



**Corporate Policy and
Resources Committee**

10 January 2019

Subject: Annual Review of Revenue Reserves 2018/19

Report by:	Executive Director of Resources
Contact Officer:	Tracey Bircumshaw Strategic Finance and Business Support Manager tracey.bircumshaw@west-lindsey.gov.uk
Purpose / Summary:	To consider the proposals informed through the annual review of reserves process.

RECOMMENDATION(S):

- 1. To approve the General Fund minimum working balance of £2m.**
- 2. To approve the changes as proposed and informed by the Earmarked Reserves review, including returning £0.323m to the General Fund Working Balance.**
- 3. To approve £0.200m be transferred from the Commercial Contingency Budget to the Valuation Volatility Reserve.**
- 4. To approve £0.163m of the General Fund Working Balance be transferred to the Valuation Volatility Reserve.**

IMPLICATIONS

Legal: None from this Report

Financial: FIN/137/19/TJB

As at 31 March 2018 Earmarked Reserves totalled £12.636m. After taking account of all approved movements and taking into account the proposals within this report the forecast balance as at 31 March 2019 is £13.135m

The review of Earmarked Reserves identified £0.323m which can be returned to the General Fund Working Fund Balance.

In relation to the Valuation Volatility Reserve the Commercial Portfolio Strategy approved in July 2017 identified that a reserve should be created to mitigate any loss on investment from the sale of commercial investment properties, and a reserve of £250k (5%) of expected £5m acquisitions, created in 2017/18 from the General Fund Working Balance. In light of the additional acquisitions during 2018/19, it is proposed that to maintain a 5% risk level the reserve needs to be increased to £0.756m in 2018/19 based on the current level of purchases. To enable this the Commercial Contingency budget of £0.2m will be transferred to this reserve in addition to £0.163m from the General Fund Working Balance

Careful monitoring of the Commercial Property valuations is undertaken on an annual basis. It is currently considered prudent to maintain a reserve of between 3-5% to meet any adverse valuations at point of sale.

After taking account of the transactions above and in addition to previously reported movements, the General Fund working balance is forecast to be £2.593m as at 31 March 2019 (See 5.3 below)

As Earmarked Reserves are expended to reduce to around £5.6m by 2023/24 as we continue to deliver services, investment and growth. Future financial planning will need to identify resources to enable funds to be increased to support further investment and growth projects over the longer term. (See 6.2 below)

Staffing : None from this report

Equality and Diversity including Human Rights :

None from this report

Risk Assessment :

The council is required to set a minimum balance for the General Fund to mitigate future financial risk.

Climate Related Risks and Opportunities :

None from this report.

Title and Location of any Background Papers used in the preparation of this report:

None.

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

1. **Executive Summary**

- 1.1 There is a Statutory requirement for Local Authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. In addition as part of the budget process the Chief Finance Officer (Director of Resources at WLDC) is required to make a statement on the robustness of estimates and adequacy of reserves.
- 1.2 In advance of finalising the Base Budget 2019/20, this report gives members the opportunity to consider in detail the outcome of the annual Earmarked Reserves Review and the level of General Fund Working Balance. The Base Budget 2019/20 which will be presented to this Committee in February and recommended to Council in March 2019.
- 1.3 In summary the Earmarked Reserves review proposes to;
- To return from Earmarked Reserves no longer required £0.323m to the General Fund Working Balance
 - Transfer £0.050m to the Finance Risk Reserve
 - To transfer £0.015m to the Investment for Growth Reserve
 - To amalgamate the Business Improvement and Transformation Reserve, Invest to Earn Reserve and Invest to Save Reserve into one reserve named Project Investment Reserve
- 1.4 It is proposed that the General Fund Working Balance be increased from £1.5m to £2m to provide additional resilience for any detrimental impact from the Fairer Funding Review 2020/21.
- 1.5 It is proposed that the £0.200m Commercial contingency budget be transferred, along with £0.163m of the General Fund Working Balance to the Valuation Volatility Reserve to maintain a 5% risk mitigation based on purchase price for the Council's Commercial Investment Properties.

