

<b>REPORT TO</b>	<b>DATE OF MEETING</b>
Governance Committee	29 <sup>th</sup> June 2016

Report template revised June 2008



<b>SUBJECT</b>	<b>PORTFOLIO</b>	<b>AUTHOR</b>	<b>ITEM</b>
Strategic Assessment of Reserves	Finance & Resources	Susan Guinness	11

## SUMMARY AND LINK TO CORPORATE PRIORITIES

Following on from the review of the level and purpose of reserves held by the Council as part of the 2016/17 Budget Setting Process, LG Futures were commissioned to undertake a strategic assessment of the current level of reserves. The review was intended to assess:

- The approach to reserves and main financial risks.
- Assessment of budgetary accuracy.
- Comparative analysis across the sector.
- Future gearing of sources of income and implications for future levels of reserves.

This report is directly linked to the Corporate Priority of:

***Efficient, Effective and Exceptional Council.***

## RECOMMENDATIONS

1. Members are asked to note and comment on the attached report and appendices.

## DETAILS AND REASONING

### Summary of Findings

The full LG Futures Report is attached at Appendices One, One (a) and One (b) for information. The key comments and findings are summarised below:

1. The levels of General Reserves are broadly consistent with comparisons taken from other Councils.
2. South Ribble better estimates the future levels of general reserves that it will have compared to many other councils which substantiates the positive audit findings from the External Auditors.
3. There is no best practice or specific minimum or maximum level of reserves. This should be based on the professional judgement of the Chief Finance Officer applying local knowledge of financial risk exposure.

4. General Reserve is impacted upon by the treatment of the Pension Deficit Contribution payments which increases risk.
5. Pending substantial reform of the Business Rates Retention (BRR) scheme this will increase financial risk for the Council and specifically by 2019/20.
6. This includes the re-set of the Baseline and also the shift to 100% retention of business rate funds.
7. The occurrence of an economic recession will impact on core income, however, the actual value is not possible to quantify.
8. It is recommended that a robust BRR Equalisation balance should be maintained.
9. The reports comments specifically on the following:-
  - The current review of the ICT Reserve.
  - The Asset Management Reserve.
  - Borough Investment Account.
  - BRR Equalisation Reserve.
  - Public Open Spaces Commuted Sums.
  - Capital Reserves.
10. The report makes an assessment on the key assumptions that underpin the forecasted budget projections to conclude if they are Optimistic or Pessimistic as this factor impacts on the degree of risk within the estimating process which in turn should influence the level of reserves to be maintained.
11. The report illustrates the future gearing of key funding streams to 2018/19 and how this impacts on risk.
12. A fundamental rationale of medium to long term financial planning is the appropriate retention and maintenance of reserves which forms a key strategy in mitigating against an increasing financial risk profile.

The recommendations of the report are summarised below together with officer's comments.

## Strategic Assessment of Reserves - Recommendations

The table below summarised the key recommendations of the Strategic assessment of Reserves and also contains the relevant comments and observations.

	RECOMMENDATION	OFFICER COMMENTS
(1)	Paras 4.37 and 4.38 - Setting of general reserve – need to be mindful of additional financial risk and in particular 2019/20 and beyond	The next budget setting round will include the 2019/20 financial year and will attempt to forecast the financial risk exposure to the Council as a result of changes to the BRR regime. This will include interpreting the information published on the proposed 100% BRR scheme and also an assessment of the reduced income that could be expected from the reset of the Authority's BRR Baseline Funding Level.
(2)	Para 4.39 - Model/estimate the potential impact of future changes and review levels of reserves	The next budget setting round will include the 2019/20 financial year and will attempt to forecast the financial risk exposure to the Council as a result of changes to the BRR regime. This will include interpreting the information published on the proposed 100% BRR scheme and also an assessment of the reduced income that could be expected from the reset of the Authority's BRR Baseline Funding Level.
(3)	Para 4.40 - Planned review of ICT Reserve	The review of the ICT reserve prior to the next budget setting round will included the questions posed by LG Futures. It is expected this will be completed before the end of September 2016. This will include budgeted contributions into the reserve.
(4)	Para 4.41 - Review of Asset Management should consider the Reserve	The review of this reserve will very much be informed by the findings and recommendations of the Asset Review which is currently being undertaken by external advisers. This will include budgeted contributions into the reserve.
(5)	Para 4.42 – Public Open Space Commuted Sums	It is acknowledged that the use of this reserve needs to be reviewed and its rate of usage. It is expected this will be completed before the end of September 2016.

(6)	Para 4.43 – Sport Development Funding	Noted. It is expected this will be completed before the end of September 2016.
(7)	Para 4.44 - Maintain a robust balance in the BRR Equalisation Reserve	<p>The balance in this reserve as at 31/03/16 is £2.6m. The budgeted income from BRR in 2016/17 is £4.0m reducing to £3.6m in 2017/18. This income stream is volatile and is based on an ever declining Tax Base that is reduced by the Appeals process operated by the Valuation Office Agency (VOA) outwith the control of the Council. The financial risk to the Council with regard to this core income stream is expected to peak in 2019/20.</p> <p>Any deficit balances on the collection fund (as a result of poor performance) and/or additional levy payments due to Central Government (as a result of good performance) fall due immediately. These variation are unexpected and therefore by default unbudgeted for. An equalisation reserve is critical in being able to deal with what can be substantial unplanned cash liabilities.</p>
(8)	Para 4.45 - Develop a clear strategy for the operation of a Borough Investment Account including clear objectives; clarity on how the reserve can be used; procedures for management and control of the reserve establishing processes and timescales for review of its continuing relevance and adequacy	This is a work in progress but has been suspended whilst the Asset Review is pending. The review is expected to conclude which property type is desirable for the Authority in terms of managing risk and also maximising a rate of return.
(9)	Consider rebuilding Capital reserves or identify alternatives for future funding of the Capital Programme	Noted. This will be considered as part of the next budget setting process for the 2017/18 MTFS.

## WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

<b>FINANCIAL</b>	<p>There are no direct financial implications as a result of this report as its content are for note only.</p> <p>The contents of the report will contribute towards the recommendation of the 2017/18 Budget Setting process and Medium Term Financial Strategy (MTFS) covering the period 2017/18 to 2019/20.</p>
<b>LEGAL</b>	There are no legal implications as a result of the contents of this report.
<b>RISK</b>	<p>The full risk assessment forms part of the background papers to this report. The main points for consideration are summarised here:-</p> <p>The maintenance of revenue reserves is a key part of mitigating against future financial risk. This is assessed and published as part of the Budget Setting process and MTFS.</p>
<b>IMPACT ON EQUALITY</b>	There is no impact on Equality as a result of the contents of this report.
<b>OTHER (see below)</b>	N/a

<i>Asset Management</i>	<i>Corporate Plans and Policies</i>	<i>Crime and Disorder</i>	<i>Efficiency Savings/Value for Money</i>
<i>Equality, Diversity and Community Cohesion</i>	<i>Freedom of Information/ Data Protection</i>	<i>Health and Safety</i>	<i>Health Inequalities</i>
<i>Human Rights Act 1998</i>	<i>Implementing Electronic Government</i>	<i>Staffing, Training and Development</i>	<i>Sustainability</i>

## BACKGROUND DOCUMENTS

Financial Strategy, Budget and Council Tax 2016/17