

REPORT FROM: CHIEF FINANCIAL OFFICER
TO: POLICY AND RESOURCES COMMITTEE
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REVIEW OF REVENUE RESERVES AS AT 31ST MARCH 2018

PURPOSE OF REPORT

The purpose of this report is to provide the following:

To inform the committee on the outcome of a review of the Council's revenue reserves following completion of the draft accounts for 2017/18.

To seek approval to transfer amounts from specific reserves to the Budget Strategy Reserve to support the ongoing development of the Council's challenging Medium Term Financial Plan (MTFP) position.

RECOMMENDATIONS

The Committee is recommended to:

- a) Note the outcome of the review of revenue reserves as at 31st March 2018, and
- b) Agree the transfer in 2017/18 of £0.466m from specific reserves to the Budget Support Reserve and recommend this to Council for approval. As per paragraph **18** below and **Appendix C**.

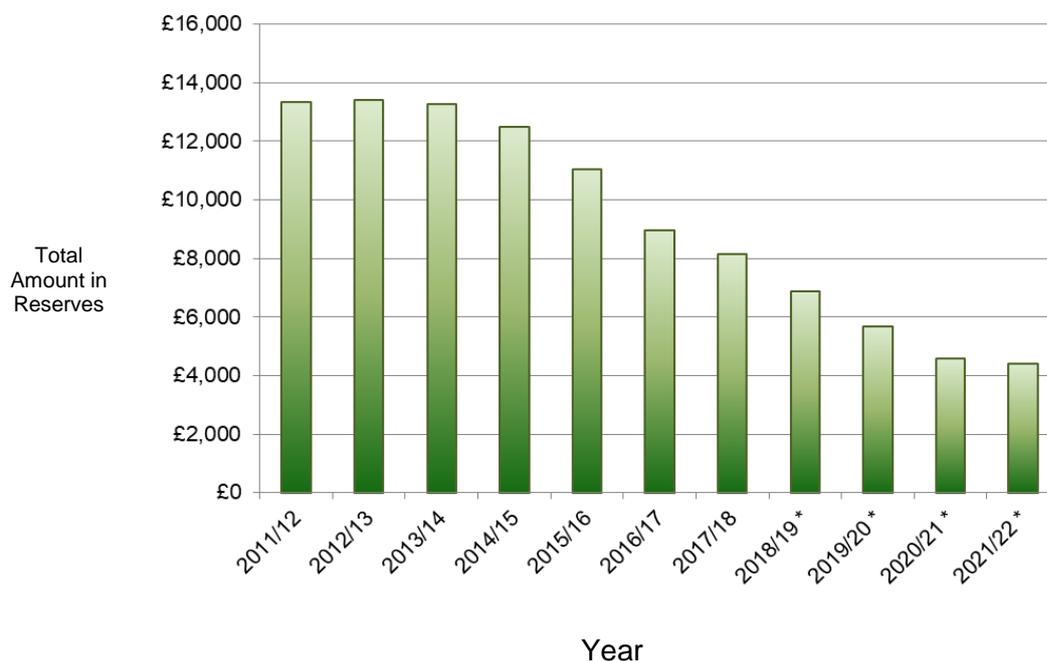
REASONS FOR RECOMMENDATIONS

To provide additional resources in support of the Council's revenue budget over the Medium Term Financial Plan (MTFP) period 2019/20 to 2021/22 which contains increased financial risk exposure from 2020/21 onwards caused by the uncertainty surrounding the unknown outcomes of the fundamental reviews into core funding. The Council's core funding streams currently total £10.2m.

