

Cabinet (Resources) Panel

18 June 2019

Report title	Reserves and Provisions 2018-2019	
Decision designation	AMBER	
Cabinet member with lead responsibility	Councillor Louise Miles Resources	
Key decision	Yes	
In forward plan	Yes	
Wards affected	All	
Accountable director	Tim Johnson, Managing Director	
Originating service	Strategic Finance	
Accountable employee(s)	Claire Nye	Director of Finance
	Tel	01902 550478
	Email	claire.nye@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board	4 June 2019

Recommendations for decision:

The Cabinet (Resources) Panel is recommended to:

1. Approve the transfers (to)/from earmarked reserves, provisions and general balances as detailed in tables 2, 3 and 4.
2. Approve expenditure from provisions for their purposes as set out in Appendix 3 and 4, up to the value held in each provision as at 31 March 2019.
3. Approve the continuation of delegation of authority to the Cabinet Member for Resources, in consultation with the Director of Finance, to allocate funds from the Budget Contingency Reserve, the Regeneration Reserve, the Efficiency Reserve, the Transformation Reserve, the Development Reserve, the Regional Work Reserve, the Enterprise Zone Business Rates Reserve, the Business Rates Equalisation Reserve, the Treasury Management Equalisation Reserve, the Pension Deficit Recovery Reserve, the Budget Strategy Reserve and the Highways Management Reserve.

4. Approve the delegation of authority to the Cabinet Member for Resources, in consultation with the Director of Finance, to allocate funds from the Community Initiatives and Crowdfund Wolves Reserve.

Recommendations for noting:

The Cabinet (Resources) Panel is asked to note:

1. The level of the Council's earmarked reserves, provisions and general balances as at 31 March 2019 and the purposes for which they are being held, as detailed in Appendix 1, 2, 3 and 4.
2. That relevance and adequacy of earmarked reserves and general balances will be reviewed as required by the Constitution during the 2020-2021 budget setting process.
3. That allocation of funding from all earmarked reserves will be reported to Cabinet (Resources) Panel in the scheduled quarterly budget monitoring reports.
4. That Our Council Scrutiny Panel will scrutinise the use of reserves as part of the budget setting process as in previous years.
5. That the Director of Finance considers that the overall level of all reserves, provisions and balances is sufficient to meet the likely level of obligations to be met from reserves, provisions and general balances in the short term.
6. That the positive General Fund outturn position during 2018-2019, and the resulting adjustments to reserves, will help to support the Council's short-term financial position, enabling investment in community initiatives. However, it does not address the challenging financial position that the Council finds itself in over the medium term; namely identifying further projected budget reductions estimated at £27.3 million in 2020-2021, rising to £40-50 million over the medium term to 2023-2024. Cabinet will be presented with a report in July 2019 detailing the progress towards identifying budget reduction and income generation proposals to address the financial challenge.
7. That the figures quoted in the report are still subject to statutory audit by Grant Thornton UK LLP as part of the 2018-2019 accounts closedown process.

1.0 Purpose

1.1 The purpose of this report is to inform Cabinet (Resources) Panel of the Council's resources currently held as earmarked reserves, provisions and general balances as at 31 March 2019, taking account of the outturn position for 2018-2019.

2.0 Executive Summary

2.1 An analysis of the authority's general balances, earmarked (revenue) reserves and provisions at 31 March 2019 is provided in Table 1 below. This comprises of reserves, provisions and balances held for all funds including the General Fund, the Housing Revenue Account and Schools.

Table 1 – Balances, Reserves and Provisions as at 31 March 2018 and 31 March 2019

	Further details	Balance at 31 March 2018 £000	Transfer Out £000	Transfer To £000	Balance at 31 March 2019 £000
Total General Balances	Table 2	(17,000)	-	(11)	(17,011)
Total Earmarked Reserves	Table 3	(55,722)	14,131	(17,052)	(58,643)
Total Provisions	Table 4	(39,888)	11,476	(7,529)	(35,941)

2.2 Overall, during 2018-2019 there has been a decrease of £1.0 million in the level of general balances, earmarked reserves and provisions. Full details of the movements against general balances, earmarked reserves and provisions are provided in the sections below.

