



**Corporate Policy and  
Resources**

**Thursday, 9 January 2020**

**Subject: Reserves Strategy and Annual Review of Reserves 2019/20**

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 changes as proposed and informed by the Earmarked Reserves review.
2. To approve a net contribution from General Fund to Earmarked Reserves of £0.209m (as detailed at Section 11).

## IMPLICATIONS

**Legal:** None from this report.

**Financial: FIN/153/20**

As at 31 March 2019 Earmarked Reserves totalled £23.631m. It is estimated that at the end of the 2019/20 financial year, after taking account of the proposals below and all other previous approvals, the balance of Reserves will be £19.852m.

**Staffing:** None from this report.

**Equality and Diversity including Human Rights:** None from this report

**Data Protection Implications :** None from this report.

**Climate Related Risks and Opportunities :** None from this report.

**Section 17 Crime and Disorder Considerations :** None from this report.

**Health Implications:** None from this report.

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

None.

**Risk Assessment:** The Council is required to set a minimum balance for General Fund to mitigate future financial risk.

**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**

**X**

**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 2020/21, this report gives members the opportunity to consider in detail the outcome of the annual Earmarked Reserves Review 2020/21 and the level of General Fund Working Balance. The base Budget 2020/21 which will be presented to this Committee in February and recommended to Council in March 2020.

1.3. In summary the Earmarked Reserves review highlights:

- 4 Reserves with a balance that are no longer required
- 1 Reserve with no balance that can be closed
- 2 Reserves that were overdrawn in year and require additional funds to bring to zero.
- 4 Reserves that require the balance reducing and 6 Reserves that required additional funds
- The net impact of all of the above requires a contribution from General Fund to Earmarked Reserves of £61,654.

## **2. Introduction**

The Reserves Strategy provides a framework to enable the review of reserves held, the need to set aside funds to finance projects supporting corporate priorities, and those required for contingencies in addition to the consideration of future financial risks and sustainability.

The strategy defines;

- how the minimum working balance will be determined.
- how funds can be Earmarked based on a formulated approach.
- identifies issues and options that influence capital spending.
- how the reserves will be managed.

The Strategy will be relevant for all Reserves (Revenue or Capital) and include the current level of reserves and future planned reserve levels over the Medium Term.

The earmarking of reserves enables the Council's vision and ambitions to be reflected in the setting aside of funds for specific purposes over the medium term.

Key elements of the strategy;

- Ensures Reserves are held to meet our Corporate Plan objectives
- Incorporates the requirements of the Financial Strategy

- Identifies financing of the Capital Investment Programme over the medium term (5 years)
- A framework which will identify priorities for the use of these resources for revenue or capital investment
- Projects approved based on sound business cases.
- Directly links to the Medium Term Financial Plan, Treasury Management Strategy and Capital Investment Programme.
- Informs the budget by identifying the revenue impacts of investment decisions.
- Incorporates an annual review to ensure the purpose for which reserves are held still meets our priorities.
- Considers opportunities for joint ventures/partnerships

There are other reserves that can only be used for specific statutory purposes and are classified as Unusable Reserves. These include the Capital Adjustment Account, the Revaluation Reserve, the Financial Instrument Reserve, and pensions reserve. These are not considered part of this policy.

### **3. Statutory Requirements**

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.

It is important, therefore, that councillors take responsibility for ensuring the adequacy of reserves and provisions when they set the budget.

### **4. Chief Finance Officer Responsibilities**

It is the responsibility of the Chief Financial Officer to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.

Section 25 of the Local Government Act 2003 places a specific personal duty on the Chief Financial Officer to report on the adequacy of reserves and the robustness of the budget.

### **5. External Auditor Responsibilities**

External auditors have a responsibility to review the arrangements in place to ensure that financial standing is soundly based. In the course of their duties external auditors review and report on the level of reserves taking into account their local knowledge of the authority's financial performance over a period of time.

