

WEST NORTHAMPTONSHIRE COUNCIL

Corporate Overview and Scrutiny Committee

22 April 2024

CLr Malcolm Longley – Finance Portfolio holder

Report Title	WNC Revenue Reserves
Report Author	Martin Henry Executive Director – Finance Martin.henry@westnorthants.gov.uk

Contributors/Checkers/Approvers

Monitoring Officer	Catherine Whitehead	
Chief Finance Officer (S151)	Martin Henry	11 April 2024
Monitoring Officer	Catherine Whitehead	12 April 2024
Head of Communications	Becky Hutson	12 April 2024

List of Appendices

Appendix A – Revenue Reserves Briefing Paper

1. Purpose of Report

- 1.1. To present to the Committee an initial report on the topic of revenue reserves and the current status of them.

2. Executive Summary

- 2.1 As part of the budget scrutiny exercise members highlighted their concern about the use of the Council's revenue earmarked reserves that were inherited since the start of WNC as it appears that a significant proportion have been utilised and that the current usage rate was not sustainable.
- 2.2 As part of formulating the remit of this piece of scrutiny the Committee members highlighted that they wished to understand why:
- The level of reserves that have been used and what were they used for; and
 - The approach to top reserves back up again

General

- 2.3 The draft budget report contained the following table in respect of the amount of reserves inherited on vesting day, 1 April 2021 and the anticipated level of reserves through to the end of the financial year 2024-25. The table is replicated below:

Description	Balance as at 01/04/21	Balance as at 31/03/22	Balance as at 31/03/23	2023-24 Forecast Closing Balance	2024-25 Forecast Closing Balance
	£000	£000	£000	£000	£000
General Balance	(40,000)	(40,000)	(35,000)	(35,000)	(35,000)
Other Reserves Total	(65,939)	(64,027)	(59,846)	(41,939)	(29,654)
Ringfenced / Technical Reserves Total	(57,270)	(35,223)	(17,365)	(11,227)	(7,938)
Specific Covid Reserves Total	(7,942)	(4,706)	(1,702)	(562)	(361)
Earmarked Reserves Total	(131,151)	(103,956)	(78,912)	(53,727)	(37,953)
Grand Total	(171,151)	(143,956)	(113,912)	(88,727)	(72,953)

- 2.4 The shaded shows summarise the information that was included in the draft budget report for 2024-25 but two further columns have been included to show the reserves inherited on vesting day (still subject to finalisation and audit) and the reserves available at the end of the first financial year so members can see the true position of the use of reserves.
- 2.5 Consideration of the above use of reserves is, at first sight and without context, worrying as it shows that between 01 April 2021 and the forecast position at the end of 2024-25 there has been the utilisation of £98m of reserves in just four years and therefore we will have no funds left in a short period of time if we continue to use them at this rate. It is understandable how this conclusion is drawn based just on the above table.
- 2.6 However, we need to consider what was happening at the time and why we have used such a seemingly significant proportion of the reserves inherited.
- 2.7 Appendix A provides more detail on reserves, the different types of reserves held and the reasons why they have been used. The Appendix highlights:
- General fund balances – what they are and how they compare to our nearest neighbours
 - Other earmarked reserves – What they are and how they have been used

- 2.8 However, from the starting point highlighted above it is really important to deduct three specific reserves as set out in the Appendix.

Covid Reserves

£61m contained within the opening position

- 2.9 On vesting day the whole world was in the grip of the Pandemic and Council up and down the Country had been provided with significant funding to deal with the outbreak. This took the form of grant funding to deal with issues such as containing and managing the outbreak, to compensate us for reduced levels of Council Tax, Business Rates and Fees and Charges as they dropped through the floor in the pandemic and general COVID financial support to be used as required to deal with the consequences of the outbreak. In some cases the funding could not be used in the year it was received and had to be carried forward into the following year and in some cases it had to be spent on very specific COVID issues otherwise it would have to be returned to the Government. In essence this £61m had to be spent to deal with the outbreak or returned to the Government. This figure should be deducted from the opening position to give a truer position of the reserves inherited.

Public Health Reserves

£8.5m contained within the opening position

- 2.10 These reserves are very specific and can only be spent on eligible Public Health activity. The public health grant each year was not being spent in its entirety and the balance was increasing.
- 2.11 WNC took the view that the Public Health Grant should be spent in its entirety each year and the Public Health reserve should also be used to improve people's lives as that was what the funding was received for. There was also a risk that if the reserve just kept increasing the annual grant would be cut as it might be perceived that there was not the need for it in this area which is clearly not the case.
- 2.12 The decision was taken to invest these particular funds in further preventative public health initiatives. As the use of the reserve is very much restricted and there is clear need to invest it in public health initiatives and begin to reduce the reserve for the benefit of the public it should be deducted from the starting position.

