

AGENDA SUPPLEMENT (1)

Meeting: Audit Committee
Place: Kennet Room - Wiltshire Council Offices, County Hall,
Trowbridge
Date: Wednesday 14 November 2018
Time: 10.00 am

The Agenda for the above meeting was published on **6 November 2018**. Additional documents are now available and are attached to this Agenda Supplement.

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This Agenda and all the documents referred to within it are available on the Council's website at www.wiltshire.gov.uk

49 **5 Year History of Reserves**

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Adequacy of Reserves and Balances

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Audit Committee 9th November 2018



Reserves and Balances

- Legislative and regulatory framework
- Codes of Practice
- Types of Reserves
- CFO Principles of Assessment

Legislative and Regulatory Framework

- Balanced budget requirement: Sections 31A – 42A of Local Government Finance Act 1992
- CFO duty to reflect on robustness of estimates and adequacy of reserves – Section 25 of Local Government Act 2004 when considering budget requirement
- Proper administration of their financial affairs and responsibility for the administration of those affairs – S151
- Requirement to report to Members if there is likely to be unlawful expenditure or unbalanced budget, including where reserves have become depleted and the authority does not have resources to meet expenditure (s114).

Codes of Practice

- External Auditors confirmation – no material uncertainties – Going Concern
- CIPFA Prudential Code – CFO report on affordability in recommending Capital programme – include level of long term revenue commitments
- IFRS – Local Authority Accounting – Movement in Reserves Statement – movement in the year for useable and unusable reserves



Types of Reserves

- Working balances – impact of uneven cash flows and avoid temporary borrowing
- Contingency to cushion impact of unexpected events and emergencies
- Means of building up funds – earmarked reserves to meet known or predicted requirements





CFO Principles for Assessment

- Estimates of the level and timing of capital receipts
- Treatment of Demand Led pressures
- Treatment of Planned Efficiency savings/Productivity gains
- Availability of reserves, Government Grants to address major contingencies and adequacy of provision
- General financial climate

Assessment of reserves

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- 11.1 The council has had for many years a Strategic Risk Register and developed a Risk Framework to identify and monitor risks going forward. This register has continued to be updated during 2017/18, and has formed the platform in preparing the Section 151 officer's assessment of risk. Appendix 3 of this report summarises the significant financial risks arising from this assessment.
- 11.2 The total potential reserves required from this assessment is as follows:

	Year ended 31 st March			
	2018 £ million	2019 £ million	2020 £ million	2021 £ million
General Fund Reserve risk assessment – Appendix 2	11.6	11.6	11.6	12.0
Current Projections (see Para 11.5)	12.5	11.6	11.6	12.0
Reserves sufficient				

- 11.3 The council's General Fund estimated reserve at 31 March 2018 based on the forecast outturn, at Section 3 of this report from the current forecast outturn is circa £12.5 million. This means the General Fund Reserve is in line with the revised recommended level, and future use of these funds are a matter of last recourse given the low levels compared to other councils. The reserves are for use where other actions cannot deliver savings or urgent one of needs arise unexpectedly. The council will seek to manage within resources by proposing alternative savings first rather than drawing on reserves which are only available as a one off and do not address recurring saving needs.

11.4 A review of the assumptions applied last year and the current level of reserves has resulted in the following changes being made:

- Service savings – the risk assessment continues to provide for non-delivery of savings, and the level of risk has been maintained as based on previous years experiences we have again seen 98%+ delivery of savings identified at this stage of year and other savings being found to match those that were not. The risk remains around corporate target risks and this has in part been covered in this allocation against the General Fund.
- The four-year settlement agreed with MHCLG has to some extent lessened the risk raised in previous years regarding the uncertainty over future years funding. However, there remains a lack of clarity regarding business rates retention and risk after 2020. As such an element of risk has been included to provide for a shortfall in NNDR funding in the coming and future years.
- A new provision has been introduced for the transformation programmes as change is invariably difficult to accurately predict and as such there may be a need for some prudence in one off funding if there is a small slippage in delivery.

11.5 Based on the assessment at Appendix 2 there is the opportunity for some call on reserves in 2018/19, and £0.9 million has been released, although there is a recognition at this stage that this will need to be rebalanced in 2020.

