319,111	-1,121,237	86,471	-53,000	-1,087,766
Total Earmarked Reserves	-7,804,395	1,596,452	-1,165,999	-7,373,942	1,733,710	-223,681	-5,863,913
	-15,184,260	1,690,013	-1,165,999	-14,660,245	1,733,710	-223,681	-13,150,216

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 Council has agreed that general reserves levels to provide prudent provision for extraordinary and emergency events should be between 4% - 6% of net expenditure. Based on a budgeted net expenditure of £135.5million (discounting precepts collected on others behalf and before financing of Council activities), the anticipated outturn general reserve level of £7.3million equates to 5.3% ratio, which is mid-way within the financial planning envelope, such that the general reserve level remains stable against a declining level of net expenditure annually.
- 5.2 However there is an immaterial level of earmarked reserve replenishment built into the annual budget, and traditionally a net usage results annually. By necessity Head of Finance considers the replenishment of specific reserves where yearend surpluses allow. As indicated in para 3.1 above, 3 reserves were the focus of replenishment this year; capital receipts generation to accommodate likely balance of costs of Valuation section in facilitating receipts generation, a contribution to Priority Investment Reserve to afford the previously approved costs associated with the outsourcing of leisure and cultural services, with the balance being applied to Invest to redesign, placing a heavier emphasis on reserve usage requests being used to facilitate service re-engineering and redesign.
- 5.3 In conclusion though, earmarked reserves still 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

Mark Howcroft – Assistant Head of Finance

10 CONTACT DETAILS

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