

REPORT FROM: CHIEF FINANCIAL OFFICER
TO: POLICY AND RESOURCES COMMITTEE
DATE: 22nd AUGUST 2019

Report Author: Susan Guinness
Tel. No: 01282 661867
E-mail: susan.guinness@pendle.gov.uk

REVIEW OF REVENUE RESERVES AS AT 31st MARCH 2019

PURPOSE OF REPORT

The purpose of this report is to provide the following:-

1. To inform the committee on the outcome of a review of the Council's revenue reserves following completion of the audited accounts for 2018/19.
2. To seek approval to transfer amounts from specific reserves to create the approved New Homes Bonus Volatility Reserve that supports the ongoing development of the Council's challenging Medium Term Financial Plan (MTFP) position.
3. Update members on the most recent assessment of the adequacy of the General Fund Balance in 2019/20.

RECOMMENDATIONS

4. The Committee is recommended to:
 - a) Note the outcome of the review of revenue reserves as at 31st March 2019.
 - b) Agree the transfers between specific reserves in 2019/20 of £0.502m to the approved New Homes Bonus Volatility Reserve and recommend this to Council for approval (as per paragraph 23 below and [Appendix C](#)).
 - c) Note the assessment of the adequacy of the General Fund Balance (as per [Appendix D](#)).

