

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter: Reserves Review

Meeting/Date: Overview & Scrutiny (Economic Well-Being) Panel
– 8th December 2015
Cabinet – 10th December 2015

Executive Portfolio: Executive Councillor for Resources: Jonathan Gray

Report by: Head of Resources: Clive Mason

Ward(s) affected: All

Executive Summary:

The main purpose of this review is to establish a Reserves Strategy (see Appendix 1) is to provide a framework through which the Council will be able to effectively manage and govern its use of Reserves.

At the end of 2014/15 the Council had nearly £25.0m in usable revenue reserves (forecast to increase to £26.8m by the end of 2015/16) and £4.0m in capital reserves.

With the:

- Pending introduction of the Commercial Investment Strategy, where the use of in-house funds (reserves) will negate the need to externally borrow and therefore increase the revenue yield,
- Near completion of the Zero Based Budgeting programme, with Tranches 2 and 3's expecting to generate savings of £4.1m; this will assist in meeting 50% of the £8.2m savings required as shown in the "Plan on a Page". This will at least negate the need for the Council to use General Fund Balances to support the Medium Term Financial Strategy (MTFS), and the,
- Continuation of the government's austerity programme,

it is anticipated that the Councils reserves will become an ever more strategic and scarce resource. Consequently, a clear strategy stating the principles for the Councils reserves and appropriate governance arrangements is essential for the effective management of the Councils MTFS and future financial sustainability.

Resources

The Strategy itself will not have any direct financial or legal implications. However, the operation of the Strategy will seek to ensure that Reserves are operated in an open and transparent way.

Recommendation(s):

That Cabinet approves the Reserves Strategy (**Appendix 1**), specifically endorsing:

1. A minimum level of Reserves at 15% of the Councils "Net Expenditure".
2. The governance arrangements pertaining to each reserve, specifically the ring-fencing of capital receipts that are generated from either "general service activity" or from the "Commercial Investment Strategy".

1. WHAT IS THIS REPORT ABOUT?

- 1.1 Seeking approval for a Reserves Strategy (**Appendix 1**) and associated governance arrangements that will allow the Council to effectively manage its reserves in a more commercial environment.

2. BACKGROUND

- 2.1 Members will recall, as reported to Council in February 2015, that over the medium term the Council faces considerable “revenue” financial challenges. Currently the Medium Term Financial Strategy (MTFS) is showing a revenue gap of £2.4m by 2019/20 and a general reduction in its reserves to £3.0m. However, as shown on the “Plan on a Page” (Appendix 2) if, as the Council is aiming to do, it removes its reliance on the use of Reserves and New Homes Bonus, the funding gap is actually £8.2m.

- 2.2 One of the key elements of the “Plan-on-a-Page” is Zero Based Budgeting; as highlighted elsewhere on the agenda, the total Tranche 2 and 3 savings are £4.1m, consequently:

- i. this will have reduced the aforementioned funding gap from £8.2m to £4.1m.
- ii. there will not be any expected draw-down in General Fund Balances by the end of the MTFS period.

- 2.3 As well as considering 2.2 (ii) above, but also that the Council:

- has a track record of providing services for less than the approved budget, there is therefore a possibility that the General Fund Balance may continue to increase. Indeed, the September 2015 forecast (as reported to Cabinet in November) is showing an increase of £0.5m to £9.8m by the end of March 2016. In such a scenario, it is necessary that the Council has in place a strategy that clearly defines the operation of its Reserves (this Strategy is attached at Appendix 1), and
- is about to embark on an ambitious Commercial Investment Strategy that will require the use of significant reserves to provide an ongoing revenue stream.

The Council's reserves are expected to become an ever more significant strategic resource that will require active management and governance to ensure medium financial sustainability.

3. SUMMARY PROPOSALS WITHIN THE STRATEGY

3.1 Principles for Maintaining Reserves

There are four principles that the Council will adhere to in the operation of Reserves, these include:

- Risk
- Prudential Financial Management
- Medium-Term Financial Planning
- Funding Source of Last Resort

3.2 **Level of Reserves**

In January 2015, the Cabinet agreed that the minimum level of General Fund Reserves should be £3.0m. However, as the Council is expecting to have a reducing, or near static, Net Expenditure over the forthcoming years it would be more practical to have a level of reserves that was a percentage of any years' "Net Expenditure". For 2015/16, the £3.0m equated to marginally over 15% of the Net Expenditure, it is therefore proposed that 15% is set as the minimum level of reserves.