11.6 The key risk identified this time as noted above are related to transformation programmes, inflation, the uncertainties over future funding streams and the increasing volatility in both demand beyond 2018/19.

11.7 As such the reserves for the following years are estimated / proposed as:

	31 st March			
	2017 £ million	2018 £ million	2019 £ million	2020 £ million
Opening General Fund Reserve	12.534	12.534	12.534	11.634
Contribution to / (from) general fund reserves	0.000	0.000	(0.900)	0.400
Closing General Fund Reserve	12.534	12.534	11.634	12.034

11.8 The relative small movements in assumptions in the General Fund Reserve position in 2018/19 will be kept under continual review as part of the budget monitoring process. The additional £0.4 million in 2020/21 is based largely on the uncertainty of certain factors (funding settlement and leaving the European Union) given the further away that is, it will need updating.

11.9 An analysis of the other existing earmarked reserves has also been undertaken and the proposed movements and purpose of each is set out below. This identifies a small net change in the total for 2018/19 in line with the Financial Plan. This again is provided for in the four-year Financial Plan.

Reserve	31 Mar 2017	Est. Move-ment	31 Mar 2018	Est. Move-ment	31 Mar 2019	Est. Move-ment	31 Mar 2020
Locally Managed Schools Balances	(6,264)	1,000	(5,264)	1,000	(4,264)	1,000	(3,264)
Insurance Reserve	(3,554)	0	(3,554)	0	(3,554)	0	(3,554)
PFI Reserve	(4,255)	280	(3,975)	280	(3,695)	280	(3,415)
Elections Reserve	(825)	825	0	(200)	(200)	(200)	(400)
Revenue Grants Earmarked Reserve	(2,523)	232	(2,291)	0	(2,291)	0	(2,291)
Area Boards Reserve	(22)	22	0	0	0	0	0
Digital Inclusion	(183)	183	0	0	0	0	0
PFI Housing Scheme Earmarked Reserve	(2,916)	160	(2,756)	160	(2,596)	160	(2,436)
Wiltshire Foundation Trust	(14)	14	0	0	0	0	0
Single View of the Customer Reserve	(911)	300	(611)	300	(311)	311	0
Play Area Asset Transfers	(78)	78	0	0	0	0	0
Enabling Fund	(2,000)	700	(1,300)	700	(600)	600	0
Business Rates Equalisation Fund	(800)	800	0	0	0	0	0
Housing Benefit Subsidy Clawback	(500)	500	0	0	0	0	0
Transitional Fund & Rural Grant	(6,000)	6,000	0	0	0	0	0
ASC Grant	0	0	0	(1,139)	(1,139)	1,139	0
Total	(30,845)	11,094	(19,751)	3,379	(18,650)	2,280	(15,360)

11.10 The level of general and ear marked reserves overall are considered to be sufficient to meet potential risks and demonstrate a prudent level.

- **Housing Revenue Account (HRA)**

11.11 To facilitate decision making and plan strategically for housing in the future the council continually updates its 30 year HRA Business Plan. This plan considers the long-term future of the housing stock alongside the short-term plans. The plan contains information on estimates regarding the level of capital investment (including estate regeneration and maintaining decency), the anticipated levels of voids and right to buy sales and also the assumed level of income from rents and service charges. It also includes a provision for the council's management fee and plans around borrowing and repaying debt in the future. The HRA has £119 million worth of loans maturing in the coming years.

11.12 The Housing Revenue Account (HRA) end of year position for 2016/17 resulted in an increase to the reserve of £2.691 million. The underspend achieved was mainly in relation to continued improvement in income collection and in year efficiencies and restructuring. To protect the council in a self-financing regime a minimum balance for the HRA of £1 million was approved by council in February 2012.

11.13 As at the end of March 2018 it is forecast that the HRA reserve will stand at £2.507 million. It is expected that the impact of welfare reform and other pressures arising from Government guidance the Housing Capital Programme will deplete this reserve in coming years. The current HRA Business Plans estimates that the minimum reserve balance of £1 million will be reached by 2019/20.

11.14 As a result of the Government policy to reduce rents the capital programme has been reduced in the coming years. The proposed allocation of resources from the HRA to support a capital programme for the next five years and the HRA reserves will be kept under regular review by cabinet.