

**REPORT OF:**     **FINANCIAL SERVICES**  
                      **FINANCIAL SERVICES MANAGER**

**TO:**               **EXECUTIVE**

**DATES:**          **30th JUNE 2016**

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## **REVIEW OF REVENUE RESERVES AT 31<sup>st</sup> MARCH 2016**

### **PURPOSE OF REPORT**

1. This report informs the Executive on the outcome of a review of the Council's revenue reserves following completion of the draft accounts for 2015/16. The report also seeks approval to transfer amounts from specific reserves to the Budget Strategy Reserve to support the ongoing development of the Council's medium-term financial plan position.

### **RECOMMENDATIONS**

2. The Executive is recommended to:-
  - a) note the outcome of the review of revenue reserves as at 31<sup>st</sup> March 2016, and
  - b) agree the transfer in 2016/17 of £1.75m from specific reserves to the Budget Strategy Reserve as set out in paragraph 11 below and recommend this to Council for approval.

### **REASONS FOR RECOMMENDATION**

3. To provide additional resources in support of the Council's revenue budget over the medium-term financial plan period 2017/18 to 2019/20.

### **ISSUE**

#### **Provisional Outturn 2015/16**

4. The Council's draft Statement of Accounts for 2015/16 has now been published. The accounts are draft and may be subject to change dependent on the outcome of the audit by Grant Thornton. This is expected to commence in late June and should be substantially complete by the end of July.
5. The closing position as at 31<sup>st</sup> March 2016 provides a good base on which to review the requirement for revenue reserves. The aim of the review was to establish the extent to which sums currently allocated to specific reserves could be transferred to the Budget Strategy Reserve.

6. The position on reserves as at 31<sup>st</sup> March 2016 is summarised in [Appendix A](#). These stood at £9.8m excluding the minimum working balance. Including this balance gives an overall total of £11.1m.

### **Need for the review?**

7. In May, the Executive considered a report on the Council's updated medium-term financial plan covering the period from 2017/18 to 2019/20. This set out details of the financial challenge facing the Council over the period and identified the requirement to make savings estimated currently at £4.8m profiled as follows:

	Savings requirement £m
• 2017/18	1.5
• 2018/19	2.3
• 2019/20	1.0

8. The above report also set out proposals for the use of reserves to support the annual budget and enable the Council to move to a lower cost on a phased basis over the plan period. The report outlined the use of £3.75m from the Budget Strategy reserve over this period with £1.52m in 2017/18, £1.23m in 2018/19 and £1.0m in 2019/20.
9. The budget in the current financial year also assumes a contribution will be required from the Budget Strategy Reserve in 2016/17, estimated at £1.521m. In summary therefore the position is as follows:

Budgeted /Proposed use of the Budget Strategy reserve in	£'000
• 2016/17	1,521
• 2017/18	1,520
• 2018/19	1,230
• 2019/20	<u>1,000</u>
Total	5,271
Balance at 31/3/16	<u>3,585</u> (per Appendix A)
<b>Shortfall</b>	<b>1,686</b>

10. To bridge this gap will require £1.7m to be released from other reserves. Achieving this still requires savings of £4.8m and it is this which has shaped the year-end review of reserves.
11. [Appendix B](#) provides an overview of the reserves over the plan period based on the contributions outlined above and shows the amounts which it is considered could be transferred from other reserves to the Budget Strategy reserve. The amounts which could be 'freed up' are shown in the column highlighted in yellow in [Appendix B](#). More commentary on each of these is provided below:

#### *IT Reserve (transfer £8k)*

This is the residual balance on the reserve. New commitments would be subject to annual review when developing the capital programme each year. To-date a budget of £100k per annum has been established for IT matters via this arrangement.

#### *Growth Sites Development Reserve (transfer £100k)*

This was established to facilitate the disposal of specific council sites and cover feasibility, planning and other related costs leading up to disposal. Progress to-date has been slow and it is considered that £100k can be released from this reserve. The remainder will support strategic growth sites for housing and employment.

### *Former ABG funding reserve (transfer £123k)*

This is residual funding from when the Council received Area Based Grant funding from government (prior to 2011). Other than a requirement to retain that part of the funding now allocated to the skills training centre operated from 39/41 Scotland Road, Nelson and funding commitments towards community cohesion it is considered that the remainder of £123k can be freed up.

### *External Funding receipts reserve (transfer £112k)*

This represents unutilised balances of funding from various sources towards a range of projects. The most significant balance within the reserve is £85k of residual DWP funding towards the ongoing costs of the skills training centre at 39/41 Scotland Road, Nelson. Other items include the Bradley Big Local £37k, the Super Slow Way project (2 more years funding to Canals and River Trust £10k), Children's Trust funding £36k, funding of £44k to help sustain the Environmental Action Group and £6k remaining from Victims Support funding from the Police & Crime Commissioner. An overall balance of £112k has been earmarked for transfer.