## 6. Key Principles Supporting the Strategy

- We will maintain a General Fund Working Balance of at least 10% of the Net Revenue Expenditure and as a minimum £2m
- The requirement for reserves will be reviewed at least annually
- Reserves no longer required will be identified and returned to the General Fund Working Balance
- We will review the adequacy of reserves at least annually
- Risk assumptions in relation to reserves will be reviewed at least annually

## 7. Types of Reserves

### The Council holds the following types of Reserves

**General Fund Working Balance** – an amount set aside to mitigate in year budget risk

**Earmarked Reserves** are held for a number of specific purposes;

Budget Smoothing  
Contingencies  
Service Investment  
Renewal and replacements  
Corporate Plan delivery (investment)

**Revenue Grants Unapplied** – Grants as yet unspent which are earmarked for specific projects and which are not repayable to the funder.

**Capital Grants Unapplied** - Grants as yet unspent which can only be utilised for capital purposes and are not repayable to the funder.

**Capital Receipts** – revenues from the sale of assets to be utilised for Capital investment only

## 8. Capital Investment Priorities

Consideration of the level of reserves to be held for future investment is made based on an affordable 5-year Capital Investment Programme and aligned to delivery of the Corporate Plan objectives. In relation to investment in our owned property, vehicles, plant and equipment 10-year replacement programmes inform the level of reserves required.

## 9. Earmarking of Reserves process

The strategic approach to Earmarking of available resources needs to be formalised to ensure that these resources are directed to the most appropriate schemes which both deliver our key priorities.

The Earmarking of new reserves will generally be part Medium Term Financial planning and budget setting process.

The use of approved Earmarked reserves will require sound business cases which will identify all Capital and Revenue implications on a whole life costing basis and where applicable will include wider economic and social benefits.

## **10. Governance**

The Corporate Policy and Resource Committee are responsible for;

- approving the use of reserves.
- approving contributions to reserves
- approving new reserves
- removing reserves
- setting minimum balances

The Executive Director of Resources has delegated powers to;

- approve the use of reserves up to £50,000

## **11. Annual Review of Reserves 2019/20**

11.1 The council retains a healthy position of Useable Reserves, with balances at the 31/03/2019 detailed below;

- General Fund working balance totals £3.849m, (£3.913m 2017/18)
- General Fund Earmarked reserves total £15.834m, (£12.636m 2017/18)
- Capital receipts total £3.361m (£3.015m 2017/18)
- Capital Grants unapplied £0.587m (£0.364m 2017/18)

11.2 As part of the budget setting process all reserves are reviewed annually.

11.3 This review looks specifically at Earmarked Reserves and Revenue Grants Unapplied. Earmarked reserves are funds set aside for specific purposes. Revenue Grants unapplied are grants that have been issued to West Lindsey District Council for a purpose but have no conditions to repay.

11.4 The Earmarked reserves and Revenue Grants unapplied (£15.834m) have been reviewed for relevance, accuracy and sustainability.

11.5 The review of the Earmarked reserves for 2019/20 identified the following:

- 4 Reserves with a balance that are no longer required
- 1 Reserve with no balance that can be closed
- 2 Reserves that were overdrawn in year and require additional funds to bring to zero.

- 4 Reserves that require the balance reducing and 6 Reserves that required additional funds
- The net impact of all of the above requires a contribution from General Fund to Earmarked Reserves of £61,654.

11.6 The Reserves carrying balances which are no longer required are as follows:

Area	Reserve	Purpose Held	Balance
Budget Smoothing	Civic Reserve	To allow funds approved in specific financial years to be aligned to civic years	£4,825.37
Contingency/Insurance	Severe Weather	To meet costs incurred in the event of severe weather conditions	£20,000
Economic Regeneration	Investment in South West Ward - Gainsborough	To support regeneration activity	£49,770
Service Investment Total	Generic Inequalities	To meet the ongoing costs of Generic Equalities work	£13,180

The reserves deemed no longer required are due to the following reasons:

- **Civic Reserve** – this reserve was to allow funds approved in specific financial years to be aligned to Civic years. Budgets are built into the MTFP to reflect the impact of the civic years; this small balance can thus be returned to the General Fund.
- **Severe Weather** – this reserve has been held for several years and to date has not been required. It is proposed that any costs incurred due to severe weather conditions be met from balances within year, and/or seek recovery of costs from the Government where available (i.e. flood recovery framework).
- **Investment in South West Ward – Gainsborough** – the balance of this reserve is to be moved to the ‘Supporting Vulnerable Communities’ reserve and has been committed for spend over 2 years.
- **Generic Inequalities** – work is being carried out within existing service provision therefore no longer required.



