



Report of the Section 151 Officer

Council – 7 December 2023

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:	Medium Term Financial Plan and Budget Strategy
Consultation:	Cabinet Members, Corporate Management Team, Legal and Access to Services.
Recommendations:	It is recommended that:- 1) Council approves the recommendations made in this report at Sections 3.10 and 3.11.
Report Author:	Ben Smith
Finance Officer:	Ben Smith
Legal Officer:	Debbie Smith
Access to Services Officer:	Rhian Millar

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 bulletin in July 2014 (LAAP 99) intended to give guidance to Local Authorities on the management and review of reserves. This bulletin was replaced in March 2023 by CIPFA Bulletin 13 – Local Authority Reserves and Balances (Updated). A copy of this new bulletin is at Appendix B to this report.
- 1.4. CIPFA Bulletin 13 provides updated and strengthened advice as well as introducing two new unusable reserves.
- 1.5. The Bulletin states that “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 should be held and to ensure there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.” However, it also points out that the CIPFA Financial Management Code sets out that it is for the leadership team of the authority to ensure that governance arrangements and financial management promote financial sustainability.
- 1.6. It is the duty of the Chief Financial 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 March 2023 made specific references to the adequacy of reserves at that time.
- 1.7. 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:
 - The original and current need for each reserve held
 - An assessment of current and future risks (both operationally and financially) facing the Council
 - The impact of known and predicted funding levels likely to impact on the Council going forward.
- 1.8. Swansea Council’s Chief Finance Officer is the Director of Finance and Section 151 Officer.
- 1.9. This report considers the position regarding both General and Earmarked reserves as at 31st March 2023 and makes specific recommendations in respect of reclassification of elements of those specific reserves.

2. Position as at 31st March 2023

- 2.1. The draft Statement of Accounts 2022/23 will include the following entries in respect of reserves as at 31st March 2023, which are still subject to audit:

Cash-Backed Usable Reserves	£'000	Purpose
1. General Fund Revenue Reserves		
a) General Fund Balance	10,000	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
b) Earmarked Revenue Reserves	151,317	Consisting of sums set aside for specific purposes to support Corporate and Service needs
2. General Fund Capital Reserves		(only usable for capital purposes)
a) Capital Receipts Reserve	8,720	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
b) Capital Grants Unapplied Account	22,187	Relates to committed funding on Capital schemes and cannot be used to support Revenue expenditure
c) Earmarked Capital Reserves	18,004	Consisting of sums set aside for specific capital purposes
3. Housing Revenue Account (HRA) Reserves		(only usable for HRA purposes)
a) Housing Revenue Account	10,408	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 Cash Backed Reserves	220,636	

- 2.2. Usable reserves are cash-backed and can be used to support expenditure – albeit occasionally with some specific rules around the type of expenditure that they can be used for. For example, the Housing Revenue Account Reserve has been created from rents received, it is a cash reserve, however it is ring-fenced for use within the Housing Revenue Account only; it can only be spent on items relating to Council Housing.
- 2.3. In addition, the Council holds unusable reserves arising purely from accounting technicalities (this includes capital financing and pensions liabilities). These reserves are not cash-backed and therefore cannot be spent. They tend to arise from entries that must be made for accounting purposes, but which are not permitted to affect the taxpayer. A net £543.540m was held as at 31st March 2023, as was flagged by the external

auditor last year the authority has carried out considerable work to restate the split (net nil effect overall) between two of these technical non-useable reserves.

- 2.4. **These cannot be used to support revenue or capital expenditure of the Council in any form and as such are not part of this review.**
- 2.5. The HRA reserve and the Capital reserves detailed above are ring-fenced and are regularly reviewed as part of business planning. As such they are provided for general information only, no further review is proposed currently.
- 2.6. The General Fund Balance of the Council as detailed above takes account of decisions made by Cabinet based on the 2022/23 Revenue Outturn position considered on 20th July 2023.
- 2.7. Comparisons with other Welsh Councils show that, as a percentage of Gross Revenue Expenditure, the level of the General Fund reserve is below the All Wales average (as at 31st March 2022) and as such no planned use of the balance is recommended, given it is still deemed to be low both in absolute and proportionate terms both historically and compared to all other Councils in Wales. For Members to achieve the aim of increasing general reserves, whilst trying to maintain services in the face of significant budgetary constraint, especially due to the current economic climate, is accepted by the Section 151 to be exceptionally difficult to consider.
- 2.8. The draft Statement of Accounts due to be presented to our external Auditors (Wales Audit Office) will include an analysis of earmarked reserves with the proviso that each reserve will be subject to strategic review by the Section 151 Officer based on an analysis of current need and changing Council risks.
- 2.9. This report is the result of that strategic review.