ISSUE

Provisional Out-turn 2017/18

1. The Council's draft Statement of Accounts for 2017/18 has now been published. The accounts are draft and may be subject to change dependent on the outcome of the audit by the Council's external auditors, Grant Thornton. This has commenced and should be completed by the end of July when it is reported to the Accounts and Audit Committee on 26th July 2018.
2. The closing position as at 31st March 2018 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 set aside for specific purposes could be transferred to the Budget Strategy Reserve which is forecasted to reduce to zero by the close of this MTFP period. This leaves no headroom to accommodate a Local Government Finance Settlement that is any lower than that currently estimated.
3. Estimates are problematic due to the lack of any detail in respect of the outcomes of the review into Local Government financing and the reallocation of the reducing national funding pot split between sectors such as Social Services, policing and the National Health Service who have all been subject to high profile national media backed appeals for increases in funding including their proportion of core funding shares across the public sector.
4. The position on earmarked reserves as at 31st March 2018 is summarised in **Appendix A**. These stood at £7.162 excluding the minimum working balance. Including this balance gives an overall total of £8.162m.
5. The graph below shows the overall level of reserves (being the General Fund Balance and Earmarked Reserves) since the Comprehensive Spending Review in 2010. The overall total has reduced from £13.332m in 2011/12 to £8.162m in 2017/18 which equates to a 39% reduction. The updated MTFP for 2019/20 currently forecasts that they will fall to £4.387m in 2021/22 which means that total reserves will have reduced by £8.945m over this period equating to 67%.



Need for the Review?

6. In May the committee considered a report on the Council's updated MTFP covering the period 2019/20 to 2021/22. This set out details of the financial challenges and risk exposure facing the Council over the period and identified the requirement to make budget efficiency savings to deliver a balanced budget over the medium term estimated currently at £3.9m profiled as follows:-

| | Budget Efficiency Savings Required (Each Year) | Budget Efficiency Savings Required (Cumulative) |
|---------|---|--|
| | £m | £m |
| 2019/20 | 2.055 | 2.055 |
| 2020/21 | 0.916 | 2.971 |
| 2021/22 | 0.971 | 3.942 |

7. 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 base budget on a planned basis over the plan period. This will result in the use of the Budget Support Reserve (BSR) over this period with £1.100m in 2019/20, £1.060m in 2020/21 and £0.150m in 2021/22. This will reduce that reserve to a forecasted zero balance in 2021/22.
8. After the allocations of Budget Support Reserve are used to help bridge the budget gap above the following levels of budget efficiency savings are still required:

| | Budget Efficiency Savings (Each Year) Required After Use of BSR | Budget Efficiency Savings (Cumulative) Required After Use of BSR |
|---------|--|---|
| | £m | £m |
| 2019/20 | 0.955 | 0.955 |
| 2020/21 | 0.956 | 1.911 |
| 2021/22 | 1.881 | 3.792 |

9. With the ongoing Fair Funding Review (FFR) and the fundament redesign of the Business Rates Retention (BRR) Scheme still not published yet, this MTFP contains perhaps the greatest level of uncertainty since the commencement of Central Government grant funding withdrawal.
10. Bringing together:
- the degree of uncertainty and risk exposure within the MTFP forecasts,
 - the level of continued budget deficit and financial challenge, and also
 - the estimated reduction of the BSR to zero,
- demonstrates the need to review the Council's Reserves Strategy. Given the above there is a robust rationale to seek to increase the BSR to help mitigate against the financial risk

set out above by providing an option of managing the process of reducing the net cost of the Council within a planned and incremental timetable to protect service provision.

11. It is important to note that the forecasted nil balance on the BSR is based on the assumption that the £183k positive variation to the budgeted contribution from the BSR in 2017/18 as at 31st March 2017 (Revenue Out-turn Report – Policy and Resources Committee 26-06-18) remains in the BSR and not transferred from the BSR for expenditure on other matters.
12. Therefore, if this amount does not remain within the BSR in 2018/19 the BSR will be overcommitted by the end of the MTFP period and the recurring budgetary efficiency savings required to balance the budget will need to increase accordingly.

