

**REPORT TO THE CABINET**  
23 JUNE 2015

**Cabinet Member:** COUNCILLOR PEREDUR JENKINS, CABINET MEMBER - RESOURCES

**Subject:** REVIEW OF RESERVES

**Contact Officer:** DAFYDD L EDWARDS, HEAD OF FINANCE

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**1. The decision sought / purpose of the report**

- 1.1 The Council holds a number of reserves as part of its strategy to prudently manage resources. These reserves are used for specific purposes for the benefit of the communities of Gwynedd. The use of reserves supports the achievement of service delivery and improvements in the county, as outlined in the corporate strategic plan.
- 1.2 Due to the significant financial challenge facing the Council during 2015/16 – 2017/18, the Cabinet is asked to –
- approve paragraph 1.1 above and part 5 of this report as the Council's Policy on Reserves;
  - approve the sums to be yielded from various reserves following the review (list attached) and to transfer £2.9m to the Redundancy Reserve and £1.5m to the Transformation / Invest to Save Fund.

**2. Introduction / Background**

- 2.1 "Reserves" can be considered to be "cash in the bank". They are not annual budgets; they can only be spent once.
- 2.2 In accordance with the statutory obligation, the Chief Finance Officer reported on the adequacy of reserves when the Council approved the annual budget and level of council tax.
- 2.3 The Chief Finance Officer's opinion formed part 8 of the detailed report on the 2015/16 Budget and 2015/16 – 2017/18 Financial Strategy submitted to the full Council on 5 March, and an analysis of specific reserves was submitted as Appendix 2 to the budget report.

- 2.4 As reported to the Cabinet meeting of 2 June, in part 5 of the "outturn" report, reserves on the Council's balance sheet had reduced during 2014/15 as follows:

	<b>31/03/2014</b>	<b>31/03/2015</b>
General Balances	£8.4m	£6.4m
Specific Reserves	£49.8m	£48.5m
Schools' Balances	£3.8m	£3.5m

### **3. General Balances**

- 3.1 Members will recall that a further £2m of general balances has already been committed this year in the 2015/16 Financial Strategy (full Council decision on 5 March).
- 3.2 General Balances are a contingency sum available to pay for unforeseen or exceptional circumstances. External auditors often refer to the level of general balances when considering various organisations' financial health.
- 3.3 In their report "Meeting the Financial Challenges facing Local Authorities in Wales" (issued 27 January 2014) the Wales Audit Office stated (in paragraph 1.8):
- "Councils can use reserves to help them to balance their budgets where savings plans do not achieve the expected results or where income is less than anticipated. However, financing recurrent expenditure from reserves would not normally be appropriate. A prudent level of useable reserves is a key element of financial stability; the minimum appropriate level will vary dependent on an authority's known and potential liabilities and its spending plans. There are signs that a few councils are over-relying on general reserves to deal with budget shortfalls, rather than seeking more sustainable approaches, which often involve making unpopular decisions."
- 3.4 General balances should not be used regularly to finance recurrent expenditure. However, in view of the substantial funding gap faced, £2m will be used in 2015/16 in order to have time during 2015/16 to inclusively consider prioritisation of the cuts. This use of £2m of general balances for bridging will be good practice, if the Council makes its difficult decisions during 2015/16 prior to setting a sustainable budget for 2016/17.

#### **4. Review of Specific Reserves**

- 4.1 Reducing the level of general balances (to approximately £4.4m by 31/03/2016) means that it is essential for the Council to set aside (or earmark) specific reserves to deal with the major risks identified over the medium term.
- 4.2 One unavoidable use of one-off funds is to finance the cost of redundancy and the costs of early pension release which are unavoidable when implementing schemes to achieve efficiency savings or service cuts. It is impossible to forecast with accuracy the scale of funding required for redundancy / pension release, but it will be greater than the sum currently earmarked. Also, one-off funding will be required in order to finance "invest to save" schemes.
- 4.3 After the Cabinet (on 5 May) committed £1.4m to the Street Lighting Scheme, the invest to save fund was almost empty.
- 4.4 Accordingly, we conducted a thorough review of specific reserves with a view to re-allocating some of this one-off resource in the redundancy reserve, or in the transformation / invest to save reserve. We were able to collect money from the reserves by taking a more stringent attitude than has been done historically by demanding justification of the funds and their levels.
- 4.5 In the appendix, there is a list of all the reserves showing the sums recommended to be yielded towards other corporate priorities, and the amounts remaining in reserves by 2015/16.
- 4.6 It is recommended that the total £4,486,685 be transferred –**
- **£2,986,685 to the Redundancy Reserve;**
  - **£1,500,000 to the Transformation / Invest to Save Fund.**
- 4.7 Of course, this usage would be in accordance with the principle that the Wales Audit Office suggests in 3.3 above.

