Cambridge City Council **Item**

To:	Executive Councillor for Finance and Resources: Councillor George Owers
Report by:	Caroline Ryba, Head of Finance
Relevant scrutiny committee:	Strategy & Resources Scrutiny Committee 20/10/2014
Wards affected:	Abbey Arbury Castle Cherry Hinton Coleridge East Chesterton King's Hedges Market Newnham Petersfield Queen Edith's Romsey Trumpington West Chesterton

REVIEW OF GENERAL FUND EARMARKED AND SPECIFIC FUNDS

Key Decision

1. Executive summary

1.1. The Council faces continuing reductions in revenue grant funding from central government. Other sources on income, such as business rates, are increasingly uncertain as risks around valuation and collection are passed to local government. As a result, the Council has ongoing savings requirements totalling over £6m in the next five years.

1.2. This report identifies considerable balances held within the Council's accounts, earmarked for specific uses in the future. In the current challenging financial environment, they are a valuable resource that could be used to support the Council's budget in the short term, and enable transformational projects to deliver savings in the longer term. The report also considers how retaining these funds might discourage open and transparent prioritisation of spend and give rise to inefficient approval and accounting processes.

1.3. An initial review has been done and a number of principles are proposed which would reduce the number of reserves and the total balance held. It suggests that the majority of expenditure funded from these reserves could be dealt with directly through annual budgets. At this stage, no specific proposals of balances to be released or contributions to be saved have been made, as these changes will be significant in a number of areas, and further work and consultation is required.

1.4. The report proposes the creation of an Invest to Save fund to support transformational projects and a contingency budget to act as a safety net while the proposed changes are embedded.

1.5. If they are agreed, a detailed review will be undertaken, based on the principles included in the report. Proposals arising from this review will be included in the budget setting report for approval in February 2015.

2. Recommendations

The Executive Councillor is recommended to:

- Approve the principles to be applied to the detailed review of General Fund earmarked reserves and specific funds (para 3.6)
- Agree that the results of the review be reported and actioned in the budget setting report in February 2015
- Agree in principle to the setting up of an Invest to Save fund, subject to the development of terms of reference and operating procedures (para 3.7)
- Note that the requirement for a contingency budget to act as a safety net will be considered (para 3.9).

3. Background

3.1 The Mid-year Financial Review 2014 refers to this review of reserves, with results being used to inform the budget setting process for 2015/16.

3.2 The review has been undertaken with the following objectives:-

- To support the budget setting process by identifying revenue savings and releasing reserve balances no longer required
- To identify one-off funding to meet future savings requirements whilst longer term savings are delivered
- To identify funding to be used to pump prime transformation, improvement and savings projects
- To simplify and streamline financial processes
- To strengthen annual planning and budgeting processes by ensuring prioritisation of spend, flexibility, accountability and transparency

Financial context

3.3 As at 31 March 2014, the Council has £24.0m of earmarked and specific funds and nearly £9m in the general reserve. This equates to nearly twice net revenue expenditure. In comparison to other similar local authorities in the East of England, these levels are the highest, both in absolute terms and as a percentage of net revenue expenditure.

Initial review

3.4 An initial review of these funds has been done. They can be analysed into broad categories

- **Earmarked funds (£3.1m)** – in general these have been set up to earmark funding to a particular policy initiative, e.g. the Sharing Prosperity Fund.

  These funds often have irregular contributions and additional approvals are required to commit funding to projects. As such, they limit flexibility to assign available funding to current priorities and inhibit prioritisation of available funds at a point in time.

  Funding is subject to double approval – once when contributions are made to the fund, and again when funding is committed. Approvals may be sought at any time during the year. This process is inefficient, leads to complexity and discourages the forward planning required to develop proposals for consideration during the annual budget setting process.

  So whilst there are policy reasons supporting these funds, particularly where there are external interests, as for the Keeping Cambridge Moving Fund, there are also reasons to minimise the use of such funds and to ensure that where they are used, they are focused, targeted and simple to operate.

- **Repairs and renewals funds (£13.9m)** – money put aside each year to pay for the maintenance and replacement of assets.

  These funds are made up of many balances spread over a large number of cost centres, to cover a wide variety of assets e.g. buildings, vehicles, office furniture. Contributions in the order of £2.5m are made to these funds each year. The balance on these funds has remained stable for the past three years, indicating that contributions are broadly matching spend. About £6m of the balance is currently committed, funding projects in the capital plan.

A detailed review of these funds was undertaken in 2012/13, which indicated that overall the funds were adequate to meet future required expenditure. However, there is a programme of condition surveys for operational and administrative buildings on-going, which may give rise to additional funding requirements.