The reserve with no balance that can be closed is as follows:

Area	Reserve	Purpose Held	Balance
Capital Funding Total	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.	£0

The following two reserves were overdrawn in year and require additional funds to balance to zero.

Area	Reserve	Purpose Held	Additional Funds req'd
Budget Smoothing	Elections	To finance future Election costs - held every 4 years.	£14,200
Service Investment Total	Neighbourhood planning grant	To allocate Neighbourhood Planning Grant income from DCLG to support cost of Neighbourhood Planning process.	£48,100

There are 4 Reserves where the balance can be reduced and 6 Reserves that will be increased.

Area	Reserve	Purpose Held	Adjustment
Budget Smoothing	NNDR Retention Volatility	To meet the costs of any variances of the business rate retention scheme.	(£180,553.01)
Contingency/Insurance	Finance Budget Risks	To mitigate any in year accountancy issues	(£29,802.99)
Economic Regeneration	Property Asset fund	To support strategic housing and commercial property initiatives.	(£25,330)
Service Investment	Revenue Grants Unapplied	Revenue grants which have yet	(£23,036)

		to be expended.	
Capital Funding Total	Vehicle Replacement Programme	To support service development and replacement fleet across the Authority.	£38,000
Contingency/Insurance	Valuation Volatility	To mitigate any loss on investment from the sale of commercial investment properties.	£180,307
Contingency/Insurance	Monitoring Officer	To support the role and duties of the Council's Monitoring Officer.	£450
Economic Regeneration	Investment for Growth	To support housing regeneration and economic growth.	£25,028.78
Invest to Save	Project Investment Reserve	To assist with costs associated with Business Case Development.	£200,000
Service Investment	Supporting Vulnerable communities	Support for vulnerable communities.	£49,770

The reasons for the adjustments are as follows:

A review of Revenue Grants unapplied for 2019/20 identified the following:

- Housing Benefits - Excess DWP admin grant subsidy balance of £18,249 not required within service.
- Housing Benefits – Government funding due to change of working which had been rolled from 2011/12 and is no longer required - £4,701.
- Independent Living Money – unallocated balance of £86 not required within service.

#### 11.7 Valuation Risk Reserve –

The reserve was approved by CP&R in 2017/18 to protect the Council against valuation fluctuations of the Commercial Property acquisitions

and was set as a minimum of 5% of the purchase price. With a fifth acquisition in 2019/20 of £5,350,000 the purchases now total £20,455,000. The Reserve held should therefore be at least £1,022,750.

An additional contribution of £180,307 will bring the balance of this reserve to £1,199,000 (5.86%)

11.8 The current General Fund Working Balance totals, £3.381m by transferring £0.209m to earmarked reserves (including Revenue Grants Unapplied) the General Fund Balance will reduce to £3.172m.

11.9 Detailed below is the estimate of the balance of Reserves at the end of the financial year and after taking account of the movements proposed above. The full list of Earmarked Reserves is attached at Appendix 1.