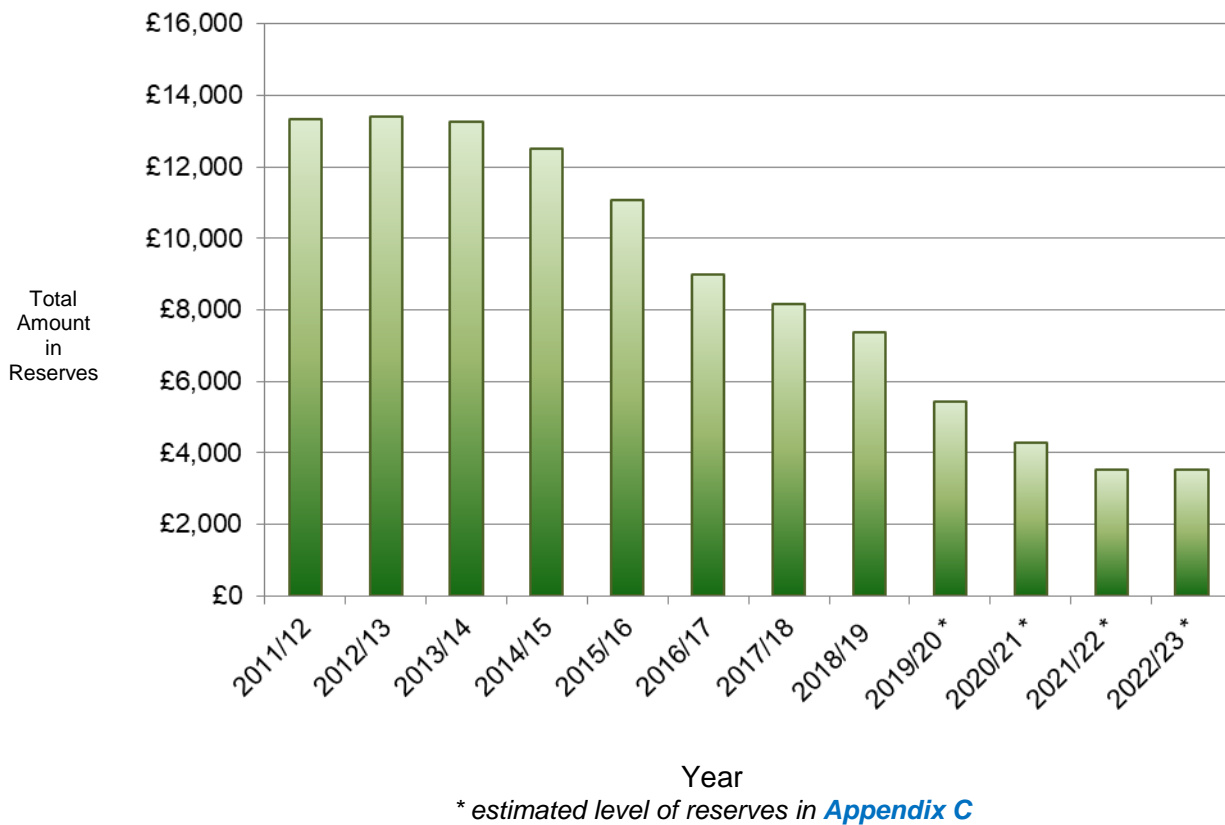
REASONS FOR RECOMMENDATIONS

5. To provide additional resources in support of the Council's revenue budget over the Medium Term Financial Plan (MTFP) period 2020/21 to 2022/23 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.
6. The outcomes of the Spending Review 2019 and Fair Funding Review are unknown with their medium term impact only expected to be announced later in the 2020 calendar year. If New Homes Bonus (NHB) is to be withdrawn in its entirety, this will increase the overall budget shortfall to 2022/23 by £0.551m to circa. £4.5m.

ISSUE

Provisional Out-turn 2018/19

7. The Council's Statement of Accounts for 2018/19 has now been published. The accounts have been audited by the external auditors, Grant Thornton and reported to the Accounts and Audit Committee on 30th July 2019.
8. The closing balances of the Reserves as at 31st March 2019 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 set aside for specific purposes can be used to make provision for the approved New Home Bonus Resilience Reserve whilst also maintaining the Budget Strategy Reserve balance. Given the uncertainty of core funding in future years and the forecasted budget shortfall to 2022/23, is it increasing important that the Budget Strategy Reserve is not 'dipped into' and retained to support the budget as profiled in the MTFP and [Appendices B and C](#).
9. It is important to note that the Budget Strategy Reserve is forecasted to reduce to circa. £0.120m by the close of the MTFP period. This leaves no headroom to accommodate a Local Government Finance Settlement that is any lower than that currently estimated.
10. Estimates on future funding levels are currently problematic in the absence of the medium term impact of both the Spending and Fair Funding reviews into public sector financing and the reallocation of the national funding pot split between sectors such as Social Services, Policing, HM Prison Service and the National Health Service. All these sectors, in addition to local government, have all been subject to high profile national media backed appeals for increases in both overall funding and also their share of the final level of core funding determined across the all public sectors.
11. The position on earmarked reserves as at 31st March 2019 is summarised in [Appendix A](#). These stood at £6.374m excluding the General Fund Balance. Including the General Fund Balance of £1.0m, this gives an overall total of £7.374m.
12. The graph below shows the overall reducing 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 £7.374m in 2018/19 which equates to a 45% reduction. The profile in [Appendix B](#) currently forecasts that they will fall to £3.537m in 2022/23 which means that total reserves will have reduced by £9.795m equating to 73%.



Need for the Review?

13. In May the committee considered a report on the Council’s updated MTFP covering the period 2020/21 to 2022/23. 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. The MTFP has been subsequently updated and reported to the Budget Working Group highlighting the budget shortfall to 2022/23 of £4.013m profiled as follows:-

	Budget Efficiency Savings Required (Each Year)	Budget Efficiency Savings Required (Cumulative)
	£m	£m
2020/21	2.073	2.073
2021/22	1.383	3.456
2022/23	<u>0.557</u>	4.013
	4.013	

14. The MTFP 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 Strategy Reserve (BSR) over this period with £1.060m in 2020/21 and £0.650m in 2021/22 but zero in 2022/23 due to the forecasted full use of the reserve’s available balance.

15. After the allocations of Budget Strategy 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
2020/21	1.013	1.013
2021/22	1.793	2.806
2022/23	<u>1.207</u>	4.013
	4.013	

16. 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 probably the greatest level of uncertainty since the commencement of Central Government grant funding withdrawal. Recently, the Chancellor has formally announced that the 2019 Spending Review has been postponed until 2020. Instead, a one-year Spending Round covering budgets for 2020/21 will take place in September. An exact date has not yet been announced and clearly Fair Funding Review will only take place after the Spending Review has been completed.

17. 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 possibility that NHB could be withdrawn from 2020/21,

it is demonstrated that a review of the Council’s Reserves Strategy is needed to help mitigate against the financial risk set out above. The recommendations of the report seek to provide an option of managing the process of reducing the net cost of the Council within a planned and incremental timetable to protect service provision.

18. The reserves held by the Council have continued to be reviewed twice a year with a view to transferring any identified available funds into the Budget Strategy Reserve, or in this case a New Homes Bonus Resilience Reserve. The overall purpose of this reserve is the same as the Budget Strategy Reserve as its purpose will be to mitigate against the financial risk of reducing core funding.