As funding is earmarked, these funds currently discourage the real prioritisation of capital spend based on the council's objectives and need. There is also a risk that capital projects are brought forward before necessary and subject to lower levels of scrutiny because funding is readily available.

Due to the size of the balances involved, these funds represent a significant resource that is currently underutilised.

- **Smoothing (£1.1m)** – these funds usually have regular contributions and are used to fund periodic costs, such as the Citizens' Survey.

  As for earmarked funds (above) the operation of these funds add complexity to financial processes and sometimes require double approvals. There are cases where balances have remained unused and/or requirements have changed.

- **Statutory funds (£4.6m)** – required by statute or accounting practice, for example the Business Rates Retention Reserve.

- **Provisions (£0.6m)** – funding put aside to meet a future liability that may or may not crystallise.

  These do not meet the accounting standards definition of a provision, and in some cases are no longer required.

- **Partnership funding (£193k)** – funding held, often as lead authority within a partnership or regional working arrangement.

- **Grants (£494k)** – held in reserves in accordance with accounting standards.

Next steps

3.5 The initial review has indicated that there are significant balances that could be released from these reserves. There may also be some revenue contributions that could be saved, but these are likely to be small. Further benefits will be gained through the simplification of processes and the strengthening of annual planning disciplines.

3.6 The review will now look at each balance individually to determine amounts that can be released or saved and how the reserve and the expenditure it funds will be treated in the future. Officers and members involved will be consulted. The following principles will be applied, unless a valid reason can be given:-

For all balances except repairs and renewals funds, and where there is no statutory, accounting or policy requirement for the reserve

- Where balances are uncommitted, they will be moved to general reserves and the reserve closed as soon as all commitments are spent.
- Where there are regular contributions, these will be taken as savings unless it can be shown that the expenditure is still required. If this is the case, the required amounts will be retained within the budget, for spending within the year.
- Where expenditure in a year is expected to vary above any regular annual amount, budget holders will be expected to submit budget proposals for prioritisation.
- Where commitments are no longer required, the amounts will be returned to general reserves.

For repairs and renewals funds, following a more detailed analysis of contributions and usage

- Committed balances will be reviewed as part of the review of the capital plan and processes to be undertaken shortly.
- Where contributions support revenue expenditure that is still required, they will be retained within budgets for use within the year.
- The treatment of other contributions and existing balances will be based on the characteristics of the capital expenditure intended to be supported by balances. The default will be to return uncommitted balances to general reserves and take the contributions as savings. Future capital expenditure will be allocated through the budget setting process, based on the prioritisation of available funding.

3.7 It is proposed that an Invest to Save fund is set up, to replace the current Efficiency Fund. Whilst the Efficiency Fund has been useful to pump prime a number of worthwhile projects, the new fund will be targeted towards the delivery of the significant levels of change now needed. It will provide funding, repayable from savings made, to enable projects delivering significant savings and transformation.

3.8 The changes proposed as a result of the review will be included in the budget setting report for approval. This will include the allocation of some of the balances recovered to the Invest to Save fund.

3.9 Consideration will also be given to creating a contingency budget from some of the contributions saved, to be used to fund one-off requirements. This would act as a safety net for justifiable expenditure that does not meet Invest to Save requirements, and could not have been foreseen at budget setting. This will allow some flexibility while the new requirements become embedded. The size and use of this budget will be subject to annual review, as it is not intended to be an on-going cost.

4. Implications

(a) **Financial Implications**

The report addresses financial matters throughout, outlining how work can be done to provide funding to support transformational change and address savings requirements whilst longer term savings are delivered. It proposes changes to the way that certain costs are dealt with through the Council's budget, with a view to improving prioritisation, flexibility and transparency and reducing complexity of processes.

(b) **Staffing Implications** (if not covered in Consultations Section)

None

(c) **Equal Opportunities Implications**

None. No Equality Impact Assessment has been conducted, as this report deals with general financial matters. Assessments would be done, as required, for individual projects funded through these mechanisms.

(d) **Environmental Implications**

The Climate Change Fund, which is earmarked for use on projects with specific environmental purposes, is included in this review. However, the balance on this fund is currently fully committed.

(e) **Procurement**

None

(f) **Consultation and communication**

No formal external consultation has been undertaken, as this report addresses internal budgeting and accounting processes. These will inform the budget setting process, which is subject to external consultation.

Internal consultation has been and will be done as an integral part of the review.

(g) **Community Safety**

None.

5. Background papers

None.

6. Inspection of papers

To inspect the background papers or if you have a query on the report please contact:

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