

REPORT OF: FINANCIAL SERVICES MANAGER

TO: EXECUTIVE

DATES: 24th AUGUST 2017

Report Author: Vince Green
Tel. No: 01282 661867
E-mail: vince.green@pendle.gov.uk

REVIEW OF REVENUE RESERVES AT 31st MARCH 2017

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 accounts for 2016/17. The report also seeks endorsement of a proposal, subject to Council 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 31st March 2017, and
 - b) endorse the proposal to transfer £235k in 2017/18 from specific reserves to the Budget Strategy Reserve as set out in paragraph 11 below and recommend this to Council for approval;
 - c) note the alternatives outlined in the report for funding expenditure currently met from the Gearing up for Growth Reserve and advise if further work should be undertaken to develop these.

REASONS FOR RECOMMENDATION

3. To provide additional resources in support of the Council's revenue budget over the medium-term financial plan period 2018/19 to 2020/21.

ISSUE

Revenue Outturn 2016/17

4. The Council's Statement of Accounts for 2016/17 has now been audited and was formally approved by the Accounts and Audit Committee on the 31st July.

5. As a result the closing position as at 31st March 2017 provides a good base on which to review the requirement for revenue reserves. The aim of the review is 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 31st March 2017 is summarised in [Appendix A](#). These stood at £8m excluding the minimum working balance. Including this balance gives an overall total of £9m.

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 2018/19 to 2020/21. This set out details of the financial challenge facing the Council over the period and identified the requirement to make savings estimated at £3.9m profiled as follows:

	Savings requirement £m
• 2018/19	1.4
• 2019/20	1.4
• 2020/21	1.1

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 £2.9m from the Budget Strategy reserve over this period with £1.4m in 2018/19, £1m in 2019/20 and £0.5m in 2020/21.
9. The budget in the current financial year also assumes a contribution will be required from the Budget Strategy Reserve, estimated at £1m. In summary therefore the position is as follows:

Budgeted /Proposed use of the Budget Strategy reserve in:	£m
• 2017/18	1.0
• 2018/19	1.4
• 2019/20	1.0
• 2020/21	<u>0.5</u>
Total	3.9
Available at 31/3/17	<u>3.9</u> (per Appendix A)

10. Based on the above, the reserve will be fully utilised by the end of the plan period and this assumes the Council will make the required savings totaling £3.9m over the period. The extent to which savings fall short of the plan requirement will simply exhaust the reserve earlier and increase the savings requirement in subsequent years. It is this which has shaped the year-end review of reserves and this follows the same process as was carried out during 2016 and reported to the Executive in June of that year.
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. These were considered by the Budget Working Group earlier this month and endorsed for submission to the Executive.

External Funding Receipts Reserve (transfer £5k)

This represents unutilised balances of funding from various sources towards a range of projects. The most significant balance within the reserve is £75k of residual funding towards the ongoing costs of the skills training centre at 39/41 Scotland Road, Nelson. Other items include the Bradley Big Local £9k, the Super Slow Way project (2 more years funding to Canals and River Trust £10k), funding of £42k to help sustain the Environmental Action Group and £10k remaining from Victims Support/Safer Communities funding. It is estimated that the sum of £5k could be released from this reserve.

VAT Partial Exemption Reserve (transfer £50k)

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 moderate to low and as a result it is suggested that the balance on the reserve drops to £50k. It is considered prudent to retain this given the potential complexities of VAT, notably in relation to land and property based transactions.

Revenue Expenditure Reserve (transfer £130k)

This is a significant reserve with a balance of £892k at 31st March 2017. The reserve is formed from previous year slippage requests, a variety of external funding sources and third party contributions. The larger items in the reserve include the following:

- | | |
|---|-------|
| • Housing / Homelessness / Refuge / Domestic Violence initiatives | £280k |
| • Funding earmarked to support Pendle Leisure Trust | £200k |
| • Environmental Action Group | £70k |
| • Financial Management system replacement | £40k |
| • ACE Centre Promotion | £34k |
| • Contaminated Land funding | £15k |
| • Planning Appeals | £17k |

It is estimated that £130k can be released from this reserve.

Bond Reserve (transfer £50k)

The Bond Reserve was reduced from £500k to £300k as part of last year's review. The reserve stemmed from arrangements linked to the early stages of the public/private partnership arrangement with Liberata. This has now operated for over 10 years and it is considered reasonable to reduce the reserve. It is now recommended that £250k be left on the reserve to provide support in the event of any adverse changes in the current arrangements.

Minimum Working Balance

The Council's genuine 'emergency' reserve is the *General Fund Minimum Working Balance*. This was reduced from £1.25m to £1.0m as part of last year's review. The adequacy of this is reported to Council each February when the budget is considered. At this stage no further reduction is being proposed but this will be subject to further assessment when reporting to Council on the 2018/19 budget next February.

12. Assuming all the transfers outlined above are agreed they total £235k. Subject to agreement of Council this amount would be transferred to the Budget Strategy Reserve to support our financial planning arrangements and this is reflected in [Appendix B](#). Adopting this approach would result in a projected balance on the budget strategy reserve of £235k by March 2021. This provides little additional support in the context of the savings required by the Council and illustrates that the position is getting tighter and our reliance on the use of reserves to support the budget must be addressed as current levels of usage are unsustainable.

13. At present no transfers are proposed from this reserve. The Executive agreed a three year programme for the use of this reserve in August last year. As at the 31st March 2017 the balance on the reserve stood at £543k with an approved budgeted use in the current year of £227k. Elements of expenditure met from this reserve could be accounted for as capital expenditure (e.g. grants to businesses for plant, property or equipment). If we could source alternative funding within the Council's capital programme this would free up part of the revenue reserve which could then be transferred to the Budget Strategy Reserve. Another option would be to convert grants to loans to be repaid by businesses. These too would constitute capital rather than revenue expenditure. No action is being proposed at this time but the views of the Executive are requested on these options.

IMPLICATIONS

Policy

14. The changes to the reserves as outlined in this report would require ratification by Council.

Financial

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

Legal

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

Risk Management

17. 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 outcome reported to Council.

Health and Safety

18. There are no health and safety implications arising directly from this report.

Climate Change

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

Community Safety

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

Equality and Diversity

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

APPENDICES

Appendix A – Balance on earmarked reserves as at 31st March 2017

Appendix B – Summary of reserves to be transferred and proposed use to 2020/21

LIST OF BACKGROUND PAPERS

Working Papers for the Final Accounts 2016/17 held in Accountancy.