3.0 Background

3.1 Earmarked reserves are made up of retained surpluses against previous years' revenue budgets, which are available to fund future expenditure. Some are required by law or accounting practice, whilst others represent amounts voluntarily set aside by the Council for specific purposes.

3.2 The definition of provisions is set out in financial reporting standards. They state that a provision should be established when:

1. the Council has a present obligation as a result of a past event, and
2. there is significant uncertainty around the timing or amount of settlement of the obligation, but
3. a reliable estimate can be made of the likely cost to the Council.

- 3.3 These definitions are for accounting purposes. The important issue for the Council in looking forward is whether or not the earmarked reserves and provisions, taken together with the Council's general balances, are sufficient to meet the cost of fulfilling the obligations (past or future) for which these reserves and provisions were established. If those obligations have been met, it is good practice to release the reserve or provision. The funds released are then available for other uses.
- 3.4 Due to the projected financial challenges facing the Council over the medium term, combined with the budget risks, reserves should only be called on in very specific circumstances and are not a viable funding option to reduce the projected budget deficit over either the short or longer term.
- 3.5 The policy on the use of reserves was revised during the 2014-2015 budget process and approved by Full Council in November 2013. The policy states:
1. Earmarked Reserves - to provide sufficient sums to meet known and estimated future liabilities and/or planned expenditure.
 2. General Fund Balance:
 1. To retain a minimum balance of £10.0 million at all times in order that sufficient sums are available to address the significant budget risks that face the authority should they materialise.
 2. This actual balance may however be lower than the £10.0 million where the use of these balances is the only option to fund significant costs associated with downsizing the workforce, in order to deliver significant on-going savings. These balances should however be replenished to the minimum level of £10.0 million within a maximum of two financial years.
 3. Can only be used following the agreement of Full Council having first been considered by the Cabinet Member for Resources in consultation with Cabinet colleagues and then by Cabinet (Resources) Panel and only in the following circumstances:
 - a. To fund one-off exceptional/extraordinary items of expenditure where such expenditure cannot be contained within existing budgets or by calling on earmarked reserves and/or provisions.
 - b. To smooth the impact of a significant projected medium term budget deficit, where robust plans to address that deficit will take time to approve and implement.
 - c. To fund Invest to save or income generating initiatives where there are insufficient sums held within the Efficiency Reserve to fund the initiative and there is a payback within a reasonable period of time.

4.0 General Balances

4.1 The Council maintains a number of general balances created by retained surpluses in this year and past years, as detailed in the table below.

Table 2 – General Balances at 31 March 2018 and 31 March 2019

	Balance at 31 March 2018 £000	Movement of Balances in 2018-2019 £000	Balance at 31 March 2019 £000
General Fund Balance	(10,000)	-	(10,000)
Housing Revenue Account Balance	(7,000)	(11)	(7,011)
Total Balances	(17,000)	(11)	(17,011)

4.2 General balances, unlike earmarked reserves, are funds that are generally available and not earmarked for a specific purpose although the individual funds (General Fund and Housing Revenue Account) are ring-fenced.

4.3 The positive General Fund outturn position during 2018-2019, and the resulting adjustments to reserves, will help to support the Council's short-term financial position enabling investment in community initiatives. It does not, however, address the challenging financial position that the Council finds itself in over the medium term; namely identifying further projected budget reductions estimated at £27.3 million in 2020-2021, rising to £40-50 million over the medium term to 2023-2024. Cabinet will be presented with a report in July 2019 detailing the progress towards identifying budget reduction and income generation proposals to address the financial challenge.

4.4 The General Fund Balance remains at £10.0 million as at 31 March 2019. This is the minimum balance as determined by the Council's policy on reserves and balances.

4.5 The Housing Revenue Account (HRA) Balance has been accumulated from net surpluses against HRA budgets in previous years. This balance is only available to fund expenditure against the HRA budget.

