

CYNGOR SIR POWYS COUNTY COUNCIL

AUDIT COMMITTEE

REPORT AUTHOR: Head of Financial Services

DATE: 5th April 2017

SUBJECT: The Holding and Use of Reserves

REPORT FOR: Information and Comment

1. Introduction

- 1.1 Welsh Government issued a document on January 2016 “Scrutiny of Local Authority Holding and Utilising of Reserves” which was a guidance document for elected members in their scrutiny role. Audit Committees should provide assurance about financial control to mitigate key risks and that the Council has effective financial management arrangements.
- 1.2 This report updates the Committee on the work that has been undertaken in relation to Reserves through 2016-17, and provides information to further assist them in scrutinising the holding and use of Reserves by the Authority.
- 1.3 The Welsh Government published a report on Local Authority Financial Indicators in December 2016. It has been produced to provide insights into the historic financial performance of Local Authorities in Wales. The report provided some background on the composition of each indicator and what it is intended to reflect.
- 1.4 The reserves held by the Authority as at the 31st March 2016 as reported in the Statement of Accounts in the Movement in Reserves Statement are presented, alongside an analysis of their potential use through 2016/17 and an update about future years as part of the budget setting process.

2. Financial Indicators for Reserves

- 2.1 It should be noted that the holding of reserves is a matter for each authority to determine as part of sound financial management. However it is useful to refer to Financial Indicators based on ratios produced by Welsh Government, these indicators provide comparative statistics for Local Authorities and include the following on Reserves:-

	Powys¹	All Wales Average¹
Usable reserves as % of gross revenue expenditure	18.4%	17.8%
Earmarked reserves as % of gross revenue expenditure	8.4%	12.4%
General reserves days turnover	18 days	10.8 days

¹Local Authority Financial Indicators, Wales

2015/16

2.2 Usable reserves as a percentage of gross revenue expenditure

This indicator measures the relationship between an authority's usable reserves and its annual gross revenue expenditure. This excludes those reserves which are restricted for use by the authorities (i.e. HRA balances, schools balances and capital grants unapplied). Those reserves included in the indicator are:-

- General or Unallocated Reserves
- Capital Receipts Reserves
- Earmarked Reserves.

A high percentage suggests high levels of reserves relative to its expenditure levels.

The average for Wales in 2015/16 was 17.8%, seven authorities had a % greater than 20%. Powys is 18.4%.

The next two indicators provide an indication of whether this is a result of high levels of reserves being held for general or earmarked purposes, or both.

2.3 Earmarked reserves as a percentage of gross revenue expenditure

This is an indication of reserves increasing proportionately more than gross revenue expenditure or vice versa.

Councils with very high levels of earmarked reserves relative to their spending should review the purposes for which these are held to ensure they are still required. The purpose for holding reserves, particularly where reserves are increasing, should be clearly communicated in presentation to the Council and through the annual accounts.

The average for Wales in 2015/16 was 12.4%, seven authorities had a % greater than 15%. Powys is 8.4%.

