

## Appendix F

### Reserves Statements

The Statement of Accounts that we produce each year details all our reserves and explains why we hold each of them. Reserves are reported in two categories: unusable and usable reserves. Unusable reserves include those reserves which are kept to manage the accounting processes for non-current assets, retirement and employee benefits. Unusable reserves cannot be used to provide Council services. Usable reserves are those reserves that a Council may use to provide services or reduce local taxation, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

The level of usable reserves the Council holds is reviewed each year as part of the budgetary process. Consideration is given to the current financial standing of the Council, the funding outlook into the medium term and the financial risk environment we are operating in.

Councils generally hold usable reserves for a number of reasons:

- To use at a later date to support investment projects
- To temporarily hold unused portions of grants that can be legally used at a later date
- To insure themselves against major unexpected events such as flooding
- To guard against general risk
- To smooth the impact of cuts
- To guard against emergent specific risks, such as business rate appeals, increased demand, and the impact of social care reform.

The Council's usable reserves are as follows:

- General Reserve: held for non-specific items and risks
- Earmarked Reserves: amounts held for specific future projects or service risks

During 2017/18, usable reserves are expected to reduce by £2.67m to fund the forecast revenue over spend, fund exit costs arising from savings plans, fund transformation projects and to release earmarked reserves.

In 2018/19, the Council's share of the Council Tax collection fund deficit of £727k and a shortfall in Dedicated Schools Grant funding of £191k will be funded on a one off basis from earmarked reserves. £325k will be released from the waste reserve to support the waste savings plans. Total planned use of reserves is therefore £1.24m. Budget provision has been made to ensure planned use of reserves is funded by an equivalent increase in reserves. A summary is shown in the following table:

| Usable Reserves Summary      | Actual       | 2017/18 Use of | Estimate     | Planned use  | Planned increase | Estimate     |
|------------------------------|--------------|----------------|--------------|--------------|------------------|--------------|
|                              | 1.4.2017     | Reserves       | 31.3.2018    | of Reserves  | in Reserves      | 1.4.2018     |
|                              | £m           | £m             | £m           | £m           | £m               | £m           |
| General Fund                 | 5.32         | -              | 5.32         | 0            | -                | 5.32         |
| Risk Fund                    | 1.03         | -              | 1.03         | 0            | -                | 1.03         |
| <b>Total General Reserve</b> | <b>6.35</b>  | <b>0.00</b>    | <b>6.35</b>  | <b>0.00</b>  | <b>0.00</b>      | <b>6.35</b>  |
| Earmarked Reserves           | 12.85        | -2.67          | 10.18        | -1.24        | 1.24             | 10.18        |
| <b>Total Usable Reserves</b> | <b>19.20</b> | <b>-2.67</b>   | <b>16.53</b> | <b>-1.24</b> | <b>1.24</b>      | <b>16.53</b> |

## The General Reserve

The purpose of the General Reserve is to act as a fund to be used in emergencies and to protect council taxpayers from any steep rises in future Council Tax if the Council over spends against its budget. The s151 officer (Head of Finance & Property) recommends that the General Reserve totals, as a minimum, 5% of the Council's net revenue expenditure, which for 2018/19 would be a minimum reserve of £6.3m.

The General Reserve is expected to cover any of the following risks should they arise:

- The impact of significant increases in demand
- The delivery of all savings targets
- Economy measures and service reductions always contain some degree of uncertainty as to whether their full effects will be achieved
- Unforeseen events such as the flooding during January 2014
- Risks in relation to litigation
- Risk of changes from specific grants to the non ring fenced government grants
- Risks of grants being introduced or removed mid year, requiring authority contributions
- The need to retain a general contingency to provide for unforeseen circumstances
- The need to retain reserves for general day to day cash flow needs and avoid unnecessary temporary borrowing
- Risk of reduced income due to deferred income and social care clients' property decreasing in value

## Earmarked Reserves

The Council has other reserves which are earmarked for specific purposes.

| Earmarked Reserves              | Actual       | 2017/18      | Estimate     | Planned use  | Planned increase | Estimate     |
|---------------------------------|--------------|--------------|--------------|--------------|------------------|--------------|
|                                 | 1.4.2017     | Movement     | 31.3.2018    | of Reserves  | in Reserves      | 1.4.2018     |
|                                 | £m           | £m           | £m           | £m           | £m               | £m           |
| Schools Balances                | 4.07         | 0.00         | 4.07         | 0            | 0                | 4.07         |
| Parish Special Expenses         | 0.01         | 0.00         | 0.01         | 0            | 0                | 0.01         |
| Self Insurance Fund             | 0.71         | 0.26         | 0.97         | 0            | 0                | 0.97         |
| Long Term Commitment            | 0.84         | -0.06        | 0.78         | 0            | 0                | 0.78         |
| Waste Management Strategy       | 0.53         | -0.20        | 0.33         | -0.33        | 0                | 0.00         |
| Specific Earmarked Reserves     | 6.69         | -2.67        | 4.02         | -0.92        | 1.24             | 4.35         |
| <b>Total Earmarked Reserves</b> | <b>12.85</b> | <b>-2.67</b> | <b>10.18</b> | <b>-1.24</b> | <b>1.24</b>      | <b>10.18</b> |

## **Schools Balances**

This is an amalgamation of unspent and overspent balances.

## **Parish Special Expenses**

These are explained in detail in Appendix I.

