



Report of the Section 151 Officer

Council – 25 October 2018

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 2017/18.
Consultation:	Cabinet Members, Corporate Management Team, Legal and Access to Services.
Recommendation(s):	It is recommended that: 1) The recommendations made in this report at Sections 3.11 to 3.13 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 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 1 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 should be held and to ensure 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 Financial Officer to specifically report on the robustness of estimates and reserves when the Council considers its budget requirement, as such the Revenue Budget approved by Council in March 2018 made specific references to the adequacy of reserves at that 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:
- The original and current need for each category of 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.
- 1.7 Swansea Council's Chief Finance Officer (the Section 151 Officer) is the Head of Financial Services and the Service Centre.
- 1.8 This report considers the position regarding both General and Earmarked reserves as at 31st March 2018 and makes specific recommendations in respect of reclassification of elements of those specific reserves.

2. Position as at 31st March 2018

- 2.1 The draft Statement of Accounts 2017/18 presented to our external Auditors included the following entries in respect of reserves as at 31st March 2018:

Usable Reserves	£'000	Purpose
General Fund	9,352	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	59,082	Consisting of sums set aside for specific purposes to support Corporate and Service needs
Usable Reserves	£'000	Purpose
Capital Receipts Reserve	6,454	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	13,474	Relates to committed funding on Capital schemes and cannot be used to support Revenue expenditure
Housing Revenue Account	6,781	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	95,143	

- 2.2 In addition the Council holds a net £255.178m in unusable reserves arising purely from accounting technicalities. **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.**
- 2.3 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 at this time.
- 2.4 The General Fund Balance of the Council as detailed above takes account of decisions made by Cabinet based on the 2017/18 Revenue Outturn position considered on 19th July 2018.
- 2.5 Comparisons with other Welsh Councils show that, as a percentage of Gross Revenue Expenditure, the level of the General Fund reserve is slightly below the All Wales average (as at 31st March 2017) and as such no planned use of the balance is recommended.
- 2.6 The draft Statement of Accounts as presented to our external Auditors (Wales Audit Office) by 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.
- 2.7 This report is the result of that strategic review.

3. Outcomes and recommendations

- 3.1 The Medium Term Financial Plan approved by Council on 6th March 2018 forecast a cumulative deficit on General Fund Revenue Expenditure of some £69m by 2021/22 with an immediate savings requirement of £24m for 2019/20. This is in addition to the current year Directorate savings requirement of £16.5m. More recent forecasts indicate an even larger savings requirement will be likely, predominantly as a result of unfunded pay pressures and continued demographic pressures as well as the already planned and ultimately significant additional capital investment and the associated costs of borrowing.

- 3.2 Equally, there is clear and compelling evidence that savings planned in the areas of Social Services and Corporate Services are unlikely to be fully achieved in the current year, which puts future years savings in jeopardy.
- 3.3 To put it into context, if all planned savings for 2018/19 are achieved it still leaves a gap of over £20m to be addressed for 2019/20.
- 3.4 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.
- 3.5 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.
- 3.6 Traditionally exit costs in relation to downsizing the organization have been dealt with through the use of the annual contingency fund, currently standing at an annual contribution of £3.45m. However, in 2017/18 the total exit costs exceeded the contingency fund, and as there is a reduced contingency fund this year, some exit costs will have to be funded from the Restructure Reserve. The first quarter monitoring report estimated £1.4m to be funded from the contingency fund, with a further £1.3m (Schools) to be funded by the restructuring reserve. This would leave about £2m in the contingency fund to mitigate the effect of Directorate pressures.
- 3.7 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.
- 3.8 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.
- 3.9 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. The 2018/19 Budget Report to Council in March 2018 stated that there was an underlying planning assumption that £3m of the existing restructuring reserve be provisionally committed towards meeting part of the cost of staffing reductions as they fall due in 2018/19. In addition the Budget report approved by Council in March 2018 included the proposal that Schools would be able to specifically access up to £1.3m of the Restructure Reserve in 2018/19 on a one off basis. This funding will be

utilised in meeting ER/VR costs and facilitating innovative and transformative working.

- 3.10 As such it is vitally important that the restructuring reserve is protected as much as possible to enable the Council to carry out any necessary restructuring as it transforms under the Sustainable Swansea programme.
- 3.11 As recommended in last year's Review of Revenue Reserves report at year end a capital equalisation reserve was created from the underspend on debt charges. The recommendation continues to be that this reserve is topped up to help with any timing issues around the need to fund any City Deal projects in advance of receipt of funding from other bodies. It is recommended this year that the Repairs and Renewals for the Leisure Centres is re-classified as an equalisation reserve because from October 1st this will be used to smooth the fluctuations in the annual fees of the new contract in respect of operating the Leisure Centres.
- 3.12 As reported in the 1st Quarter Budget Monitoring Report to Cabinet on 16th August 2018, the Section 151 Officer has determined that in order to fully balance the budget in 2018/19 it will be necessary to take an immediate draw from Earmarked Reserves. As such a full review was carried out and £3,000,000 will be withdrawn from reserves and used to fund the current year overspend. This is a clear emergency measure and, as reserves are one off, is not a sustainable funding strategy. Furthermore these reserves were set up to fund known and expected future spend commitments and thus will mean the costs will have to be met when they actually fall due in future years budgets (e.g. the full cost of running the next local government election), when budgets are likely to be under even further strain.
- 3.13 **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 31/03/18 £'000	Proposed Change £'000	Recommended Position £'000
Technical/third party	947	-323	624
Insurance	16,801	-250	16,551
Transformation and efficiency	1,182	-42	1,140
Schools delegated reserves	7,101	0	7,101
Equalisation reserves	3,071	1,239	4,310
Commuted sums	6,140	0	6,140
Repair and renewal funds	3,665	-1,766	1,899
Profit share on disposals	1,318	0	1,318
Service earmarked reserves	5,431	-1,345	4,086
Capital reserves	5,749	0	5,749
Restructuring costs reserve	7,677	-513	7,164
Total Earmarked Reserves	59,082	-3,000	56,082

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. Repair and renewal funds set aside to meet future major repair and renewal costs on strategic assets (for example 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 the adequacy of these reserve levels as part of the annual budget setting process.
- 4.4 As part of the budget setting process for 2018/19 a formal review of the Insurance reserve was completed and it was further determined that a take from the reserve of £700k per annum could be extended until 2021/22. This has already been built into planning assumptions.
- 4.5 As part of the budget setting process for 2019/20 a formal review will be carried out again of all service earmarked reserves 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 Financial Services and the Service Centre) has responsibility for those affairs.
- 5.2 Under guidance detailed at Appendix 1 to this report the Chief Finance Officer is required at all times to monitor the purpose and use of reserves.

6 Equality and Engagement implications

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

Background papers: None

Appendices - Appendix 1 – LAAP Bulletin 99 – Local Authority Reserves and Balances