

Report of the Section 151 Officer

Cabinet – 20 August 2015

STATEMENT OF REVENUE RESERVES

Purpose:	To inform Cabinet of the reclassification of Revenue Reserves of the Council following a review by the Section 151 Officer of existing and future risk.
Policy Framework:	Sustainable Swansea Budget Plan 2015/16
Reason for Decision:	It is a requirement of the Section 151 Officer to regularly review both the level of Earmarked and General Reserves held by the Council and the purpose for which they are held in the light of an ongoing assessment of future financial risks facing the Council
Consultation:	Cabinet Members, Executive Board, Legal Services and Corporate Equalities Unit.
Recommendation:	It is recommended that the comments in this report and the specific reclassification of existing revenue reserves of the Council as at 31 st March 2015, as detailed in Section 3.12 of this report, are noted.
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1. Introduction and Context

- 1.1 Local Authorities have a corporate responsibility to operate within available resources and to remain financially sound over the short, medium and longer term.
- 1.2 One of the key tools available to Authorities in managing their affairs is the creation and use of both General and earmarked reserves to assist in delivering services over a period longer than one financial year.
- 1.3 In terms of guidance on the review and management of reserves, the Chartered Institute of Public Finance and Accountancy (CIPFA), via the Local Authority Accounting Panel, issued a bulletin in July 2014 (LAAP

99) intended to give guidance to Local Authorities on the management and review of Reserves. This bulletin is considered best practice in terms of Local Authority Financial administration and effectively must be followed. A copy of the bulletin is at Appendix 'A' to this report.

- 1.4 Within the existing statutory and regulatory framework, it is the responsibility of Chief Financial Officers to advise Local Authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.
- 1.5 It is the duty of the Chief Finance Officer to specifically report on the robustness of estimates and reserves when the Council considers its budget requirement and, as such, the Revenue Budget approved by Council in February 2015 made specific references to the adequacy of Reserves at that point in time.
- 1.6 Notwithstanding that specific statutory requirement, it is the duty of the Chief Finance Officer to regularly review the position regarding available reserves of the Authority having specific regard to:
 - a) The original and current need for each category of reserve held
 - b) An assessment of current and future risks (both operationally and financially) facing the Council
 - c) The impact of known and predicted funding levels likely to impact on the Council going forward.
- 1.7 This report considers the position regarding both General and earmarked reserves as at 31st March 2015 and makes specific changes in respect of reclassification of elements of those specific reserves.

2. Position as at 31st March 2015

- 2.1 The draft Statement of Accounts as presented to our external Auditors as at 31st March 2015 included the following entries in respect of reserves:

Usable Reserves	£'000	Purpose
General Fund	12,360	Used as an overall contingency to cushion the impact of unexpected events or emergencies and as a means of smoothing out annual budgets where there is significant change
Earmarked Revenue Reserves	52,782	Consisting of sums set aside for specific purposes to support Corporate and Service needs
Earmarked Capital Reserves	3,904	Consisting of sums set aside to fund known and ongoing Capital Projects
Capital receipts	12,935	Capital monies received by the

Reserve		Council set aside for funding ongoing Capital schemes per the Capital. Programme. These sums are committed to current schemes and cannot be used to support Revenue expenditure
Capital Grants unapplied Account	20,965	Relates to committed funding on Capital schemes and cannot be used to support Revenue spending
Housing Revenue Account	17,135	Exists to support expenditure for Housing Revenue Account purposes only and cannot be used to support general Council Revenue or Capital Expenditure
Total usable reserves	120,081	

- 2.2 In addition the Council holds some £162.2m in unusable reserves arising purely from accounting technicalities. These cannot be used to support revenue or capital expenditure of the Council.
- 2.3 The General Fund Balance of the Council as detailed above is as per the Revenue Outturn report presented to Cabinet on 16th July 2015.
- 2.4 The draft Statement of Accounts as presented to our external Auditors (PWC) on 30th June included an analysis of earmarked reserves with the proviso that each reserve was subject to strategic review by the Section 151 Officer based on an analysis of current need and changing Council risks.
- 2.5 This report is the result of that strategic review.

