

<b>SUBJECT</b>	<b>RESERVE USAGE OUTTURN FORECAST 2016/17</b>
<b>DIRECTORATE</b>	<b>Chief Executive's Unit</b>
<b>MEETING</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>17<sup>th</sup> November 2016</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 highlighting the revised reserves protocol endorsed by Cabinet in July.
- 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 is included in Appendix 1.
- 2.2 In essence the review 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 2015-16 the unallocated reserve amounted to,

	2015/16 c/fwd	Activity Month 6 monitoring	Forecast 2016/17 outturn
	£'000	£'000	£'000
Council Fund	(7,111)	839	(6,272)
School reserves	(1,156)	1,056	(100)
Total	(8,267)	1,895	(6,372)

- 3.2 Revenue and Capital monitoring reflects an approved use of earmarked reserves. These are reserves created for specific purposes. Whilst commonly at this stage in the year, services assume full reserve usage of amounts previously approved, 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. These variances are,

#### Reduced call upon reserves

- Innovations & marketing officer contribution £19k (deferral)
- Eisteddfod Community fundraising backstop £80k (no longer required)
- LDP expenditure contribution £100k (deferral)
- RDP expenditure contribution £63k (deferral)
- Elections expenditure contribution £100k (deferral)

#### Increased call upon reserves

- Pension strain costs (£98k)

- 3.3 Other than the pension strain costs above (which is not an unusual volatility) and will be commonly addressed longer term in a revision to future annual budgets, there have been no additional reports since period 1 that have been approved by Members that recommend a use of reserves

- 3.4 The following predicted position reflects capital and revenue presumptions evident in period 2 (month 6) monitoring.

<b>Summary Earmarked Reserves Forecast 2016-17</b>					
<b>Earmarked Reserves</b>	<b>2015-16</b>	<b>Revenue Approved Usage</b>		<b>Capital Usage</b>	<b>2016-17</b>
	<b>C/FWD</b>	<b>Replenishment of Reserves</b>	<b>Draw on Reserves</b>		<b>c/fwd</b>
Invest to Redesign	-1,298,155	-74,739	519,344	223,363	-630,187
IT Transformation	-826,835			238,862	-587,973
Insurance & Risk Management	-1,236,396				-1,236,396
Capital Receipt Regeneration	-322,361		95,376		-226,985
Treasury Equalisation	-990,024				-990,024
Redundancy & Pensions	-1,274,256		690,521		-583,735
Capital Investments	-1,264,599			628,236	-636,363
Priority Investments	-1,120,069		836,197		-283,872
Museum Acquisitions	-56,760				-56,760
Elections	-108,183	-25,000			-133,183
Grass Routes Buses	-139,702	-5,000			-144,702
<b>Sub Total</b>	<b>-8,637,340</b>	<b>-104,739</b>	<b>2,141,438</b>	<b>1,090,461</b>	<b>-5,510,180</b>
<b>Restricted Use Reserves</b>					<b>0</b>
Youth Offending Team	-325,000				-325,000
Building Control Trading	-12,008				-12,008
Outdoor Education Centres	-190,280				-190,280
CYP Maternity	-104,000				-104,000
<b>Total Earmarked Reserves</b>	<b>-9,268,629</b>	<b>-104,739</b>	<b>2,141,438</b>	<b>1,090,461</b>	<b>-6,141,468</b>

#### **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 There is an immaterial level of reserve replenishment built into the annual budget, and by necessity Head of Finance considers the replenishment of specific reserves where year end surpluses result. As a result Invest to Redesign, Redundancy and to a lesser extent IT reserve received a contribution at end of 2015/16.
- 5.2 Currently the month 6 outturn forecast exhibits an outturn forecast of £839,000 deficit, which whilst not unusual at month 6, if that situation continues, will result in no net replenishment of earmarked reserves at end of 2016/17.

- 5.3 As a financial planning assumption, the level of general reserves should be between 4% - 6% of net expenditure. Based on a net expenditure before financing of £148.7 million, the anticipated outturn forecast reserve level equates to 4.3%, which is very much to the bottom end of acceptable levels.
- 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.

## **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**

Tel. 01633 644740  
e-mail. [markhowcroft@monmouthshire.gov.uk](mailto:markhowcroft@monmouthshire.gov.uk)

### **Appendices**

Appendix 1 Cabinet Report 6th July – Review of Earmarked Reserves

<https://democracy.monmouthshire.gov.uk/documents/s5378/11.%20Review%20of%20Reserves.pdf>