2. **Background**

- 2.1 The council retains a healthy position of Useable Reserves, with balances at 31 March 2018 totalling £19.933m as detailed below;
- General Fund working balance totals £3.913m, (£4.838m 2016/17) (Minimum balance policy £1.5m or 10% of Budget Requirement)
 - General Fund Earmarked reserves total £12.636m, (£13.334m 2016/17)
 - Capital receipts total £3.016m (£2.896m 2016/17)
 - Capital Grants unapplied totalled £0.368m (£0.153m 2016/17)
- 2.2 Reserves are sums set aside to meet possible future costs where there is no certainty about whether or not the costs will actually be incurred. The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

- 2.3 When reviewing the medium term financial plan and preparing the annual budget an annual review of reserves is undertaken to consider future need, establishment of new reserves and maintenance of existing reserves. Reserves are held for three main purposes:
- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves known as the General Fund Working Balance.
 - a contingency to cushion the impact of unexpected events or emergencies – this also forms part of the General Fund Working Balance;
 - a means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements or set aside for future investment; earmarked reserves are accounted for separately but legally remain part of the over General Fund Balance.
- 2.4 Local authorities also hold other reserves that arise out of the interaction of legislation and proper accounting practice. These are reserves, which are not resource-backed and cannot be used for any other purpose. An example is the Revaluation Reserve which is a reserve that records unrealised gains in the value of fixed assets. The reserve increases when assets are revalued upwards, and decreases as assets are depreciated or when assets are revalued downwards or disposed of. Reserves of this type do not form part of the annual review of the adequacy of reserves.
- 2.5 Section 25 (1) (b) of the Local Government Act 2003 requires the Chief Financial Officer (at West Lindsey District Council, this is the Director of Resources) to report to the Council on the adequacy of the proposed financial reserves. Guidance is published by the Chartered Institute of Public Finance and Accountancy (CIPFA) on the establishment and maintenance of local authority reserves and balances. The level and utilisation of reserves will be determined formally by the Council, informed by the advice and judgement of the Chief Financial Officer on an annual basis.
- 2.6 In respect of the General Fund Working Balance, it is the view of the Chief Finance Officer that the minimum level of the General Fund Working Balance for West Lindsey should increase from £1.5m to £2m. At this level it represents 13% of the Council's revenue budget 2018/19. This will provide some element of resilience for any detrimental impact on our resources of the Fairer Funding Review, due for 2020/21.
- 2.7 The Earmarked reserves and Revenue Grants unapplied totalling £12.636m have been reviewed for relevance, accuracy and sustainability.
- 2.8 The full list of Earmarked Reserves (including Revenue Grants Unapplied) and their current balance is attached at Appendix A.

3. Outcome of 2018/19 Review of Earmarked Reserves and Revenue Grants Unapplied

3.1 A review of the Earmarked reserves for 2018/19 identified the following:

- 1 Reserve with a balance that is no longer required – therefore balance to be returned to the General Fund and the reserve deleted

3.2 The Reserve carrying balances which are no longer required are as follows:

Area	Reserve	Purpose Held	Balance
Service Investment	Members Initiative Fund – Local Needs	To meet costs of the scheme for ward members to support local projects.	£31,347

3.3 Members Initiative – Local Needs

The Member initiative fund has been fully expended and a report to request additional funds of £0.144m from the General Fund Working Balance for the new scheme, which was presented to this Committee on 8th November 2018. The Local Needs Fund is therefore no longer required and can be returned back into the General Fund Working Balance.

3.4 The Capital Programme Financing Reserve, set aside revenue reserves for specific projects which have been completed under budget and therefore there remains £0.319m of reserve funding no longer required.

- £0.085m related to the Community Asset Fund – proposed that £0.050m be transferred to the Financial Risk to mitigate any risk to an outstanding loan from this scheme.
- £0.015m for the Gainsborough Regained Scheme – this be transferred to the Investment for Growth Reserve

The remaining balance of £0.254 be returned to the General Fund Balance.

3.5 There are no reserves in 2018/19 carrying insufficient funds.

3.6 It is proposed that the 3 Earmarked Reserves set aside to fund Projects delivering either transformation and improvement, new income streams, or a reduction in costs (Business Improvement and Transformation Reserve (£0.844m), Invest to Earn for a commercial return (£0.473m) and Invest to Save (£0.103m) Reserves are amalgamated to form one reserve called Project Investment Reserve. Projects are subject to full Business Cases, are supported by either the Portfolio Board or Management Team and will require the approval of the Corporate Policy and Resources Committee for release of funding.

3.7 A review of Revenue Grants Unapplied Reserve for 2018/19 identified the following grants where contributions are no longer required and have no conditions for repayment, therefore the balances can be returned to the General Fund, total £0.037m

- High Street Renovation Fund (£0.016m) contribution received in 2014/15
- Creative Councils (£0.006m) contribution received in 2012/13
- CSP Funding (0.007m) contribution received in 2012/13
- FIP Grant (0.008m) contribution received in 2012/13

3.8 There are no proposals for new reserves at this time.

4. Future Earmarked Reserves

4.1 Valuation Volatility Reserve –

The reserve was approved by CP&R in 2017/18 to protect the Council against valuation fluctuations of the Commercial Property acquisitions. The reserve currently stands at £0.392m being 2.6% of acquisition values of £15.105m. The Capital Investment Strategy 2018/19 aims for a 5% reserve.