3. Outcomes and Recommendations

- 3.1. The Medium-Term Financial Plan approved by Council on 2nd March 2023 forecast a cumulative deficit on General Fund Revenue Expenditure of some £62m by 2026/27, based on a 3% increase in Government funding for year 1 down to 2% by year 3, with an immediate savings requirement of £20.3m for 2024/25. This is in addition to the current year savings requirement of £24.8m. More recent forecasts indicate an even larger savings requirement will be likely, predominantly as a result of ongoing demographic pressures, issues arising from the COVID-19 pandemic and most notably the current levels of inflation including pay awards.
- 3.2. Equally, it is likely that all Directorates will find it increasingly hard to live within budgets primarily due to the impact of cumulative pay awards not being fully agreed yet for either Council staff or teachers, uncertainty over funding, or lack of, for such awards, and general inflation remaining persistently and stubbornly higher than Bank of England targets and long run public sector financing and planning assumptions.

- 3.3. To put it into context, if all planned savings for 2023/24 are achieved it still leaves a minimum gap of £20.3m to be addressed for 2024/25, as per the previous medium term financial plan assumptions. The current levels of inflation are likely to significantly affect this, and whilst still under review and waiting for (for example) pay awards to be agreed, it is more likely that this figure will be nearer £25m.
- 3.4. The Council's strategy for dealing with ongoing budget reductions and Service reforms – through the Transformation Plan – is ongoing and it is clear that there is likely to be considerable cost in relation to change, together with potential significant investment in digital technology solutions.
- 3.5. Dealing with the cost of future structural change is a significant financial risk given the scale and pace of budget pressures to be addressed by the Council.
- 3.6. In assessing both the level and use of Earmarked and General reserves, the CIPFA bulletin sets out some of the factors that should be considered, including:-
 - The treatment of inflation and interest rates
 - The treatment of demand led pressures
 - The treatment of planned efficiency savings/productivity gains
 - The level, timing and availability of capital receipts, reserves and other funding streams
 - 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.
- 3.7. 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 change in service delivery that will inevitably impact on direct employment levels going forward.
- 3.8. 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 these changes.
- 3.9. With this in mind, Cabinet agreed, on 20th April 2023, to use the Restructure Reserve to fund the Workforce and OD Transformation Programme and the Digital Strategy 2023 – 2028 and Transformation Programme. Therefore, it is proposed that the Restructure Reserve be re-classified as a Transformation and Efficiency Reserve.
- 3.10. As recommended previously a capital equalisation reserve was created from the underspending on debt charges and the fundamental review by council of the Minimum Revenue Provision calculation. The recommendation continues to be that this reserve is topped up wherever possible, by capital financing underspending in year, to help with any timing issues around the need to fund any City Deal projects in advance of receipt of funding from other bodies.

- 3.11. To this extent, and following a review of current earmarked reserves, the re-classification of earmarked reserves as detailed below is recommended at this juncture:-

Category of Earmarked Revenue Reserve	Current Balance 31/03/23 £'000	Proposed Change £'000	Recommended Position £'000
Technical/third party	2,815	0	2,815
Insurance	20,427	0	20,427
Transformation and efficiency	15	2,800	2,815
Schools delegated reserves	20,155	0	20,155
Equalisation reserves	23,386	0	23,386
Commuted sums	8,025	0	8,025
Repair and renewal funds	2,311	0	2,311
Profit share on joint ventures	1,694	0	1,694
Service earmarked reserves	36,431	0	36,431
Restructuring costs reserve	2,800	-2,800	0
Contingency	0	0	0
IT Development Fund	2,250	0	2,250
Recovery Fund	31,008	0	31,008
Total Earmarked Reserves	151,317	0	151,317