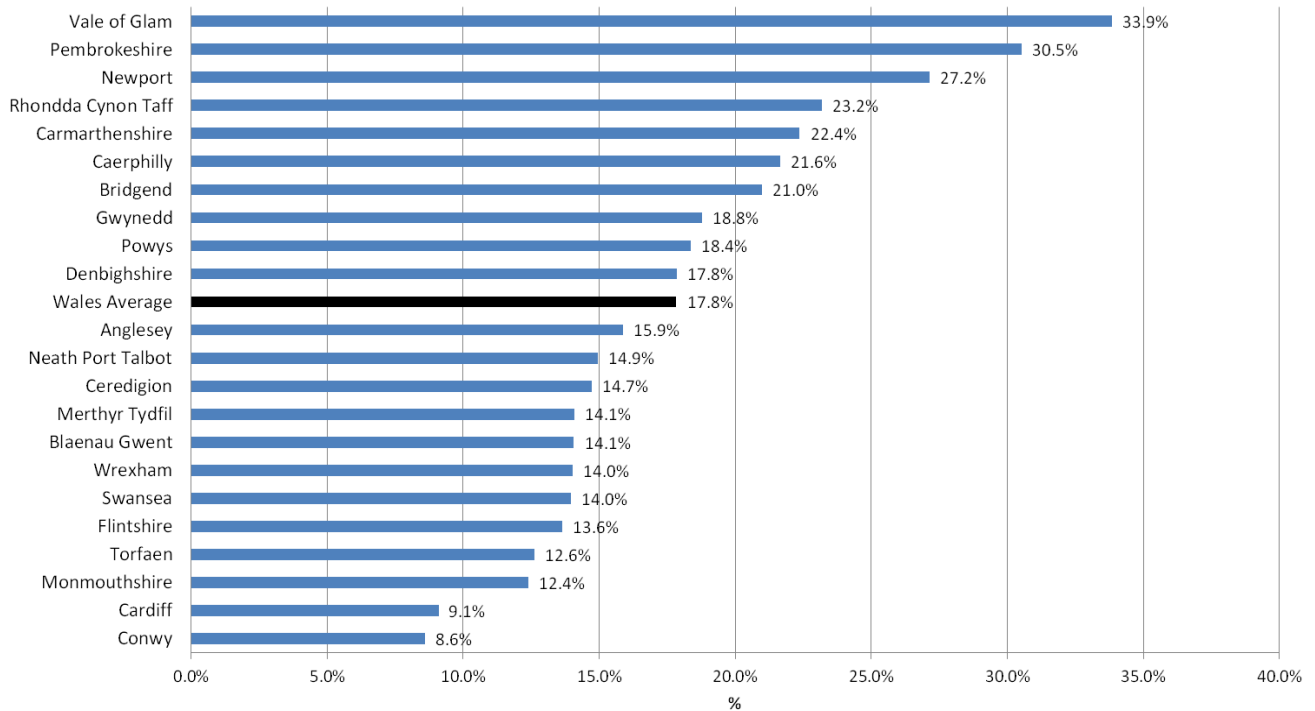
2.4 General reserves days' turnover

This measures the number of days an authority would have of financial cover if it needed to utilise solely general reserves to fund day to day expenditure. Usually this is shown as a percentage but number of days can provide a clearer way of showing the reserve cover. Where the cover is high will indicate that an Authority has a low risk strategy. Conversely a low coverage suggests a higher risk strategy. This may be through choice or due to a lack of other funds.

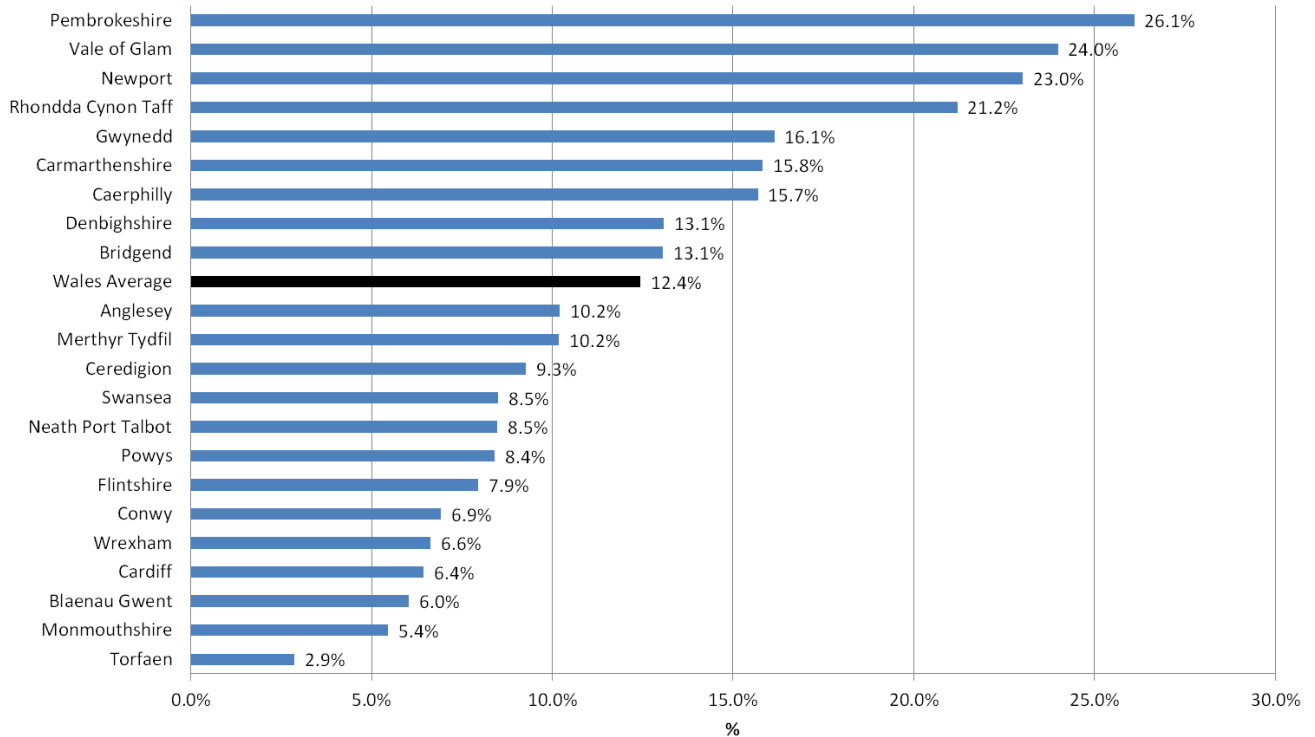
The number of days turnover covered by unallocated reserves for Wales in 2015/16 was 108. Four authorities had more than 17 days turnover cover. Powys is 18 days.