3. Outcomes and recommendations

- 3.1 The Medium Term Financial Plan approved by Council in February 2015 forecast a cumulative deficit on General Fund Revenue Expenditure of some £85m by 2018/19 with an immediate savings requirement of £35m for 2016/17. This is in addition to the current year Directorate savings requirement of £17.167m
- 3.2 Whilst notional Directorate Savings for 2016/17 in the sum of £12.772m have been agreed, these include incremental savings across all Directorates which are dependent on meeting current year savings targets.
- 3.3 However, as reported to Cabinet in May 2015, there is clear and compelling evidence that savings planned in the areas of Social Services and Education are unlikely to be achieved in the current year, which puts future years in jeopardy. Savings for the current year also include a target sum of £3m relating to reductions in asset costs and procurement savings.

- 3.4 To put it into context, if all planned savings for 2016/17 are achieved it still leaves a gap of £22.332m to be addressed.
- 3.5 The Council's strategy for dealing with ongoing budget reductions and Service transformation – Sustainable Swansea – is ongoing and it is clear that, whether as a result of commissioning reviews or emergency action being required to produce a balanced budget going forward, there is likely to be considerable cost in relation to change.
- 3.6 Dealing with the cost of future structural change is a significant financial risk that needs to be addressed now, given the scale and pace of budget reductions to be addressed by the Council.
- 3.7 Traditionally exit costs in relation to downsizing the organisation has been dealt with through the use of the annual contingency fund, currently standing at an annual contribution of £5.4m. However, early indications in the current year indicate substantial probable overspends in People Directorate Services and it is likely that, in future, use of the contingency fund will be required to mitigate the effect of service spending variations.
- 3.8 In assessing both the level and use of Earmarked and General reserves The LAAP bulletin sets out some of the factors that should be considered including:-
- The treatment of demand led pressures
 - The treatment of planned efficiency savings/productivity gains
 - The financial risks inherent in any significant new funding Partnerships or changes in service delivery
 - The general financial climate to which the Authority is subject.
- 3.9 Having considered the above, and in the context of a medium term financial plan that shows ongoing and sustained budget reductions, it is my opinion that the Council needs to prepare for significant changes in service delivery that will inevitably impact on direct employment levels going forward.
- 3.10 Indications from Local Authorities in England typically suggest a reduction in the directly employed workforce of at least 30% based on experience of the austerity agenda, which includes transfers where appropriate to alternative service providers and/or job losses. This level of reduction is likely to increase over the period to 2020.
- 3.11 Changes on such a scale will inevitably come with substantial up-front costs and it is vital at this time that the Council plans operationally and financially to meet those changes.
- 3.12 **To this extent, and following a review of current earmarked reserves, the following re-classification of earmarked reserves is proposed:-**

Category of Earmarked Reserve	Current Balance 31/3/15 £'000	Proposed Change £'000	Proposed Position £'000
Technical/Third party	1,465	0	1,465
Insurance	18,775	-4,000	14,775
Job evaluation	2,234	0	2,234
Transformation and efficiency	2,525	0	2,525
Schools delegated reserves	9,754	0	9,754
Equalisation reserves	3,121	-2,471	650
Commuted sums	4,945	0	4,945
Repair and Renewal funds	3,706	0	3,706
Profit share on disposals	1,027	0	1,027
Service earmarked reserves	5,230	-1,374	3,856
Restructuring costs reserve	0	7,845	7,845
Total earmarked reserves	52,782	0	52,782

3.13 The effect of this is to create a specific earmarked revenue reserve of £7.845, which is intended to be used exclusively for direct one-off costs relating to service transformation.

4. Legal implications

4.1 There are no direct legal implications arising from this report. However, Section 151 of the Local Government Act 1972 requires each Local Authority to make arrangements for the proper administration of its financial affairs and that the Chief Finance Officer (in our case the Head of Finance and Delivery) has responsibility for those affairs.

4.2 Under guidance detailed at Appendix 'A' to this report the Chief Finance Officer is required at all times to monitor the purpose and use of Reserves.

5 Access to Service implications

5.1 Having assessed the current planned use of earmarked reserves there are no significant equalities implications arising from these proposals

Background Papers: None.

Appendix: Appendix 'A' – LAAP bulletin 99