4. Evaluation 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. Repair and renewal funds set aside to meet future major repair and renewal costs on strategic assets (for example Crematorium, 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. Following the extremely favourable 2020/21 outturn result, a new reserve was created called the Recovery Fund, and £20m was set aside to aid the recovery from COVID-19. The fund operated successfully during 2021/22 and the 2021/22 outturn report to Cabinet on 21st July recommended a further £24.705m to be added to the fund. The 2023/24 Revenue Budget assumes use of £9.1m from the reserve to fund energy inflation on a one-off basis and there was a report to Cabinet on 18th May which effectively committed the residual balance to specific schemes. The Recovery Fund is unlikely to receive top ups in the future.
- 4.3. It should be noted that there are no changes identified for the Capital Equalisation Reserve as it is effectively fully committed over the next few years. There may be further top ups if debt charges continue to be underspent in the short term.

- 4.4. Compared to 2021/22 the overall level of reserves has reduced slightly – it should be noted that both Schools Reserves and Service Reserves had a net usage in 2022/23. A substantial use of reserves is forecast for 2023/24.
- 4.5. To that extent formal assurance will be sought on the adequacy of these reserve levels as part of the annual budget setting process. It should be noted that the Section 151 Officer accepts the levels to be adequate only because of the high level of earmarked reserves and should these fall significantly then the General Reserve will need to be increased.
- 4.6. As part of the budget setting process for 2024/25 a review will be carried out again of all service earmarked reserves as it is essential 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 Section 151 Officer and Chief Finance Officer) 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. Integrated Assessment Implications

- 6.1. The Council is subject to the Equality Act (Public Sector Equality Duty and the socio-economic duty), the Well-being of Future Generations (Wales) Act 2015 and the Welsh Language (Wales) Measure, and must in the exercise of their functions, have due regard to the need to:
 - Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
 - Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - Foster good relations between people who share a protected characteristic and those who do not.
 - Deliver better outcomes for those people who experience socio-economic disadvantage.
 - Consider opportunities for people to use the Welsh language.
 - Treat the Welsh language no less favourably than English. Ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs.
- 6.2. The Well-being of Future Generations (Wales) Act 2015 mandates that public bodies in Wales must carry out sustainable development. Sustainable development means the process of improving the economic, social, environmental and cultural well-being of Wales by taking action, in

accordance with the sustainable development principle, aimed at achieving the 'well-being goals'.

- 6.3. Our Integrated Impact Assessment (IIA) process ensures we have paid due regard to the above. It also takes into account other key issues and priorities, such as poverty and social exclusion, community cohesion, carers, the United Nations Convention on the Rights of the Child (UNCRC) and Welsh language.
- 6.4. As this report is a technical review and reclassification of reserves held by this authority there is no impact on anyone with a protected characteristic. The review is the duty of the Section 151 Officer only, there is no wider involvement. Any consideration of the Well-being of Future Generations Act would take place as part of any proposal to use the reserves, and risks and impacts would be assessed as part of any proposal. An IIA screening form has been attached as Appendix C

Background Papers: None

Appendices:

Appendix A – Glossary of Terms

Appendix B – CIPFA Bulletin 13 – Local Authority Reserves and Balances (Updated)

Appendix C – IIA Screening Form

Appendix A

Glossary of Terms

Reserves	A sum or sums of money held by the Council for future use or application
General Reserves	A sum of money set aside by the Council for general use in an emergency. Should not be considered for everyday use.
Earmarked Reserves	Sums of money set aside by the Council for use in specific instances. Some of these may be legally enforceable (such as commuted sums), others are just an indication of what the Council wishes to set monies aside for.
Commutated Sums	Monies given to the Council to carry out specific works as per Section 106 agreements - as an example a developer may wish to give the Council a sum of money to maintain open spaces on new housing estates. These monies must be used for the purpose for which they were given, or returned under the terms of the agreement.
Chief Finance Officer	The Officer of the Council with ultimate responsibility for all things financial. Also referred to as 'The Section 151 Officer' as this is the legislation awarding the powers.
Usable/Unusable Reserves	Reserves can be usable or unusable - to be usable they must be cash backed ie there must be cash available to support the reserve. Unusable reserves are those created through technical accounting entries and will have no cash to support the reserve.
Gross Revenue Expenditure	A particular calculation of a Council's gross spend, this can be used to compare across Councils
Medium Term Financial Plan	The Council's three year forecast of budget pressures and savings
Minimum Revenue Provision	The minimum amount of money the Council needs to set aside each year to repay debt.