REPORT TO: The Executive Report No. 10

Date of Meeting	**15 March 2007**
Title of Report	**Revenue Budget 2007-08 – use of excess Reserves**
Portfolio	**Leader's Responsibilities**
Link to Corporate Priorities	All
Key Decision	Yes
Executive Workplan Ref	N/A
Public Report	Yes

Summary of Report

To bring before the Executive proposals on the use of excess Reserves

Officer Recommendations

That the Executive agree,

1 **The use of excess Reserves, as set out at 3.2.4.**

Other than those implications agreed with the relevant Officers and referred to below, there are no other implications associated with this report.

Financial Implications	Legal Implications	Community & Environmental Implications	Human Resources Implications	Equality & Diversity Implications
Yes	Yes	None	None	None

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1 Introduction

1.1 The level of revenue Reserves was defined, using a risk basis, for 2007-10 at £3.5m. The actual level of Reserves is, at Month 9, some £77,000 in excess of this figure. This paper proposes a framework for considering the use of any excess.

2. Options and Options Appraisal

2.1 Option 1: That the Executive agree the option set out at 3.2.4.

2.2 Option 2: That the Executive propose alternatives.

3. Background information

3.1 The rationale for Reserves is twofold. Firstly, to deal with fluctuations in cashflow and so minimise interest charges. And secondly to cover risks inherent in the budget; all budgets are a compromise between covering every financial eventuality and not un-necessarily raising unwanted funds.

3.2 Where Reserves are in excess of the level set to deal with cashflow and risk, there are options as to their use. They are four options (at least!), interest, one-off expenditure, smoothing, and spend to save. They each considered in greater detail below:

1 **Interest**. Interest earned on excess reserves has not been counted into the 2007-08 budget. Therefore policy makers have the option of choosing this approach. The disadvantage of counting-in interest, is that the 'capital sum' is not available for any other use unless the interest is replaced by another funding source. There is also a risk of assuming the wrong interest rate, for example, a high one that is not realised, resulting in a budget shortfall. The economists approach is to see if a greater return can be derived from using the funds in a different way. This is considered at 3.2.4.

2 **One-off expenditure.** Reserves can only be spent once, which is why the general practice is that it is not used to support on-going expenditure. On the whole, the size of the Council's budget is such that there is a constant turnover of one-off items and there is no need to use Reserves.

3 **Smoothing.** With a developed Medium Term Planning system, it is possible to see the peaks and troughs in net cost over the various years. The normal response is to move new expenditure back, or new income forward, rather than resort to the use of Reserves. However the Council's MTP is not sufficiently mature to use this approach.

4 **Spend to save.** In the climate of Gershon and Value for Money, there is a pressing need to introduce better processes, and deliver savings. Her Majesty's Treasury have raised the ambition on the potential for efficiency savings in the planned Comprehensive Spending Review (CSR), from 2.5% to 3%. The baseline to which this is applied is also increasing. The three year target for SR04 was £3bn by 07/08. It has been suggested by DCLG that the CSR07 figure would be approximately £5bn by 2010/11. This implies a 67% increase in the target. In addition , the proportion that is 'cashable' is increasing. The amount that was cashable for SR04 was 50% of 2.5%. For CSR07, it is expected that 100% of the 3% will be cashable. This would imply **a cash increase of 100%** on the current SR period.

3.3 It would be prudent to prepare for a worse settlement than has been assumed in the 3 year budget, and use excess Reserves to fund a savings programmes. The criteria for Spend to Save has already been considered in the capital context. This is set out in the box below:

- The investment generates a revenue saving, expressed as a rate of return on the capital expenditure;
- The revenue saving has to be realised by the reduction in the revenue base budget;
- The rate of return is set in relation to:
  - Council priorities that generate savings, that are cashable, non-cashable, or spend to avoid costs;
  - Spend that generates a return of 15% or more

3.4 The only suggested changes are to reduce the return percentage to nearer the bank rate, of some 5.2%, and express the rate of return on revenue expenditure, rather than capital.

4 Financial Implications

4.1 The level savings required will be developed once this policy is agreed.

5 Legal Implications

5.1 The Council is strongly advised to keep to its policy of the minimum level of reserves. The Secretary of State has powers to set the level of reserves where s/he feels the Council are being imprudent.

6 Risk Analysis

6.1 Risks have been taken into account in deciding the minimum level of reserves and setting the rate of return.

Annexes

Annexes:	None
Background Documents Used in the Preparation of this Report:	Statement of Robustness Council Feb 22

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Previous Decisions Connected with this Report

Report	**Committee & Date**	**Minute Reference**