4.2 The Investment Property Portfolio is reviewed annually and consideration of the financial impact of any sales will be taken at that point in time.

4.3 With contractual rent rises built into current leases this will in turn increase the value of the assets, all things being equal. Obviously property values can go up as well as down and it will only be upon sale of the asset where we would need to recognise any gain or loss and consider repayment of borrowing, dependent upon the treasury position.

4.4 To enable this increase within the revenue base budget we have a £0.200m commercial contingency, which due to commercial investment property acquisitions exceeding targets in the current year, the budget will not be expended and therefore this surplus can be transferred to the Valuation Volatility Reserve, bringing the total to £0.593m (3.92%) of current investments.

4.5 An additional £0.163m will be required from the General Fund Working Balance to bring the reserve to the 5% level of £0.756m based on £15.105m of expenditure to date.

5. Impact on General Fund Balance

5.1 The current GFB totals, £2.570m by transferring £0.068m from existing earmarked reserves (including Revenue Grants Unapplied), allowing for increased capital expenditure £0.090m (Council Chamber Technology and Income Management System) and increasing the balance of the Valuation Risk Reserve by £0.163m the General Fund Balance will reduce to £2.593m.

5.2 West Lindsey District Council's minimum working balance is currently set at £1.5m or 10% of Net Revenue Expenditure. Due to the projected funding gap it is proposed that the minimum working balance be set at £2m

5.3 The Medium Term Financial Plan current forecasts the following movements on the General Fund Balance

General Fund Balance	FORECAST		MTFP			
	2018/19	2019/20	20/21	2021/22	2022/23	2023/24
Bal Bfwd	-3,913,395	-2,592,556	-2,400,556	-2,400,556	-2,400,556	-2,400,556
Approved Carry Forwards	875,300	129,000				
MTFP Creation of Earmarked Reserves	500,000					
MTFP Use of GFB	55,700					
Use of reserves approved previously	234,000	63,000				
Use for Planning for growth (Devolution)	15,000					
In year contributions to reserve	-45,100					
Amounts to be carried forward	-129,000					
Estimated in year surpluses	-175,000					
Capital Grant funding	150,000					
Review of Earmarked Reserves	-323,061					
To Valuation Volatility Reserve	163,000					
Balance Carried Forward	-2,592,556	-2,400,556	-2,400,556	-2,400,556	-2,400,556	-2,400,556

6. Draft - Overall Reserves Position – and future Forecast

6.1 Taking into account the adjustments above, and future commitments for capital funding, revenue contributions and usage of reserves, the table below provides the current overall forecast position with an expected £19m of reserves at the end of 2018/19 reducing to £10.351m by 2023/24.;

RESERVE	YEAR END		MTFP			
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
General Fund Working Balance	2,592,556	2,400,556	2,400,556	2,400,556	2,400,556	2,400,556
Earmarked Reserves	13,135,222	10,501,095	7,026,390	5,985,190	5,406,990	5,594,390
Capital Receipts	3,312,987	3,151,299	2,791,811	2,236,911	2,296,911	2,356,911
TOTAL	19,040,765	16,052,950	12,218,757	10,622,657	10,104,457	10,351,857

6.2 Earmarked Reserves are forecasts take into account previous Committee approvals, the draft Medium Term Financial Plan and Capital Programme financing upto 2023/24. Earmarked Reserves are held in the following categories;

EARMARKED RESERVES	YEAR END		MTFP			
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Budget Smoothing	1,239,623	1,083,823	1,140,223	1,303,623	1,382,023	1,389,423
Capital Funding Total	501,115	404,915	743,715	623,515	126,315	288,115
Risk/Insurance Reserves	1,269,123	1,263,123	1,257,123	1,251,123	1,245,123	1,241,723
Economic Regeneration	7,803,796	6,280,269	2,561,164	1,461,164	1,361,164	1,361,164
Invest to Save	1,459,949	786,949	645,349	645,349	570,349	570,349
Service Investment Total	861,616	682,016	678,816	700,416	722,016	743,616
Grand Total	13,135,222	10,501,095	7,026,390	5,985,190	5,406,990	5,594,390