Enterprise Zone Reserve

£3.5m contained within the opening position

- 2.13 Although this sits in our reserves, it is not a reserve that we have direct control over and its release is governed through the SEMLEP board made up of several local authority partners. As a result it should not be included in the starting position so we get a better indication of the reserves under our direct control.

Revised opening and Closing Position

- 2.14 If we deduct the three reserves highlighted above from the opening position we get a more realistic starting point. The table below does this and also deducts any residual amounts in these three reserves from the position forecast at the end of this financial year to provide a 'like for like' comparison of usage over the first three years, whilst ignoring the use of these exceptional items.

	01 April 2021	31 March 2024 (Forecast)	Usage over three years
	£000s	£000s	£000s
General Fund Balances	40,000	35,000	5,000
	01 April 2021	31 March 2024 (Forecast)	Usage over three years
	£000s	£000s	£000s
Other Reserves	131,151	53,727	77,424
Less:			
COVID reserves	(60,928)	(588)	(60,340)
Public Health reserves	(8,470)	(6,297)	(2,173)
Enterprise Zone reserves	(3,549)	(172)	(3,377)
Re-stated Other Reserves	58,204	46,670	11,534
Total Re-Stated reserves	98,204	81,670	16,534

2.15 The above analysis demonstrates that if you adjust for the exceptional items (particularly COVID), over the first three years of operation we have used:

- £5m of general fund balances which we consciously budgeted to do in 2022-23
- £11.5m of other earmarked reserves were used on the purposes the reserves were set up for. This is over a three year period and therefore on average we have used £3.8m of earmarked reserves each year since vesting day for the purposes they were set up for.
- If the same rate of usage continued other reserves would last for a further 12 years.
- Assuming we used no further general fund reserves and we then fell back on general fund reserves these would last for a further 9 years and therefore based on the above there is coverage for 21 years before cash balances run out.
- However, we would never take this approach and where reserves were deemed to be too low they would be a strategy to increase them again to a reasonable level.
- The view of the S151 officer is that we are not close to having to determine specific top ups at this point.

2.16 A breakdown of the £11.534m is available if required and can be broken down into:

	£000s
Use of reserves over three years	23,866
Increases in reserves	(12,332)
Net usage of reserves	11,534

2.17 Based on this analysis if there were no top ups to reserves the average annual use of reserves would be approximately £8m. Earmarked reserves would last for a further six years and general fund balances would last for a further four years. Providing cover, based on the previous stated assumptions of 10 years.

Topping reserves up

2.18 Members requested details on how reserves can be topped up. They can be topped up in several ways:

- Grant income received for specific purposes – these are held in reserve until they are utilised.
- Year end requests for carry forwards – If budgets are underspent or projects haven't been completed a request can be made to set a reserve up to carry funds forward. If agreed these create new earmarked reserves
- Corporate underspend – These can be directed to specific earmarked reserves or used to top up general fund balances
- Budgeting - We can specifically budget to top reserves up if we feel they are too low, clearly this would be a budget setting consideration and form part of deliberations associated with delivering a balanced budget
- Apply for a capital direction (Exceptional Financial Support) so that reserves can be topped up

3. Recommendations

3.1 It is recommended that the Committee:

- a) Considers the content of this report and determine any further tasks they wish to have carried out on reserves.

4. Reason for Recommendations

- To meet with the requirement of the Committee and its work programme

5. Implications

5.1 Resources and Financial

5.1.1 There are no direct resource or financial implications stemming from this report as it is reporting information on the use of reserves as requested by the scrutiny committee.

5.2 Legal

5.2.1 There are no specific legal implications associated with this report

5.3 Risk

5.3.1 There is a risk that further significant financial pressures will be faced which could significantly reduce the level of reserves held by the Council if they cannot be managed or mitigated against. This report seeks to set out the current position on reserves so it clear what balances remain should there be future, unmanageable financial pressures.

5.4 **Consultation**

5.4.1 There has been no specific consultation on the report.

5.5 **Climate Impact**

5.5.1 There are no direct climate impacts stemming from this report.

5.6 **Community Impact**

5.6.1 There are no direct Community Impacts stemming from this report

6. **Background Papers**

6.1 None