### *VAT Partial Exemption Reserve (transfer £77k)*

As a local authority the Council can recover all the input VAT incurred on goods and services in relation to most of its activities as well as an "insignificant amount" of input VAT incurred in relation to exempt business supplies – this is capped at 5% of total input tax per annum. If this limit is exceeded the Council must repay all the VAT it has recovered in relation to its exempt supplies during the financial year. From experience to-date the risk of this is considered moderate and as a result it is suggested that the balance on the reserve drops to £100k. It is considered prudent to retain this reserve given the potential complexities of VAT, notably in relation to land and property based transactions.

### *Revenue Expenditure Reserve (transfer £184k)*

This is a significant reserve with a balance of £1.117m at 31st March 2016. The reserve is formed from previous year slippage requests (examples shown in revenue outturn report elsewhere on this agenda), a variety of external funding sources and third party contributions. The most significant items in the reserve include the following:

• Homelessness / Refuge / Domestic Violence initiatives	£273k
• Funding earmarked to support Pendle Leisure Trust	£200k
• Environmental Action Group	£80k
• Financial Management system replacement	£55k
• ACE Centre Promotion	£48k
• Land Charges - new burdens funding from DCLG	£44k
• Area Committee Funding (proposal to return this in 16/17)	£40k
• Vision Board	£31k
• Contaminated Land funding	£20k

It is estimated that £184k can be released from this reserve.

### *Other Reserves (transfer £696k)*

**Appendix B** includes a cluster of reserves under the heading "Other" – these consist of the following:

- Council Tax Support (transfer £143k)
- Pensions (£167k)
- Inward Investment (£235k)
- Conservation (£37k)
- Change Management (£114k)

The factors giving rise to the establishment of the first four reserves listed above have diminished and it is felt that all could be transferred to the Budget Strategy Reserve. The inward investment reserve was intended to offer incentives to business (e.g. support with business rates) but this can now be provided for under the Business Rates Retention scheme.

The objectives for the use of this reserve could also be met by an extension, for a further year, of the Gearing up for Growth reserve which has a balance of £738k at March 2016 (of which £410k is budgeted to be used in 2016/17).

A reduction in the change management reserve is being proposed on the assumption that the Council will take advantage of the flexible use of capital receipts now permitted to meet the revenue costs of transformational change projects over the medium-term plan period.

#### *Changes to Working Balances (transfer £450k)*

The *Bond Reserve* has remained at £500k for some years. It stemmed from arrangements linked to the early stages of the public/private partnership arrangement with Liberata. This has now operated for 10 years and it is considered reasonable to reduce the reserve. It is recommended that £300k be left on the reserve to provide support in the event of any adverse changes in the current arrangements as well as providing for the work required to procure a new contract by 2020 which will require work to commence within 18 months.

The Council's genuine 'emergency' reserve is the *General Fund Minimum Working Balance*. This is currently £1.25m and the adequacy of this is reported to Council each February when the budget is considered. In recent years the Council's scale of activity and overall level of expenditure has declined and this may justify a reduction in the minimum working balance. At this stage a sum of £250k is provisionally suggested but this will be subject to further assessment when reporting to Council on the 2017/18 budget next February.

12. The transfers outlined above total £1.75m. Subject to agreement by the Executive and Council this amount would be transferred to the Budget Strategy Reserve for use as outlined in paragraph 9 above over the period to 2019/20. This is illustrated in [Appendix B](#). Adopting this approach results in a projected balance on the budget strategy reserve of £682k by March 2020. This is predicated on income of £650k accruing to the reserve from existing income sharing arrangements with Housing Pendle and more significantly, savings of £4.8m being implemented over the plan period.

## **IMPLICATIONS**

### **Policy**

13. The changes to the reserves as outlined in this report would require ratification by Council, notably in respect of the Minimum Working Balance.

### **Financial**

14. The financial implications are as given in the report.

### **Legal**

15. There are no legal implications arising directly from this report.

### **Risk Management**

16. The changes being proposed in this report are a response to the financial risks facing the Council over the next 3 years. Whilst the actions outlined in this report are not without risks there remains the requirement for the adequacy of reserves and balances to be subject to annual review by the Financial Services Manager with the outcomes reported to Council.

### **Health and Safety**

17. There are no Health and Safety implications arising directly from this report.

## **Climate Change**

18. There are no sustainability implications arising directly from this report.

## **Community Safety**

19. There are no community safety issues arising directly from this report.

## **Equality and Diversity**

20. There are no equality and diversity issues arising from the content of this report.

## **APPENDICES**

**Appendix A** – Balance on earmarked reserves as at 31<sup>st</sup> March 2016

**Appendix B** – Summary of reserves to be transferred and proposed use to 2019/20

## **LIST OF BACKGROUND PAPERS**

Working Papers for the Final Accounts 2015/16 held in Accountancy.