6.3 Further detailed analysis of provided at Appendix A

APPENDIX A

Reserve Name	Purpose	Balance at 31.3.2018 £	Estimated Balance c/f 1/4/19 £	Estimated Balance at 31.3.2024 £
NNDR Retention Volatility	To meet the costs of any variances of the business rate retention scheme	-15,447	484,553	484,553
Civic	To allow funds approved in specific financial years to be aligned to Civic years.	4,825	4,825	4,825
IT Upgrade/Refresh	To meet the costs of Information & Communications Technology Upgrades and Revs & Bens System	344,502	135,002	476,502
Local Development Framework	Set up to manage the impact on revenue budgets of reviews of the Local Development Framework. (JPU)	58,770	58,770	58,770
Maintenance of Facilities	To meet future property maintenance requirements.	504,858	384,158	265,458
Carbon Reduction	Established to support the commitment towards a reduced carbon footprint.	119,315	81,315	99,315
Elections	To finance future Election costs - held every 4 years	41,600	91,000	0
Budget Smoothing Total		1,058,423	1,239,623	1,389,423
Capital Programme Financing	Grants and contributions received in advance for financing of revenue expenditure funded by capital under statute and funding set aside to finance the capital programme.	319,714	0	0
Vehicle Replacement Programme	To support service development and replacement fleet across the Authority.	838,996	501,115	288,115
Capital Funding Total		1,158,710	501,115	288,115
Valuation Volatility		250,000	755,693	755,693
Dangerous Structures	To support any costs incurred relating to the building control service for dangerous structure work.	10,000	10,000	10,000
Enforcement - Works in Default	To assist with costs incurred in carrying out enforcement works across the Housing and Planning service. Works in Default	33,430	27,430	30
Finance Budget risks	to meet any budget risks and corporate legal costs	95,850	145,850	145,850
Financial Instrument Valuation Reserve			0	0
Insurance Fund	To meet any excess on insurance claims.	80,000	80,000	80,000
Redundancy Contingency	To meet costs of staff redundancies	210,600	210,600	210,600
Severe Weather	To meet costs incurred in the event of severe weather conditions.	20,000	20,000	20,000
Support for Monitoring Officer	To support the role and duties of the Council's Monitoring Officer.	19,550	19,550	19,550
Contingency/Insurance Total		719,430	1,269,123	1,241,723

Reserve Name	Purpose	Balance at 31.3.2018 £	Estimated Balance c/f 1/4/19 £	Estimated Balance at 31.3.2024 £
Investment in Gainsborough South West Ward	To support the regeneration activity.	49,770	49,770	49,770
Property Asset Fund	To support strategic housing and commercial property initiatives.	825,330	675,330	10,330
Investment for Growth Fund	To support internal and local housing and business growth.	5,977,802	6,569,850	1,247,118
Park Springs Community Centre	Contingency budget (capped at £20k) for unforeseen R&M events at Park Springs Community Centre-WLDC is obliged to pay/contribute under current arrangements.	0	20,000	20,000
Connectivity Fund	To support rural transport initiatives	213,546	88,846	33,946
Community Grant Scheme	New scheme all reserves amalgamated	0	400,000	0
Economic Regeneration Total		7,066,448	7,803,796	1,361,164
Business Improvement & Transformation	To assist with costs associated with Business Case Development.	1,033,101	1,459,949	570,349
Invest To Save	To support efficiency projects to provide a positive net payback over the Medium Term Financial Strategy.	103,193	0	0
Invest to Earn commercial returns	To support commercial investment projects which generate new income streams	513,455	0	0
Invest to Save/Earn Total		1,649,749	1,459,949	570,349
Generic Equalities	To meet the ongoing costs of Generic Equalities work.	20,180	13,180	80
Revenue Grants Unapplied	Revenue grants which have yet to be expended.	564,081	511,936	526,136
Supporting Vulnerable Communities	Support for vulnerable communities	238,000	107,800	24,700
CCTV Replacement Equipment	To allocate commercial CCTV income achieved above budgeted levels to invest in future CCTV equipment replacement.	0	2,400	2,400
Neighbourhood Planning Grant	To allocate Neighbourhood Planning Grant income from DCLG to support cost of Neighbourhood Planning process.	9,300	11,900	11,900
Local Development Order (LDO)		53,800	38,800	38,800
Members Initiative Fund	To provide Members with a fund to award grants over a three year period	33,900	144,000	0
Members Initiative Fund-Local Needs	To meet costs of the scheme for ward members to support local projects and activities.	31,347	0	0
Wheeled Bin Replacement	To cushion the impact of the replacement of wheeled bins as they begin to come to the end of their useful life.	32,300	31,600	28,100
Car Park Strategy Investment Reserve	Car Park Strategy	0	0	111,500
Service Investment Total		982,908	861,616	743,616
Grand Total		12,635,668	13,135,222	5,594,390