

<b>SUBJECT</b>	<b>RESERVE USAGE OUTTURN 2016/17 AND 2017-18 FORECAST</b>
<b>DIRECTORATE</b>	<b>Chief Executive's Unit</b>
<b>MEETING</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>6<sup>th</sup> July 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 last 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 2016-17 the unallocated reserve amounted to,

	2016/17 b/fwd	2016/17 outturn
	£'000	£'000
Council Fund	(7,111)	(7,111)
School reserves	(1,156)	(269)
<b>Total</b>	<b>(8,267)</b>	<b>(7,380)</b>

3.2 Periodic Revenue and Capital monitoring commonly reflects an approved use of earmarked reserves. These are reserves created for specific purposes. Whilst traditionally 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. The year's activity was as follows,

Project	Reserve Source	Reserve funding utilised in 2016-17	Reserve funding deferred to 2017-18
		£'000	£'000
Digital Programme costs	IT transformation	21	40
Handsets (Connected worker)	Invest to Redesign		49
Adult Social Care Transformation	Invest to Redesign	48	
HR restructure	Invest to Redesign	25	0
Innovation and marketing assistance	Invest to Redesign	76	113
Volunteer coordinator	Invest to Redesign	40	
External Investment Post	Invest to Redesign		14
Informing the future of Cultural services	Invest to Redesign	51	0
CYP services redesign	Invest to Redesign	12	37
City Deal Contribution	Invest to Redesign	31	
Local Development Plan	Priority Investment		100
Regional Development Plan	Priority Investment		63

Eisteddfod	Priority Investment	287	
SCH Leadership Review	Priority Investment	51	74
Future Monmouthshire	Priority Investment	120	130
Children's Service Temporary staff	Priority Investment	169	
Schools sickness and maternity compensation scheme	CYP sickness and maternity reserve	10	
Elections Account	Election Reserve		100
Youth Offending Team Partnership	Trading Account	51	
Redundancy Strain Costs	Redundancy & pension	593	0
Insurance Provisions and MMI costs	Insurance Reserve	153	
Fixed asset disposal	Capital receipts generation reserve	75	21
Vehicle leasing	Invest to Save Advances	67	
<b>TOTAL</b>		<b>1,880</b>	<b>740</b>

- 3.3 The reserve balances table overleaf reflects capital and revenue financing movements during 2016-17 and provide a prediction of 2017-18 year end level based on existing approval levels and slippage levels above. It shows that the Schools balance is forecast to go into a deficit position based on the budget statement returns received from schools at the beginning of the year. Work is ongoing to address this position and there will be a separate report to Cabinet to outline the action being taken and updating this position in due course.

	2015-16	Net Draw On Reserve	Replenishment of Reserve	2016-17	Net Draw On Reserve	Replenishment of Reserve	2017-18
	B/fwd			C/fwd			Outturn prediction
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>General Reserves</b>							
Council Fund	- 7,111	0	0	- 7,111	0	0	7,111
School Balances	- 1,156	887	0	- 269	877	0	608
Sub Total	- 8,267	887	-	- 7,380	877	-	6,503
<b>Main Earmarked Reserves</b>							
Invest to Redesign	-1,298	337	0	-961	437	-135	-658
IT Transformation	-827	199	-100	-728	169	0	-558
Insurance & Risk Management	-1,236	153	0	-1,083	0	0	-1,083
Capital Receipt Regeneration	-322	75	-100	-348	142	0	-205
Treasury Equalisation	-990	0	0	-990	0	0	-990
Redundancy & Pensions	-1,274	593	-114	-795	298	0	-497
Capital Investments	-1,265	489	0	-776	157	0	-618
Priority Investments	-1,120	690	-570	-1,000	1,000	0	0
Sub Total	-8,333	2,535	-883	-6,681	2,205	-135	-4,610
<b>Other Earmarked Reserves</b>							
Museum Acquisitions	-57	0	0	-57	0	0	-57
Elections	-108	0	-25	-133	100	-25	-58
Grass Routes Buses	-140	9	-54	-184	0	-5	-189
Youth Offending Team	-325	51	0	-274	0	0	-274
Building Control Trading	-12	0	-14	-26	0	0	-26
Outdoor Education Centres	-190	0	0	-190	0	0	-190
Schools Maternity & Sickness	-104	10	0	-94	0	0	-94
Highways Plant & Equipment		0	-75	-75	0	0	-75
Homelessness Prevention Fund		0	-5	-5	0	0	-5
Rural Development Plan		0	-86	-86	86	0	0
Sub Total	-936	71	-259	-1,124	186	-30	-967
<b>Total Reserves</b>	<b>-17,536</b>	<b>3,494</b>	<b>-1,142</b>	<b>-15,184</b>	<b>3,268</b>	<b>-165</b>	<b>-12,081</b>

3.4 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.

3.5 As part of the revenue outturn the Council derived an £884k surplus.

With regard to the allocation of bottom line surplus to replenish reserves, Cabinet have approved the following allocation based on the Head of Finance's advice and this is already reflected above:

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

The top up of the Priority Investment reserve will cover the existing commitments to be funded from this reserve only, the reserve will then expire.

- 3.6 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.

#### **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 Priority Investment, Redundancy and to a lesser extent IT reserve and capital receipt generation received a contribution at end of 2016/17.

- 5.2 As a financial planning assumption, the level of general reserves should be between 4% - 6% of net expenditure. Based on a budgeted net expenditure before financing of £148.7 million, the anticipated outturn forecast reserve level equates to 4.8%, which is towards the bottom end of agreed 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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