

<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>16<sup>th</sup> March 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 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 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 9 monitoring	Forecast 2016/17 outturn
	£'000	£'000	£'000
Council Fund	(7,111)	(79)	(7,190)
School reserves	(1,156)	1,080	(76)
Total	(8,267)	1,001	(7,266)

3.2 Revenue and Capital monitoring reflects an approved use of earmarked reserves. These are reserves created for specific purposes. Whilst commonly managers will assume full reserve usage of amounts previously approved, 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. These variances are,

#### Reduced call upon reserves

- Innovations & marketing officer contribution £44k (deferral)
- Innovations & marketing CYP £60k (deferral)
- Eisteddfod Community fundraising backstop £72.3k (no longer required)
- LDP expenditure contribution £100k (deferral)
- RDP expenditure contribution £62.7k (deferral)
- Social Care & health Leadership review £35k (deferral)
- Elections expenditure contribution £100k (deferral )

Total £474k

#### Increased call upon reserves

- Digital Programme Officer (£60.5K)
- Payroll / Human Resources Restructure (£25k)

Total £85.5k

Net £387k

3.3 In addition the following 2 items are a caveated use of reserves.

- Pension strain costs (£101k) reflection increased redundancies
- Industrial Tribunal Costs (£318k) is forecasted to be drawn if costs cannot be contained within overall annual budget

The distinction between caveated use of reserves and approved use of reserves is that an approved use of reserves is included in the reserve forecast below where as a caveated use wouldn't normally be. This is because a caveated use merely means that

there may be an additional reserve call at outturn depending upon whether the bottom line position has been sufficient to absorb such.

3.4 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, no additional reports since period 3 have been approved by Members that recommend a use of reserves.

3.5 The following predicted position reflects capital and revenue presumptions evident in period 3 (month 9) 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>Additional Caveated Use of reserves</b>
	<b>b/fwd</b>	<b>Replenishment of reserves</b>	<b>Draw upon reserves</b>		<b>c/fwd</b>	
Invest to Redesign	-1,298,155	-72,508	459,644	62,797	-848,222	
IT Transformation	-826,835		60,500	238,862	-527,473	
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		592,521		-681,735	101,000
Capital Investments	-1,264,599			586,168	-678,431	
Priority Investments	-1,120,069		808,861		-311,208	318,000
Museum Acquisitions	-56,760				-56,760	
Elections	-108,183	-25,000			-133,183	
Grass Routes Buses	-139,703	-5,000			-144,703	
<b>Sub Total</b>	<b>-8,637,341</b>	<b>-102,508</b>	<b>2,016,902</b>	<b>887,827</b>	<b>-5,835,120</b>	<b>419,000</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	2,753
CYP Maternity	-104,000				-104,000	
<b>Total Earmarked Reserves</b>	<b>-9,268,629</b>	<b>-102,508</b>	<b>2,016,902</b>	<b>887,827</b>	<b>-6,466,408</b>	<b>421,753</b>

- 3.5 In addition to this and being consistent with the need to provide a 4 year medium term financial plan, the prediction of earmarked reserve levels over the next 4 years built upon existing approvals is as follows

Financial Year ending	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000
<b>Earmarked Reserves</b>					
Invest to Redesign Reserve	(1,298)	(850)	(658)	(781)	(893)
IT Transformation Reserve	(827)	(527)	(457)	(457)	(457)
Insurances & Risk Management Reserve	(1,236)	(1,236)	(1,236)	(1,236)	(1,236)
Capital Receipt Generation Reserve	(322)	(227)	(105)	(105)	(105)
Treasury Equalisation Reserve	(990)	(990)	(990)	(990)	(990)
Redundancy and Pensions Reserve	(1,274)	(682)	(383)	(219)	(131)
Capital Investment Reserve	(1,265)	(678)	(618)	(606)	(594)
Priority Investment Reserve	(1,120)	(311)	569	569	569
Museums Acquisitions Reserve	(57)	(57)	(57)	(57)	(57)
Elections Reserve	(108)	(133)	(58)	(83)	(108)
Grass Routes Buses Reserve	(140)	(145)	(150)	(155)	(160)
Restricted Use Reserves	(631)	(631)	(631)	(631)	(631)
<b>Sub Total Earmarked Reserves</b>	<b>(9,269)</b>	<b>(6,469)</b>	<b>(4,776)</b>	<b>(4,753)</b>	<b>(4,795)</b>

- 3.6 In the final budget report to Cabinet it was reported that the Priority Investment reserve will need to be replenished at the end of 2016/17. This is so that we can assess the outturn position and any opportunity to either not use the reserves or replenish with any underspend delivered.

#### 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 9 outturn forecast exhibits an outturn forecast of £79,000 surplus, which is a little unusual for month 9. The presumption is that credit would affect general reserve balance but it could, as part of Head of Finance outturn consideration, instead involve a small 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 budgetted net expenditure before financing of £148.7 million, the anticipated outturn forecast reserve level equates to 4.8%, which is very much towards the bottom end of acceptable levels.
- 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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