#### **Forecast of Usable Reserves as at 31.3.2020**

<b>RESERVE</b>	<b>YEAR END</b>
	<b>2019/20</b>
General Fund Working Balance	3,171,682
Earmarked Reserves	13,857,690
Capital Receipts	2,822,729
<b>TOTAL</b>	<b>19,852,101</b>

<b>EARMARKED RESERVES</b>	<b>YEAR END</b>
	<b>2019/20</b>
Budget Smoothing	1,974,917
Capital Funding Total	481,513
Risk/Insurance Reserves	1,648,930
Economic Regeneration	7,693,023
Invest to Save	1,359,337
Service Investment Total	699,970
<b>Grand Total</b>	<b>13,857,690</b>

## APPENDIX 1

	Purpose	Estimated Balance c/f 01/04/20 £
NNDR Retention Volatility	To meet the costs of any variances of the business rate retention scheme.	984,000.00
IT Upgrade/Refresh	To meet the costs of Information & Communications Technology Upgrades and Revs & Bens System.	570,588.69
Local Development Framework	Set up to manage the impact on revenue budgets of reviews of the Local Development Framework. (JPU)	58,770.00
Maintenance of Facilities	To meet future property maintenance requirements.	361,558.26
Elections	To finance future Election costs - held every 4 years.	0.00
<b>Budget Smoothing Total</b>		<b>1,974,916.95</b>
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.	0.00
Vehicle Replacement Programme	To support service development and replacement fleet across the Authority.	481,513.03
<b>Capital Funding Total</b>		<b>481,513.03</b>
Valuation Volatility	To mitigate any loss on investment from the sale of commercial investment properties.	1,199,000.00
Dangerous Structures - Building Control	To support any costs incurred relating to the building control service for dangerous structure work.	10,000.00
Enforcement Costs - Housing & Planning	To assist with costs incurred in carrying out enforcement works across the Housing and Planning service to fund irrecoverable costs. Works in Default.	27,430.00
Finance Budget risks	To mitigate any in year accountancy issues	101,900.00
Insurance Fund	To meet any excess on insurance claims.	80,000.00
Redundancy Contingency	To meet costs of staff redundancies.	210,600.00
Severe Weather	To meet costs incurred in the event of severe weather conditions.	0.00
Monitoring Officer	To support the role and duties of the Council's Monitoring Officer.	20,000.00
<b>Contingency/Insurance Total</b>		<b>1,648,930.00</b>

	Purpose	Estimated Balance c/f £	01/04/20
Investment in South West Ward - Gainsbough	To support the regeneration activity.		0.00
Property Asset Fund	To support strategic housing and commercial property initiatives.		150,200.00
Investment for Growth	To support internal and local housing and business growth.	6,998,877.00	
Feasibility Fund	to support the growth of businesses by offering grant funding to enable the delivery of a specific development project which will facilitate the creation of new jobs and economic activity across the district.		150,000.00
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.		20,000.00
Connectivity Fund	To support rural transport initiatives.		73,945.62
Community Grant Scheme	New scheme all reserves amalgamated.		300,000.00
<b>Economic Regeneration Total</b>			<b>7,693,022.62</b>
Project Investment Reserve	To assist with costs associated with Business Case Development.	1,359,337.27	
<b>Invest to Save/Earn Total</b>			<b>1,359,337.27</b>
Generic Equalities	To meet the ongoing costs of Generic Equalities work.		0.00
Revenue Grants Unapplied	Revenue grants which have yet to be expended.		537,100.20
Supporting Vulnerable Communities	Support for vulnerable communities.		93,170.00
CCTV Replacement Equipment	To allocate commercial CCTV income achieved above budgeted levels to invest in future CCTV equipment replacement.		0.00
Neighbourhood Planning Grant	To allocate Neighbourhood Planning Grant income from DCLG to support cost of Neighbourhood Planning process.		0.00
Local Development Order (LDO)	a grant from DCLQ in 14/15 to support local authorities issue LDO's		38,800.00
Trinity Arts Centre	Increase in ticket prices (eff 18/19) to be transferred to EMR for contribution towards future projects.		0.00
Members Initiative Fund	To provide Members with a fund to award grants over a four year period.		0.00
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.		30,900.00
Car Park Strategy Investment Reserve	Car Park Strategy.		0.00
<b>Service Investment Total</b>			<b>699,970.20</b>
<b>Grand Total</b>		<b>13,857,690.07</b>	