

Report to: Audit Committee
Date: 20 September 2018
Report by: Chief Finance Officer
Title: Committee on Reserves and Balances
Purpose: To set out the Council's approach to managing reserves and balances

RECOMMENDATIONS

Audit Committee is recommended to:

- 1) Note the current approach to reserves and balances.
 - 2) Seek views on reserves and balances that can be taken into consideration within the RPPR process.
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1. Introduction

- 1.1 This report sets out the Council's approach to managing reserves and balances.
- 1.2 The Council's approach to the management and accounting for general and specific reserves is set out in the Reserve and Balances Policy approved at State of the County in June 2017, shown at Appendix 1. The policy was reviewed and refreshed at that time to ensure that it is reflective of the Council's strategic agenda and the current financial risks and issues that the Council faces through the medium term.

2. Earmarked Reserves and General Fund Balance

- 2.1 Reserves are a key element of the Council's Reconciling Policy, Performance & Resources (RPPR) and financial management arrangements. Reserves can be broadly categorised as follows:
 - A means of building up funds to meet known or predicted requirements, called Earmarked Reserves.
 - A working balance to manage in-year risks, called the General Fund Balance;
- 2.2 It is crucial to bear in mind that the reserves are the only source of financing to which the authority has access to fund risks and one-off pressures over a number of years. Reserves can only be spent once and it is widely recognised that due to funding pressures county councils find it harder than other councils to build up reserves. Current pressures being faced by the Council (together with shire counties as a whole), particularly within social care, mean that it is increasingly important to have sufficient reserves to allow the Council to continue to deliver services, should the current financial risks and issues continue in the short-to-medium term.
- 2.3 The current reserves continue to be adequate and necessary in their nature and level, and have been set with regard to the areas of change that currently are not fully understood and cannot be fully quantified but will have potential financial impact over the planning period. These are set out at Appendix 2 which forms part of the Chief Finance Officer's annual assessment of financial robustness reported to Council in February each year. The uncertainty regarding the future finance system means it is increasingly important to hold sufficient reserves to manage this unquantifiable financial risk. Therefore every opportunity should be taken to top up the Council's strategic reserves.
- 2.4 Appendix 3 shows a summary of actual earmarked reserves balances at 1st April for the years 2015 to 2018. Appendix 4 shows future estimated planned balances over the life of the current Medium Term Financial Plan (MTFP).

- 2.5 As well as reserves balances shown at Appendices 3 and 4, the Council also holds a General Fund balance of £10.0m. This was increased from £8.3m following review in 2016. This is a minimum general balance which, whilst it remains lower proportionately than a lot of other authorities, is considered adequate on the basis that an in-year contingency is also held. Should the General Fund Balance have to be used the Council would have to consider how this could be topped back up to an adequate level to manage future years' risks.
- 2.6 The general contingency in 2018/19 is £3.5m. The general contingency is used in the first instance to cushion the impact of pressures in year. Any unused balance will be transferred to strategic reserves at the end of each financial year, in line with the approved policy at Appendix 1.
- 2.7 Since Northamptonshire served a Section 114 notice there has been significant focus on county councils' reserves. Nationally there have been a number of recent analyses to try to apply a methodology to assess the financial robustness of authorities. In general these have been in some form of comparison between net revenue budget and level of reserves. The table below summarises these (at a very high level) for our South East Seven (SE7) neighbours. The table shows a simple analysis based on these general figures, noting that there is currently no definitive guidance on what constitutes an appropriate/robust level of reserves.

Table 1 – usable reserves as a % of net revenue budget

Figures are in £m	County Councils		County Councils including Fire Authority			Unitary Authorities	
	East Sussex	Kent	Hampshire	Surrey	West Sussex	Brighton & Hove	Medway
Net revenue adjusted¹ budget (from the 18/19 RA return)	699.9	1,795.5	1,699.8	1,478.4	1,070.0	441.7	289.7
Usable Reserves² - balance at 31 March 2018 (from Statement of Accounts of each authority)	122.1	199.3	461.9	118.5	180.0	46.7	18.0
Useable reserves as a % of net revenue budget	17.4%	11.1%	27.2%	8.0%	16.8%	10.6%	6.2%

¹ The RA figure has been used for consistency across authorities. It comprises net revenue budget adjusted for a number of items, including but not limited to: reserves, specific & special revenue grants, capital expenditure charged to the GF Revenue Account (CERA), Minimum Revenue Provision (MRP), interest payable, debt management.

² Consists of earmarked reserves plus general reserves less schools balances plus reserves from revenue grants & contributions that are held by departments. Excludes schools balances, capital receipts reserves, capital grants unapplied, LEP balances and HRA balances as they are either ringfenced or cannot be applied to ongoing annual revenue costs.

- 2.8 CIPFA has consulted on a Resilience Index which will include reserves levels. The consultation closed in August and we await the outcome. Ahead of this however, the external audit undertaken by KPMG in June/July 2018 did not highlight any concerns about the level of reserves held by this authority.

3.0 Schools Balances

- 3.1 Schools balances are held by the Council on behalf of the schools and are not Council funds. They consist of underspends and overspends that are carried forward at year end. Primary Schools are allowed to carry forward 8% of their in-year budget share and Secondary Schools 5% automatically without requirement to provide supporting evidence. If there is a carry forward in excess of the allowable limits for two consecutive years, the school has to provide an explanation plus a plan for use of the balance. These balances

are not carried forward at the same level each year; they vary for each school year-on-year. Appendix 5 shows the balances held by individual schools at 1st April 2018.

3.2 The main reasons why schools hold balances are:

- anticipation of future budget pressures usually arising from pupil variation;
- to fund specific projects such as building work, equipment and IT; and
- to hold a contingency for reasons of prudence.

3.3 These balances are committed to be spent on the education service and are not available to the Council for general use.

4.0 Conclusion

4.1 Audit Committee is recommended to note the current approach to reserves and balances and seek views on reserves and balances that can be taken into consideration within the RPPR process.

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