Summary of Reserves

13. A summary of the reserves over the MTFP period is attached in **Appendix B**. The effect of the proposed transfers across the MTFP period are attached in **Appendix C** for illustration. This shows the amounts that could be transferred from each reserve to the BSR. The amounts which can be 'freed up' are shown in the column shaded grey in **Appendix C**. It should be noted, however, that a review of the reserves position and forecasted is carried twice a year (at out-turn and budget setting) to take account of changing financial factors and risk and therefore further transfers may be considered that will vary the reserves balances reported here. A commentary on each one is provided below:

Business Rates Retention Volatility Reserve £0.281m – transfer £0.281m

The total income budget for BRR in 2018/19 (incl. associated s31 grant and pooling) is £4.8m. It is considered that this balance is not at a sufficient enough level to provide an effective buffer against a large scale tax base reduction. The greater financial risk posed by the BRR regime is in respect of the Local Government Finance Settlement and the operating structure of the scheme beyond 2020/21. The BSR also mitigates against this financial risk and therefore it is considered appropriate to consolidate these two reserves into the BSR.

Growth Sites Development £0.322m – transfer £0.100m

The current strategic priorities and project/work programme of the Council are taken into account when appropriateness of reserves balances is assessed. Presently, given the number of sites currently being developed and in train, it is considered that the priority allocation of funds lies with the Budget Support Reserve. Therefore it is proposed that £100k to the BSR. As above this position may change moving forward dependent on the Council achieving its budget efficiency plan and the pace by which the forecasted budget shortfall is bridged.

Revenue Expenditure £0.794m – transfer £0.060m

The reserve is a collection of small minor balances that are committed to fund works that has been approved by Members to be carried over from one year to the next, for example the £0.114m detailed within the Revenue Budget Out-turn 2017/18 Report also included on this agenda. It also holds monies that are allocated to address homelessness and also support Women's Refuge and fund the Environmental Action Group. This reserve also includes a provision to upgrade the Financial Information System that will no longer be supported by the provider very shortly therefore becoming vulnerable.

Insurance/Risk Management £0.129k – transfer £0.025m

The reserve is earmarked to cover potential uninsured losses and also provide support to invest in schemes that reduce risk exposure. The recommendation to reduce this reserve by £25k is made taking into account the commitments made against this balance.

14. The transfer outlined above totals £0.466m. Subject to agreement by Policy and Resources Committee and Council this amount will be transferred to the Budget Support Reserve for use as outlined in paragraph 15 above. This is illustrated in **Appendix C**. Adopting this approach results in a projected balance on the BSR of £0.473m by March 2022. This is predicated on no significant changes occurring to the key budget assumptions used within the MTFP to forecast future years Net Budget Requirement and Total Core Funding received.

IMPLICATIONS

Policy: The changes to the reserves as outlined in this report will require ratification by Council.

Financial: The financial implications are set out in the main body of the report.

Legal: There are no legal implications arising directly from the contents of this report.

Risk Management: The changes being proposed in this report are in response to the financial risks facing the Council over the next 3 years. Whilst the proposals outlines are not without risk there remains the requirement for the adequacy of reserves and balances to be subject to annual review by the Chief Financial Officer with the outcomes reported to council.

Health and Safety: There are no Health and Safety implications arising directly from the contents of this report.

Sustainability: There are no sustainability implications arising directly from the contents of this report.

Community Safety: There are no Community Safety implications arising directly from the contents of this report.

Equality and Diversity: There are no Equality and Diversity implications arising directly from the contents of this report.

APPENDICES

Appendix A – Balance on Earmarked Reserves as at 31st March 2018 as per the Draft Statement of Accounts 2017/18

Appendix B – General Fund Reserves and Balances within the draft 2019/20 MTFP to 2021/22

Appendix C – General Fund Reserves and Balances within the draft 2019/20 MTFP to 2021/22 after the proposed transfers have been applied.

LIST OF BACKGROUND PAPERS - The Draft Statement of Accounts for 2017/18 – published on the Council's website on 31st May 2018.