## **Self Insurance Fund**

This fund has been established to ensure that costs to the Council in relation to claims, can be met whilst limiting the impact of higher premiums on the Council's revenue budget. The fund is used to pay the first £250k of any property claim and the first £100k of other claims. External insurance covers the balance of claims.

## **Long term commitment**

Funding specifically set aside for capital financing purposes; either funding for future capital schemes or financing costs for future principal payments on maturity loans. These vary according to the progress of capital schemes and the utilisation of s106 monies.

## **Waste Management Strategy**

A fund set up to help to meet the revenue and capital costs associated with the Council's PFI arrangement for the provision of waste collection and disposal services. This reserve will be used during 2018/19 to support the waste savings plans.

## **Specific Earmarked Reserves**

Funds set aside to cover specific future liabilities. The main items in here are:

| Specific Earmarked Reserves              | Actual      | 2017/18      | Estimate<br>31.3.2018 | Planned use<br>of Reserves | Planned increase<br>in Reserves | Estimate<br>1.4.2018 |
|--|-------------|--------------|-----------------------|----------------------------|---------------------------------|----------------------|
|  | 1.4.2017    | Movement     |                       |                            |                                 |                      |
|  | £m          | £m           |                       |                            |                                 |                      |
| Service Specific Risk Funds              | 2.64        | -1.50        | 1.14                  | 0                          | 0.31                            | 1.46                 |
| Transformation Fund                      | 1.00        | -0.34        | 0.66                  | 0                          | 0                               | 0.66                 |
| Restructuring Provision                  | 0.78        | -0.06        | 0.72                  | 0                          | -0.5                            | 0.22                 |
| Schools in Financial Difficulty          | 0.00        | 0.00         | 0.00                  | 0                          | 0.5                             | 0.50                 |
| Other                                    | 2.27        | -0.77        | 1.50                  | -0.92                      | 0.93                            | 1.51                 |
| <b>Total Specific Earmarked Reserves</b> | <b>6.69</b> | <b>-2.67</b> | <b>4.02</b>           | <b>-0.92</b>               | <b>1.24</b>                     | <b>4.35</b>          |

## **Service Specific Risk Funds**

Three reserves have been created to meet known risks within Adult Social Care, Children and Family Services and Legal Services. At Quarter Three 2017/18, there are over spends in Adult Social Care and Children & Family Services and if the over spend continues, at year end the Executive will decide how to fund any over spend. The table below shows what impact the 2017/18 forecast over spend would have on these risk funds, if they were used.

|                            | Reserve Balance<br>1.4.2017 | Change to level<br>of Reserve<br>2017/18 | Current Reserve<br>Balance | Risks arising<br>2017/18 | Potential<br>Reserve Balance<br>31.3.2018 |
|----------------------------|-----------------------------|--|----------------------------|--------------------------|---|
| Service                    | £000                        | £000                                     | £000                       | £000                     | £000                                      |
| Adult Social Care          | 2,090                       | -1,046                                   | 1,044                      | 0                        | 1,044                                     |
| Children & Family Services | 500                         | -114                                     | 386                        | -337                     | 49  |
| Legal Services             | 50                          | 0  | 50                         | 0                        | 50  |
| <b>Total</b>               | <b>2,640</b>                | <b>-1,160</b>                            | <b>1,480</b>               | <b>-337</b>              | <b>1,143</b>                              |

### ***Transformation Fund***

In order to support the Medium Term Financial Strategy to deliver its transformation plans, the Executive set aside £1m from the 2017/18 Transitional Grant funding. This will ensure that the Council has the resources to pursue plans outlined in the MTFS and to invest in strategies that will bring future benefits to the organisation. The following table shows the allocations made to date.

| Directorate | Service       | Project Description                   | Transformation Funding Awarded |
|-------------|---------------|---------------------------------------|--------------------------------|
|             |               |                                       | £000                           |
|             |               | <b>Opening Balance</b>                | <b>1,000</b>                   |
| Resources   | Commissioning | Invest to save posts in commissioning | -225                           |
| Resources   | HR            | Post - Apprenticeship Coordinator     | -74                            |
| Communities | C&FS          | Emotional Health Academy              | -5                             |
| Resources   | Legal         | Shared service advice                 | -12                            |
| Communities | Education     | Family Hub transformation             | -28                            |
|             |               | <b>Total awarded</b>                  | <b>-344</b>                    |
|             |               | <b>Closing Balance</b>                | <b>656</b>                     |

### ***Restructuring Provision***

This fund is used to cover the exit costs associated with some of the savings proposals. The estimated exit costs coming out of the reserve are in the region of £64k for the 2018/19 savings proposals. £500k has been moved from this reserve to the Schools in Financial Difficulty reserve. The balance remaining in the restructuring provision at the end of the financial year will be rolled forward to fund any future restructuring costs to the Council.

### ***Schools in Financial Difficulty***

The reserve was fully used in 2016/17 to support the successful transition of John O'Gaunt School to an Academy. £500k has been put into this reserve from the restructuring provision in order to recognise the risk of further schools going into financial difficulty. The reserve will be used to fund any additional support that the Council may need to provide to schools in financial difficulty.

### ***Other***

Other specific earmarked reserves are in place to support specific service requirements or projects.

A full list of the Council's reserves are disclosed in the Council's financial statements 2016/17 available on our website.

Please note that these reserves estimates are before any changes from the 2017/18 financial year end.