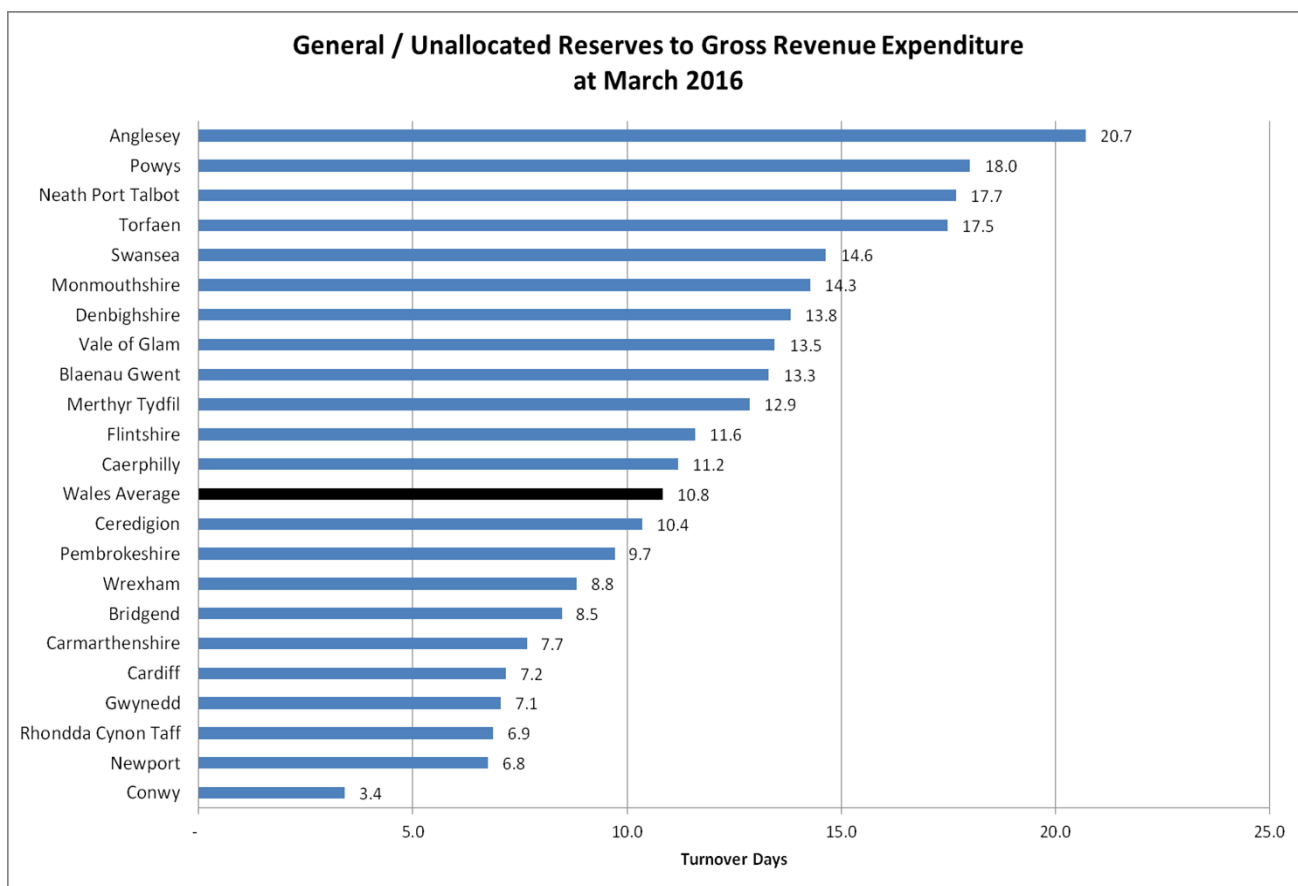
2.5 The tables included within the Welsh Government report are provided below.