3.3 **Governance**

The management of reserves has to be transparent so all stakeholders can see how they are being managed. With regard to each type of reserve, the following is proposed:

- **General Fund Balance**

Proposals for the application of forecast service under or over spends against the General Fund Balance will be reported to Cabinet on a quarterly basis. Cabinet will confirm if they accept the reported forecasts. If however, if there is a need for a specific contribution to/from the General Fund Balance outside of routine service spend this will only be approved by Cabinet.

- **Earmarked Reserves**

Earmarked Reserves will be established or deleted in line with the principles for reserves noted at 3.1. However, there will be predetermined controls around Earmarked Reserves as follows:

- The Section 151 officer will be able to create reserves, following consultation with the Executive Portfolio Holder for Resources (with retrospective reporting to Cabinet).
- Earmarked Reserves will only be able to be removed with the agreement of Cabinet.
- Contributions to/from Earmarked Reserves will:
 - either be in line with statutory requirements or service need, and
 - only be made when agreed with the Section 151 officer.

- **Capital Receipts Reserve**

The Council will receive capital receipts as a consequence of the sale of capital assets that support either General service activity or the Commercial Investment Strategy.

Considering that assets that support general service activity have, primarily, been financed without external borrowing it is fair to say that in the interests of equity that such assets should finance either new future capital spend of a similar nature or reduce the Councils internal debt burden. In contrast, those assets that have been acquired as part of the Commercial Investment Strategy will have been financed from a mix of either direct revenue financing or external borrowing. It is therefore considered that when assets are sold that the associated capital receipt is ringfenced so if a capital receipt results from the sale of an asset from:

- general service activity; then the related capital receipt is applied to acquire/enhance other general service activity assets or pay down related debt.
- the Commercial Investment Strategy, then the related capital receipt is applied to acquire/enhance other CIS assets or pay down CIS related debt.

Where it is considered that capital receipts should pass over the ringfence, this will only occur when approved by Cabinet.

- **Capital Grants Unapplied Reserves**

This reserve will only hold capital grants that will have been acquired by the Council for a specific purpose. The use of these grants will be in line with prescribed grant regulations/conditions.

4. COMMENTS OF OVERVIEW & SCRUTINY PANEL

- 4.1 Comments from the Overview & Scrutiny (Economic Well-Being) Panel to be held on the 8th November will be verbally updated at Cabinet

5. KEY IMPACTS/RISKS?

- 5.1 The key impact of the introduction of the Strategy will be to allow the Council to be more transparent in the operation of its Reserves; especially as Reserves are expected to be maintained at a relatively constant level following the Zero Based Budgeting process and their practical application to support the Commercial Investment Strategy.

6. LINK TO THE CORPORATE PLAN

- 6.1 The Strategy will support the achievement of the Corporate Plan requirement of “Ensuring we are a customer focused and service led council” by “becoming more business-like and efficient in the way we deliver services”.

7. CONSULTATION

- 7.1 None

8. LEGAL IMPLICATIONS

- 8.1 There are no direct legal implications arising from this report.

9. RESOURCE IMPLICATIONS

- 9.1 The Strategy itself will not have any direct resource implications. However, the operation of the Strategy will support the governance framework around the management of reserves as the Council moves into a more commercial operating environment.

10 REASONS FOR THE RECOMMENDED DECISIONS

- 10.1 To put in place a “fit for purpose” approach to the management of the Council Reserves that support the MTFs and the CIS. This will then in turn assist the Council in generating additional revenue income through the development of a

commercial asset portfolio or supporting the development of new or enhance service related assets.

11. LIST OF APPENDICES INCLUDED

Appendix 1 – Reserves Strategy.
Appendix 2 – Plan on a Page.

BACKGROUND PAPERS

Held with Resources.

CONTACT OFFICER

Clive Mason, Head of Resources,
(01480) 388157 clive.mason@huntingdonshire.gov.uk