5.0 Earmarked revenue reserves

5.1 In addition to general balances, the Council also holds a number of earmarked reserves. An analysis of the authority's earmarked reserves at 31 March 2019 is provided in Table 3 below. Further detail by individual reserves is shown in Appendix 1 for Council earmarked reserves and Appendix 2 for other earmarked reserves that are administered by the Council but have specific criteria for allocation.

Table 3 – Earmarked Reserves by Directorates

	Balance at 31 March 2018 £000	Transfer Out £000	Transfer To £000	Balance at 31 March 2019 £000
<i>Earmarked Reserves</i>				
People	(1,982)	426	(4,867)	(6,423)
Place	(1,931)	422	(346)	(1,855)
Corporate	(36,944)	8,665	(5,196)	(33,475)
Education	-	-	-	-
Total Earmarked Reserve	(40,857)	9,513	(10,409)	(41,753)
<i>Other Earmarked Reserves with Specific Criteria</i>				
People	(28)	-	(89)	(117)
Place	(3,231)	777	(1,185)	(3,639)
Corporate	(6,498)	177	(1,736)	(8,057)
Education	-	-	-	-
Schools' Balances	(5,108)	3,664	(3,633)	(5,077)
Total Other Earmarked Reserves with Specific Criteria	(14,865)	4,618	(6,643)	(16,890)
Total Earmarked Reserves	(55,722)	14,131	(17,052)	(58,643)

- 5.2 As part of the 2019-2020 budget process all earmarked reserves were once again reviewed for relevance and adequacy by Strategic Finance in conjunction with Budget Managers. The earmarked reserves were also reviewed by Confident, Capable Council Scrutiny Panel Specific Reserves Working Group on 11 December 2018 for appropriateness. In response to feedback from the Working Group, and agreement of the Director of Finance, a number of reserve transfers were actioned during the 2018-2019 closedown process to rationalise and to ensure that reserves no longer required for their original purpose were consolidated to support future projects. Further details of these transfers is included in individual reserves in Appendix 1 and 2.
- 5.3 Schools' Balances (including balances held by Pupil Referral Units) are accumulated from underspends against school budgets in past years. This sum is only available to fund expenditure against schools' delegated budgets. It should be noted that the balance at 31 March 2018 included balances from schools which have subsequently converted to an academy during 2018-2019 but were local authority maintained schools at 31 March 2018. In the instance that a school holds a surplus balance at the point it converts to an academy, the surplus balance is transferred to the academy.
- 5.4 There has been a net increase to earmarked reserves totalling £2.9 million, as shown in more detail at Appendix 1 and 2.

- 5.5 As a result of the positive General Fund outturn position for 2018-2019, as reported to Cabinet (Resources) Panel at this meeting in the Revenue Budget Outturn 2018-2019 report, the Council underspent by £265,000. It is therefore proposed that £265,000 is transferred into Community Initiatives and Crowdfund Wolves earmarked reserve for a programme of positive community based activities to engage and develop young people and also to support Crowdfund Wolves. The earmarked reserves detailed in Appendix 1 reflect this proposal, which Cabinet (Resources) Panel is recommended to approve.
- 5.6 Earmarked reserves will be reviewed as part of the revenue budget monitoring process throughout 2019-2020, as required within the Constitution. Any proposed adjustments to earmarked revenue reserves will be reported to Cabinet (Resources) Panel for approval. In addition to this, a fundamental review of all earmarked reserves will be undertaken during 2019-2020 to rationalise earmarked reserves where appropriate.
- 5.7 Furthermore, the Our Council Scrutiny Panel will scrutinise the use of reserves as part of the 2020-2021 budget setting process, as in previous years.

6.0 Provisions

- 6.1 An analysis of the authority's provisions, which is a liability that the Council is aware of but the amount and timing of the liability is uncertain, as at 31 March 2019 is provided in the table below and is shown in more detail by individual provision in Appendix 3 and 4.

