

Audit & Standards Committee

23 June 2016

County Council Reserves

Recommendation

The Committee is asked to consider and comment on the County Council's reserves position and approach outlined in this report.

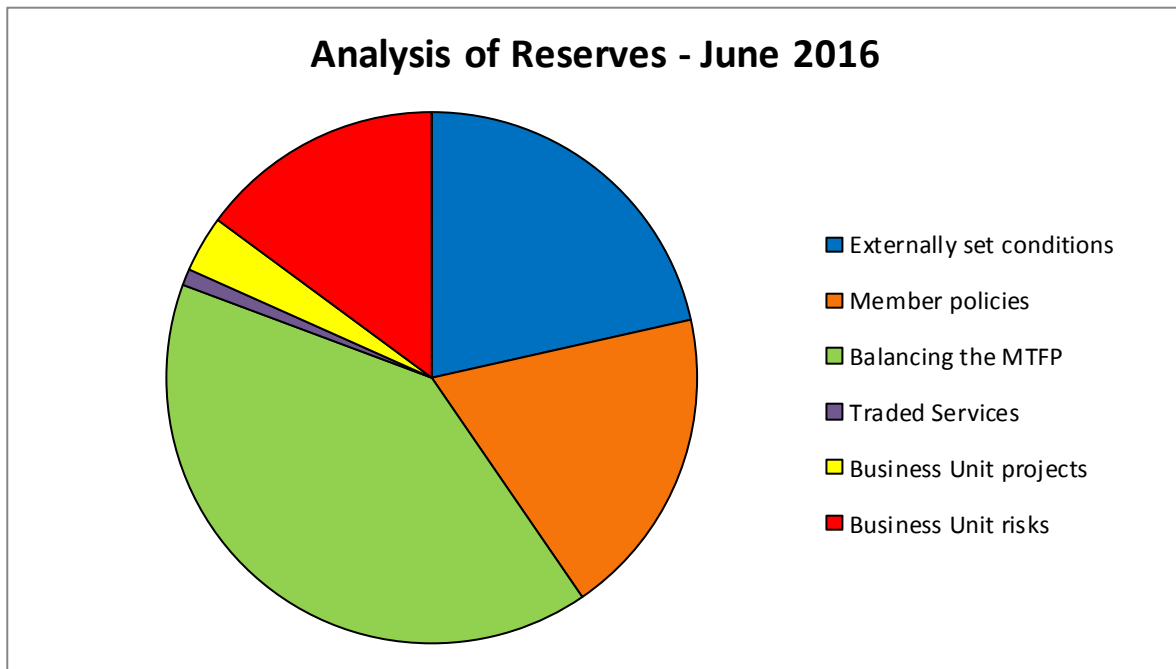
1. Purpose of the Report

- 1.1. The Committee has requested a report on the County Council's reserves, with a particular focus on their adequacy to meet the level of financial uncertainty facing the authority and the difficult decisions about the future of services that will be needed to deliver a balanced budget into the future as financial austerity continues.
- 1.2. This report provides background information on the level of reserves the authority holds, why they are held and the financial control arrangements in place to ensure the authority's reserves are effectively managed.

2. Summary Reserves Position

- 2.1. At 31 March 2016 the authority had £132.6 million in reserves. Decisions made in the budget in February about the phasing of spend and savings over the four years of the 2014-18 One Organisational Plan and the use of reserves to support spending in 2016/17 mean that as at the end of June 2016 our unallocated reserves are £110.2 million.

2.2. The £110.2 million reserves we hold can be broken down into five broad categories. These categories and their relative size are shown in the chart below. The remainder of this section considers each of the categories in turn.



2.3. Reserves with Externally Set Conditions

The £23.7 million of reserves in this category (22%) relates to funding received from third parties with specific conditions attached. As a result the funding cannot be used for any other purpose. Services request drawdowns from these reserves as and when they plan to incur eligible expenditure. The biggest element of this, at £18.4 million, are the balances held by schools.

2.4. Reserves to Support and Deliver Member Policies

At £20.9 million, 18% of reserves relate to funding set aside as a result of specific decisions by Members. The £20.9 million can be further sub-divided into two broad categories:

- Specific Allocations in Budget Resolutions - £4.6 million
Where, as part of approving the budget, Elected Members allocate funding for a specific purpose, e.g. the 0-5 Strategy or the £2 million allocation over the 2014-18 period for skills delivery to support economic growth, then any funding unused at the end of one financial year is put in a separate reserve to ensure it is used in subsequent years for the same purpose. Much of this funding is committed in advance over the medium term through making multi-year contractual commitments.
- Phasing of Volatile Spend - £16.3 million
Some of the costs of that have to be met by the County Council are unpredictable and, by their nature, vary between years e.g. there are only

local elections every four years. This category of reserves allows these costs to be managed over time without undermining the One Organisational Plan and associated Medium Term Financial Plan. All of these reserves have been set up as the result of reports to Elected Members in previous years where it was agreed that a specific reserve to manage the uncertainty was the best approach. The £16.3 million mainly comprises of two reserves: the Insurance Fund (£8.5 million) which provides for a level of self-insurance and provides funding when excesses are called on various corporate insurance policies and the Interest Rate Volatility Reserve (£5.4 million) which allows fluctuations in interest rates as they impact on both the interest we can earn and the interest we pay on any borrowing to be managed over the medium to long term.

