

Report of the Section 151 Officer

Council – 1 November 2016

REVIEW OF REVENUE RESERVES

Purpose:	To undertake a mid-year review of the Revenue Reserves position and to agree any suggested reclassification of reserves based on current requirements
Policy Framework:	Sustainable Swansea Budget Plan 2016/17
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, Corporate Management Team, Legal and Corporate Equalities Unit.
Recommendation:	It is recommended that the recommendations made in this report in Section 3.14 are considered and approved
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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 its 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 bulleting 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 2016 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 2016 and makes specific recommendations 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 2016 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	56,021	Consisting of sums set aside for specific purposes to support Corporate and Service needs

Capital receipts Reserve	7,898	Capital monies received by the 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	18,750	Relates to committed funding on Capital schemes and cannot be used to support Revenue spending
Housing Revenue Account	15,233	Exists to support expenditure for Housing Revenue Account purposes only and cannot be used to support General Fund Council Revenue or Capital Expenditure
Total usable reserves	110,262	

- 2.2 In addition the Council holds a net £382.246m in unusable reserves arising purely from accounting technicalities. **These cannot be used to support revenue or capital expenditure of the Council in any form.**
- 2.3 The General Fund Balance of the Council as detailed above takes account of decisions made by Cabinet based on the 2015/16 Revenue outturn position considered on 21st July 2016.
- 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 2016 forecast a cumulative deficit on General Fund Revenue Expenditure of some £55m by 2019/20 with an immediate savings requirement of £18.5m for 2017/18. This is in addition to the current year Directorate savings requirement of £22.513m.
- 3.2 However, there is clear and compelling evidence that savings planned in the areas of Social Services, Education and Corporate Services are unlikely to be achieved in the current year which puts future years in jeopardy. Savings targets for the current year also included a notional sum of £2m relating to stopping services.

- 3.4 To put it into context, if all planned savings for 2016/17 are achieved it still leaves a gap of £18.5m to be addressed for 2017/18.
- 3.5 The Council's strategy for dealing with ongoing budget reductions and Service reforms – 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, together with potential significant investment in digital technology solutions.
- 3.6 Dealing with the cost of future structural change is a significant financial risk facing the 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 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 bulleting 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 the opinion of the Section 151 Officer that the Council needs to continue 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 around 30% based on experience of the austerity agenda, which includes transfers where appropriate to alternative service providers and/or job losses. Current indications are that to date CCS has seen reductions of around 10% in terms of FTE staffing numbers.
- 3.11 Changes on such a scale will inevitably come with substantial up-front costs and it is important at this time that the Council plans operationally and financially to meet those changes.
- 3.12 The Council is expecting to complete settlement of all outstanding equal pay claims by the end of December 2016 including those related to School based non-teaching staff.

- 3.13 It is likely that the final cost of settlement will exceed resources set aside for that purpose by some £2.5m (including extended costs of the equal pay team) and it is suggested that this additional sum is met from the restructuring reserve established in September 2015.
- 3.14 **To this extent, and following a review of current earmarked reserves, the following re-classification of earmarked reserves is recommended:-**

Category of Earmarked Reserve	Current Balance 31/3/15 £'000	Proposed Change £'000	Recommended Position £'000
Technical/Third party	1,027	0	1,027
Insurance	14,092	0	14,092
Job evaluation	0	2,500	2,500
Transformation and efficiency	2,292	0	2,292
Schools delegated reserves	9,547	0	9,547
Equalisation reserves	52	0	52
Commuted sums	5,122	0	5,122
Repair and Renewal funds	2,935	0	2,935
Profit share on disposals	1,121	0	1,121
Service earmarked reserves	4,840		4,840
Capital Reserves	5,496	0	5,496
Restructuring costs reserve	9,497	-2,500	6,997
Total earmarked reserves	56,021	0	56,021

4. Valuation of Reserve requirements

- 4.1 A number of the reserves highlighted above have been set aside for specific purposes; These include the Insurance reserve set aside to meet the potential cost of excess payments should a claim on external insurers materialise or should the Council have to meet claims from its own resources (The insurance reserve is currently undergoing an actuarial valuation to assess the appropriateness of the level of reserves maintained for future losses.), repair and renewal Funds set aside to meet future major repair and renewal costs on strategic assets (LC, Wales National Pool, Quadrant Bus Station) and Reserves set aside for profit share on disposals of assets where reclamation has been funded by the WDA/Welsh Government.
- 4.2 It is essential that monies set aside for the above purposes are regularly reviewed in order to confirm their accuracy and relevance.

4.3 To that extent Formal assurance will be sought on adequacy of these reserve levels as part of the annual budget setting process.

4.4 At the same time a formal review will be carried out of all service earmarked reserves again to test their continued relevance and value.

5. Legal implications

5.1 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.

5.2 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.

6 Access to Service implications

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

Appendix A – LAAP bulletin 99