Table 4 – Provisions as at 31 March 2018 and 31 March 2019

	Balance at 31 March 2018 £000	Transfer Out £000	Transfer To £000	Balance at 31 March 2019 £000
Provisions for Bad & Doubtful Debts	(25,204)	5,306	(6,516)	(26,414)
Other Provisions	(14,684)	6,170	(1,013)	(9,527)
Total	(39,888)	11,476	(7,529)	(35,941)

7.0 Adequacy

- 7.1 In accordance with the provisions of the Local Government Act 2003 (Section 25), the Director of Finance is required to report on the adequacy of the proposed reserves. The Director of Finance considers that the overall level of all reserves, provisions and balances is sufficient to meet the likely level of obligations to be met from reserves, provisions and general balances in the short term.
- 7.2 It is important to note that many of the changes to earmarked reserves detailed within this report, which have arisen from the positive General Fund outturn position in 2018-2019, will help to support the Council's short-term financial position. This does not, however, address the challenging financial position that the Council finds itself in over the

medium term; namely identifying further projected budget reductions estimated at £27.3 million in 2020-2021, rising to £40-50 million over the medium term to 2023-2024.

7.3 Work continues to identify budget reduction and income generation proposals to address the projected budget deficit faced by the Council over the medium term and progress will be reported to Cabinet in July 2019 in the Draft Budget and Medium-Term Financial Strategy 2020-2021 to 2023-2024 report.

8.0 Evaluation of alternative options

8.1 The write-offs, virements and use of reserve requests requiring the approval of Cabinet (Resources) Panel are all considered to be prudent in the opinion of the Director of Finance and the Cabinet Member for Resources.

9.0 Reason for decision(s)

9.1 Contribution to and from reserves requires the approval from Cabinet (Resources) Panel. The reserve amendments detailed in this report are all considered to be prudent in the opinion of the Director of Finance and the Cabinet Member for Resources.

10.0 Financial Implications

10.1 The financial implications are discussed in the body of the report.
[MH/07062019/W]

11.0 Legal Implications

11.1 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs. The recommendations set out in this report will allow the Council to comply with this obligation
[TS/06062019/R]

12.0 Equality Implications

12.1 This report has no direct equality implications. However, any consideration given to the use of reserves, provisions or balances could have direct or indirect equality implications. These will need to be considered as and when sums are allocated from reserves and/or balances whereby an initial screening will be conducted.

13.0 Environmental Implications

13.1 This report has no direct implications for the Council's environmental policies. However, any consideration given to the use of reserves and/or balances could have direct or indirect environmental implications. These will need to be considered as and when sums are allocated from reserves, provisions or balances.

15.0 Human resources implications

- 15.1 There are no direct human resources implications arising as a result of this report. However, any consideration given to the use of reserves and/or balances could have direct or indirect human resources implications. These will need to be considered as and when sums are allocated from reserves, provisions or balances.

16.0 Corporate Landlord implications

- 16.1 There are no direct corporate landlord implications arising as a result of this report. However, any consideration given to the use of reserves and/or balances could have direct or indirect corporate landlord implications. These will need to be considered as and when sums are allocated from reserves, provisions or balances.

17.0 Health and Wellbeing implications

- 17.1 There are no direct health and wellbeing implications arising as a result of this report. However, any consideration given to the use of reserves and/or balances could have direct or indirect health and wellbeing implications. These will need to be considered as and when sums are allocated from reserves, provisions or balances.

18.0 Background Papers

- 18.1 Revenue Budget Outturn 2018-2019, report to Cabinet (Resources) Panel, 18 June 2019.
- 18.2 2019-2020 Budget and Medium Term Financial Strategy 2019-2020 to 2023-2024, report to Cabinet, 20 February 2019.

19.0 Appendices

- 19.1 Appendix 1 – Earmarked Reserves by Directorates
- 19.2 Appendix 2 – Other Earmarked Reserves with specific criteria by Directorates
- 19.3 Appendix 3 – Provisional for Bad and Doubtful Debts
- 19.4 Appendix 4 – Other Provisions