2.5. Balancing the Medium Term Financial Plan

At £44.3 million (40%) this is the largest single category of reserves and is comprised of three elements:

- General Reserves - £19.5 million
£16.5 million of the General Reserves is the current minimum amount specified by the Head of Finance to cover in year financial risks not covered by other reserves. Any use of this funding would be required to be replaced as part of the subsequent year's budget. The balance of £3.0 million is available to support the budget in future years.
- Medium Term Contingency - £12.1 million
The Medium Term Contingency is the remaining one-off funding to manage any timing differences between the delivery of savings and spending need across the four years of the current One Organisational Plan. At the start of the 2014-18 One Organisational Plan this Contingency was £20.5 million, meaning £8.4 million has been used to date. This is the only source of funding if savings are not delivered on time and as one-off funding can only be used to defer any decision. A further £2.5 million is already planned to be used as part of balancing the last year of the 2014-18 Plan and a minimum of £5.0 million is held to cover timing differences that emerge in-year. As with the minimum level of General Reserves any use of this funding would be required to be replaced as part of the subsequent year's budget.
- Service Realignment Fund - £12.7 million
The Service Realignment Fund meets the costs of redundancies/early retirements that arise as a result of the reduction in staff numbers that are a consequence of the delivery of the approved savings plan. Without this funding any costs would have to be met from within service budgets, increasing the level of savings to be identified.

2.6. Traded Services Working Capital Reserves

Traded Services are those parts of the organisation set up to operate as financially self-sufficient businesses. They do not receive any corporate funding allocations, such as inflation, and are required to self-fund any capital investment. As a result they need to set aside funding to manage trading conditions and fund service improvements. Their reserves of £1.1 million (1%) have been built up from surpluses generated in previous years.

2.7. Reserves Set Aside by Business Units for Specific Projects

Business Units have set aside £3.8 million (4% of total reserves) from underspends in previous years to deliver named projects. Most relate to the upfront investment needed to deliver the approved savings plan, such as the replacements of the adult social care information systems and the HR Management system. The remainder are for initiatives such as Kenilworth Station and the extension of the Family Nurse Partnership.

2.8. Business Units Management of Risk

The final category of reserves is the funding of £16.4 million (15% of total reserves) set aside by Business Units to manage the service specific risks they face. Many of these risks, particularly around the implementation of the Care Act and adult social care more generally, are of such material significance to the authority that they would need to be provided for within General Reserves if the reserve was not available to manage them at Business Unit level.

3. Management of Reserves

3.1. Holding reserves to manage our financial risks, to deal with unexpected events and to meet the costs of projects and initiatives that extend over one year is fundamental to our financial resilience and the overall sustainability of the organisation. It is acknowledged that the current financial climate, the need to maintain and manage those reserves is more important than ever.

3.2. It is recognised that all reserves funding is one-off and cannot be used to replace the need to deliver savings or fund permanent increases in spending. As we move through the current and next One Organisational Plans there will inevitably be ups-and-downs in the level of reserves as progress on the actual delivery of the Plan will not fully align to the timeframes originally envisaged. It is for this reason the level of reserves is actively managed.

3.3. We have a reserves policy and protocols in place that covers the guidelines within which the authority operates, establishing the monitoring and reporting requirements on reserves. (To ensure our approach and controls remain

relevant and appropriate, they are currently under review and a refreshed version will be brought forward to Elected Members for consideration as part of approving the 2017-20 One Organisational Plan.)

3.4. The main features of the current reserves protocol are:

- Reserves can only be established with the approval of the Head of Finance, in his capacity as the authority's Section 151 Officer and must meet the criteria for a reserve as laid down in Cipfa's recommended accounting practice.
- At the end of the year any variance from the budget (i.e. an over or under spend) will in the first instance form part of the Head of Service/Group reserves. This will enable the complete financial picture of each Business Unit/Group to be seen.
- Any overdrawn reserves are the first call on next year's budget. This means that effectively the overdrawn reserve is repaid at the start of the year from the Business Unit's/Groups budget, unless otherwise agreed by Elected Members.
- All Groups and Heads of Service are authorised to draw down on their reserves, accumulated from previous year's savings, subject to notifying the Head of Finance. Approval for this will be sought through the inclusion of the request within the quarterly One Organisational Plan progress report to Cabinet.

3.5. The arrangements for those reserves classified as 'Balancing the Medium Term Financial Plan' are slightly different. These are held at a corporate level. These reserves consist of General Reserves, the Medium Term Contingency and the Service Realignment Fund. The Service Realignment Fund has its own separate policy, agreed by Elected Members when the reserve was created at the start of the 2011-2014 Medium Term Financial Plan.

3.6. For the remaining two reserves, General Reserves and the Medium Term Contingency, the level of the reserve is determined to be consistent with the overall financial environment and the key financial risks faced by the County Council. These risks are assessed at least annually and take account of circumstances at the time of assessment and the Statement of Internal Control. Any decision on the use of General Reserves and the Medium Term Contingency can only be taken by Full Council.

3.7. Any General Reserves or Medium Term Contingency reserves in excess of the minimum assessed amount can in the first instance be used to fund one-off or time-limited expenditure and secondly to support recurring revenue expenditure over the medium term, subject to sustainability.

- 3.8. These reserves are monitored and reported to Elected Members five times a year, as part of the budget setting process, through quarterly budget monitoring process and as part of closedown. When reviewing the level and proposed use of these reserves, Council notes the advice of the Head of Finance.
- 3.9. A statement in the budget report shows the estimated opening general reserve balance, any anticipated additions or withdrawals, and the estimated end of year balances. Any reserves that are to be used to fund ongoing expenditure should be stated as such and how a permanent source of funding will be identified and approved.
- 3.10. Should the level of General Reserves of the Medium Term Contingency be lower than recommended in the Head of Finance’s risk assessment then the shortfall becomes the first call on the new financial year’s revenue budget.

4. Background Papers

None

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Local Members consulted

Not applicable

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None