**Reserves to Gross Revenue Expenditure
(excluding HRA, Schools, Unapplied Grants & Group Reserves)
at March 2016**



**Earmarked Reserves to Gross Revenue Expenditure
at March 2016**





3. Reserve Monitoring and Budget Setting

- 3.1 The level of reserve held and their forecast use is reported monthly to Cabinet as part of the budget monitoring process. The Budget Scrutiny Panel are also provided with information on the levels and use of Reserves to enable them to fulfil their scrutiny role.
- 3.2 The table at Appendix A reports the opening and projected balance of the reserves held, forecast to year end as at 28th February 2017. The revised forecast level of General Fund reserves as at 31st March 2017 is 3.52% of total net revenue budget less Schools.
- 3.3 The Council should maintain a minimum level of general reserve at 3% of the net budget excluding delegated schools, this equates to £5m.
- 3.4 For 2017/18 the budget manager reserve will be transferred into the general reserve to bring the carry forward balance at year end up to £9m, this level of general reserve is in excess of the minimum level required in the policy at 5.6%.
- 3.5 The use of reserves and the levels at which they are maintained are determined on an annual basis as part of the Councils Budget setting process. The budget and MTFS approved at Council in February 2017 confirmed that the council will continue to retain a minimum general reserve provision in excess of 3% and agree to utilise part of the Corporate Initiative Reserve – Equal Pay to:
- Set up a specific reserve of £2.75m for Adult Social Care.

- Fund School Severance Costs for change in age admission up to £1.1m, unless the costs can be capitalised.

Recommendation:	Reason for Recommendation:
That the Committee discuss and comment on the report.	Audit Committees should provide assurance about financial control to mitigate key risks and that the Council has effective financial management arrangements.

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Background Papers used to prepare Report:

Welsh Government Local Authority Financial Indicators 2015/16

Welsh Government Guidance for Elected Members – Scrutiny of Local Authority Holding and Utilising of Reserves

Powys' Statement of Accounts 2015/16

Cabinet Budget Recovery papers December 2016

Cabinet Financial Forecast 28th February 2017

Appendix A

Opening and projected balance of the reserves forecast to year end as at 28th February 2017

Summary	Reserves 01/04/16 Surplus/ (Deficit)	Forecast Addition / (Use) of reserves	Projected 31/3/17 Surplus/ (Deficit)
	£`000	£`000	£`000
General Fund	10,285	(1,201)	9,084
Projected Overspend		(3,422)	(3,422)
	10,285	(4,623)	5,662
Ringfenced & Specific Reserves			
Budget Management Reserve	3,984	(610)	3,374
Specific Reserves	1,881	(418)	1,463
21st Century Schools Reserve	6,734	(1,582)	5,152
Invest to Save & Corporate Initiatives (inc JE)	8,673	(777)	7,896
Insurance Reserve	1,965	(23)	1,942
Transport & Equipment Funding Reserve	5,054	110	5,164
Sub-Total	28,291	(3,300)	24,991
Schools Delegated Reserves	2,810	(2,101)	709
School Loans & Other Items	(417)	55	(362)
Projected Overspend		(333)	(333)
Net School Delegated Reserves	2,393	(2,379)	14
Total Ringfenced & Specific Reserves	30,684	(5,679)	25,005
Housing Revenue Account			
	1,385	(344)	1,041
Projected Underspend		64	64
	1,385	(280)	1,105
Total Revenue Reserves	42,354	(10,582)	31,772