#### **5. Policy for Reserves**

- 5.1 Specific reserves (or earmarked reserves) are retained either under delegated authority given to chief officers, or by the Cabinet.
- 5.2 In order to define "reserves", it is necessary to note the treatment of "provisions". Provisions are incurred in the accounts in order to settle an estimate of obligations arising from past events.
- 5.3 Reserves are amounts set aside for specific purposes, or funds built up to meet predicted liabilities.

- 5.4 For each reserve established, the purpose / usage (reason for creating / how it can be used) is defined, and the basis of transaction (which chief officer has delegated authority to spend) is identified.
- 5.5 Meaningful judgements about reserves can only be made locally, and decisions will be taken by elected members having due regard to information and advice provided by the Chief Finance Officer.
- 5.6 Reserves held by individual departments or corporate reserves are used to smooth pressure over years (e.g. the emergency severe weather reserve for the Highways service).
- 5.7 During continuing austerity, there will be an increased need for service areas to change and adapt to become more efficient. Efficiency schemes involve changes with one-off costs, and the Council's reserves policy recognises this, with Departments holding balances for use in accordance with overall principles agreed by the Chief Finance Officer and Cabinet.
- 5.8 Departmental reserves will be established from resources underspent in-year, and the relevant Cabinet Member will oversee use of reserves on proposed projects. Where in-year service pressures cannot be met within departments' annual budgets, then departmental reserves may be used to address the net pressure.
- 5.9 Corporate reserves will be established / used by the Chief Finance Officer and Cabinet, based on need and planned / anticipated requirements.
- 5.10 Unavoidable unforeseen or emergency expenditure may be financed from general balances, but only with Cabinet approval.
- 5.11 The Chief Finance Officer has a personal statutory duty (under section 25 of the Local Government Act 2003) to ensure proper stewardship of reserves, hence he will undertake a continuous review of their adequacy and use. The annual budget report to Council will include the Chief Finance Officer's opinion on reserves in the context of the medium term financial strategy. Also, significant amendments to reserves will be reported to the Cabinet for approval.
- 5.12 External auditors review arrangements to ensure that the Council's financial standing is sound, and this will include reporting on the level of reserves, in the context of their knowledge of the authority's financial performance. However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves / balances.

- 5.13 The Council takes a risk-based approach to maintaining an adequate level of balances and reserves to meet future spending needs. When considering the annual budget and medium term financial strategy, the Council will set out their intention regarding the level of general balances and reserves, in the context of all relevant risks, provision for inflation, demography, etc, in the budget.

## **6. Next steps and timetable**

- 6.1 With the Cabinet's approval, the review and transfers outlined in part 4 of this report and in the appendix will be reflected in the Council's accounts as at 31/03/2015.

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**Local member's views**

Not relevant

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**Opinion of the Statutory Officers****Chief Executive:**

I welcome this important report. It is critical, at times like these when the Council's financial position is serious and we are faced with a need to change, that we have one-off reserves which enable us to facilitate those changes.

I am also grateful to the departments for their co-operation. In cases where there is a recommendation to collect money back, departments had plans and intentions for the use of those funds. However, following discussions with the Head of Finance, they have accepted that the need for resources for transformation and invest to save, often in order to achieve permanent savings and resources to face redundancy costs, dominates their plans regarding priority.

It is also important not to misunderstand the value of these reserves. These reserves are not a means of supplying long-term needs. As the Head of Finance notes, these amounts are "*cash in the bank*"; they are not annual budgets and can only be spent once. This must be remembered when making individual decisions on the use of these amounts in due course.

**Monitoring Officer:**

Nothing to add from a propriety perspective.

**Head of Finance:**

I have collaborated with the Cabinet Member in the preparation of this report and I confirm the accuracy of the content.

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**Appendices**

Appendix 1 - Summary of balances