19. This rationale also demonstrates the need to continue in the same vein in that any available funds that may become available in 2019/20 should be set aside to bolster the Council’s financial resilience against significant funding cuts and variations to those already assumed in the updated MTFP to 2022/23.

20. It is important to note that the forecasted low balance of circa. £120k on the BSR is based on the assumption that budget savings will be achieved to the level listed in paragraph 15 above. If budget savings targets in 2020/21 and 2021/22 are not met, in the absence of support from a reserve set aside, alternative and equal net cost reducing options will need to be implemented in order to set a balanced budget.

Summary of Reserves

21. 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 NHB Resilience Reserve. The amounts which can be 'freed up' are shown in the column shaded grey in [Appendix C](#).
22. It should be noted that a review of the reserves position is carried out twice a year (at out-turn and budget setting) to take account of changing financial factors and as information comes to light that impacts on risk, e.g. Local Government Settlement. Therefore further transfers may be considered that will vary the reserves balances reported here.
23. Setting aside £0.502m to create the New Homes Bonus Resilience Reserve was approved by Policy and Resources in June 2019. It is proposed that the following transfers from other specific reserves are made to achieve this whilst also maintaining the BSR. A commentary on each reserve proposed to be adjusted is also provided below:

Bond Reserve £0.250m – transfer £0.250m

The reserve provides resource cover in the event there is a need to transfer services currently undertaken by Liberata back to the Council and where the costs of doing so are not met by Liberata under the terms of the contract. This transfer reduces the reserve balance to zero. However, as the Liberata contract has been extended, the risk of services needing to be brought back in house has diminished. Therefore alternative cover can be provided within the General Fund Balance, as per [Appendix D](#).

Revenue Expenditure £0.889m – transfer £0.227m

The reserve is a collection of small minor balances that are committed to fund works that have been approved by Members to be carried over from one year to the next, for example the £0.178m detailed within the Revenue Budget Out-turn 2018/19 reported to this committee in May 2019. The proposed transfer comprises mainly the funding set aside to meet the potential HSE Prosecution which is no longer required.

Insurance/Risk Management £0.103k – 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.

24. The transfer outlined above totals **£0.502m**. Subject to agreement by Policy and Resources Committee and Council this amount will be transferred to the approved New Homes Bonus Volatility Reserve that will support the budget in a similar way to the Budget Strategy Reserve should the ongoing core funding reductions include the cessation of the New Homes Bonus scheme. Adopting this approach results in a balance in the established NHB Volatility Reserve of £0.502m as per [Appendix C](#). 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.

Assessment into the Adequacy of the General Fund Balance

25. An assessment of the adequacy of the General Fund Balance has taken place as set out in [Appendix D](#). It has been concluded that the level of the General Fund Balance should remain at £1.0m until the next assessment that will form part of the 2020/21 budget setting process in January 2020.
26. At this time, some factors have increased the 'Desirable' level of the reserve albeit potentially on a temporary basis, for example, this assessment has included the following issues:-
- The pay award has not been finalised for 2020/21 and the Employers' side have received an initial pay claim c.10%, therefore the high end exposure level has increased.
 - The level of budget savings that need to be approved to balance the budget in the coming year is greater when compared to the amount anticipated to be outstanding further into the budget setting process. Due to the early stage in the budget setting process, no budget savings have been approved by Council yet. Therefore the high level exposure set at 50% has increased. When the second adequacy assessment is carried in January 2020, the level of savings approved by Council to balance the budget for 2020/21 at that date will be used up update the assessment of high end risk.
 - Bond Reserve replacement provision.

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 recommendations within 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. A further review will be undertaken as part of setting the budget for 2020/21 in February 2020.

Health and Safety: There are no Health and Safety implications arising directly from the recommendations within this report.

Sustainability: There are no sustainability implications arising directly from the recommendations within this report.

Community Safety: There are no Community Safety implications arising directly from the recommendations within this report.

Equality and Diversity: There are no Equality and Diversity implications arising directly from the recommendations within this report.

APPENDICES

Appendix A – Balance on Earmarked Reserves as at 31st March 2019 as per the Draft Statement of Accounts 2018/19

Appendix B – General Fund Reserves and Balances **before** the proposed transfers have been applied.

Appendix C – General Fund Reserves and Balances **after** the proposed transfers have been applied.

Appendix D – Assessment into the level of the Council's General Fund Working Balance post closure of accounts 2018/19.

LIST OF BACKGROUND PAPERS

The Audited Statement of Accounts for 2018/19 – published on the Council's website - July 2019.