



**Corporate Policy and
Resources Committee**

**Thursday, 10 December
2020**

Subject: Annual Review of Reserves 2020

Report by:	Assistant Director of Finance and Property Services and Section 151 Officer
Contact Officer:	Tracey Bircumshaw Assistant Director of Finance and Property Services and Section 151 Officer tracey.bircumshaw@west-lindsey.gov.uk
Purpose / Summary:	To consider the annual review of Reserves

RECOMMENDATION(S):

As detailed at 11.7 within the report;

1. To approve the proposals for returning £172,545 of Earmarked Reserves to the General Fund Balance;
2. To approve the transfer of £400,000 from the Information and Communications Technology (ICT) Reserve to the Project Investment Reserve for the purpose of funding the Enterprise Resource Planning (ERP) project;
3. To include within the revenue budget and Medium Term Financial Plan (MTFP) 2021/22 an £11,000 net reduction in the contribution to reserves.

IMPLICATIONS

Legal: 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.

Financial : FIN/107/21

In summary;

- £172,545 of Reserves are proposed to be returned to the General Fund as no longer required
- £400,000 will be transferred from the ICT Refresh/upgrade to Project Investment Reserve for the ERP project.
- Reduce ongoing contributions to reserves reduced by £11k representing a saving on the MTFP.

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 :

Reserves held are inadequate: Mitigation: An annual review of reserves is undertaken. A minimum General Fund Working Balance of £2.5m is set.

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

x

Executive Summary

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 (Assistant Director of Finance, Business and Property Services at WLDC) is required to make a statement on the robustness of estimates and adequacy of reserves.

1.2. In advance of finalising the Medium Term Financial Plan 2021/22 – 2025/26, 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.

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;
- identified 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 includes the current level of reserves and future planned reserve levels over the Medium Term.

The earmarking of reserves enables the Authority'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 are;

- Ensuring Reserves are held to meet Corporate Plan objectives;
- Incorporating the requirements of the Financial Strategy;
- Identifying 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 linking to the Medium Term Financial Plan, Treasury Management Strategy and Capital Investment Programme;

- Informing the budget by identifying the revenue impacts of investment decisions;
- Incorporating an annual review to ensure the purpose for which reserves are held still meets our priorities;
- Considering 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:

- **Capital Adjustment Account**, an account which reflects the financing of the Council's previous capital investment decisions
- **Revaluation Reserve**, reflects the gains of valuation increases of property, plant and equipment
- **Pooled Investment Fund**, reflects the valuation adjustments of our treasury investments held at Fair Value through profit and loss.
- **Pensions reserve** which reflects the different accounting arrangements for post-employment benefits and funding benefits in accordance with statutory provisions.
- **Collection Fund Adjustment Account**, reflects the timing difference of recognition of Council Tax and Business Rates (NNDR) as it falls due and the statutory accounting requirements

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 currently approved a minimum £2.5m;
- 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 of the Medium Term Financial planning and budget setting process.

The use of approved Earmarked reserves for investment purposes 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 Chief Finance Officer has delegated powers to;

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

11. Annual Review of Reserves 2020/21

11.1 The council retains a healthy position of Useable Reserves, with balances at the 31 March 2020 detailed below;

RESERVE	2018/19	2019/20
General Fund Working Balance	3.849	4.233
Earmarked Reserves	15.834	15.787
Capital Reserves	3.948	4.168
TOTAL	23.631	24.188

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

11.3 Based on the current forecasts for required levels of contributions to revenue reserves for replacement and renewals and approved grant schemes is circa £600k per annum as reflected in the table below;

Contribution to Reserves	2021/22	2022/23	2023/24	2024/25	2025/26
Future costs of investment property maintainance	85,900	85,900	85,900	85,900	85,900
Carbon reduction (Fits)	17,000	17,000	17,000	17,000	17,000
Contribution to IT Reserve 10yr replacement prog.	88,800	92,800	92,800	87,800	82,800
IT Website Replacement	0	0	15,000	15,000	15,000
Replacement of civic car	5,000	5,000	5,000	5,000	5,000
Wheeled Bin Replacement	19,300	19,300	19,300	19,300	19,300
Elections - Budget smoothing increase (from GF)	40,000	40,000	40,000	40,000	40,000
Vehicle Replacement Programme	347,800	347,800	347,800	347,800	347,800
TOTAL CONTRIBUTION TO RESERVES	603,800	607,800	622,800	617,800	612,800

11.4 In relation to the use of reserves for revenue purposes the table below details the requirements and the net total of movement in Earmarked Reserves for revenue purposes.

Use of Reserves	2021/22	2022/23	2023/24	2024/25	2025/26
Temporary Project Staffing Resources CRM	(73,600)	(75,700)	0	0	0
Firmstep licence Apr 21 - Dec 21 Approved CPR	(19,000)	0	0	0	0
Hemswell Cliff Regeneration (FIN/7/21 DD 14.04.20)	(5,000)	0	0	0	0
Homelessness Government Grants	(47,400)	(15,100)	0	0	0
Replacement bins-domestic	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
Use of Elections reserve	0	0	(160,000)	0	0
Business Improvement & Transformation	0	(22,000)	(70,000)	(70,000)	0
Supporting Vulnerable Communities- Enforcement	(29,400)	(6,000)	0	0	0
Connectivity Fund	(28,900)	0	0	0	0
Community Grant Scheme	(100,000)	(100,000)	0	0	0
REVENUE USE OF RESERVES	(323,300)	(238,800)	(250,000)	(90,000)	(20,000)

TOTAL MOVEMENT IN RESERVES	280,500	369,000	372,800	527,800	592,800
-----------------------------------	----------------	----------------	----------------	----------------	----------------

RESERVE	YEAR END	MTFP				
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
General Fund Working Balance	4,623,563	4,288,863	4,281,863	4,233,863	4,169,863	4,169,863
Earmarked Reserves	17,298,674	12,657,560	10,922,694	10,052,627	9,900,427	10,081,227
Capital Receipts	1,035,524	1,035,524	558,408	623,592	688,776	753,960
TOTAL	22,957,761	17,981,947	15,762,964	14,910,082	14,759,066	15,005,050

11.5 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.

11.6 The Earmarked reserves and Revenue Grants unapplied have been reviewed for relevance, accuracy and sustainability.

11.7 The review of the Earmarked Reserves;

11.7.1 Business Rates Volatility Reserve - £984k: due to the current Covid-19 impact on collection rates, businesses no longer trading and the increasing number of rateable value appeals, it is considered that this Reserve be retained at its current forecast level to provide contingency against reductions in Business Rates.

11.7.2 IT upgrade and Refresh: this reserve takes account of a 15 year upgrade and refreshment plan and annual contributions are currently set at an amount which exceeds current requirements for this period. In addition £400k of the current balance will be utilised to fund the ERP system. There remains £181k in this reserve for utilisation as required costs associated with the

- *It is proposed that the annual contribution to this reserve is reduced – Saving £10k per annum*
- *It is proposed that £400k of the reserve be transferred to the Project Improvement Reserve to support delivery of the ERP project.*

11.7.3 Local Development Framework - JPU: This budget was created to smooth any increase in the Joint Planning Unit costs. The new fee has been agreed in line with the current budget provision for a period of 3 years, therefore this reserve is no longer required and any future increases be built into the Medium Term Financial Plan.

- *It is proposed that the reserve of £47.47k be transferred to the General Fund Balance*

11.7.4 Maintenance of Facilities Reserves: The reserve provides the resources to fund the Asset Management Plan. This is based on a 5 year programme, informed by condition surveys. Contributions of £54k for general buildings, £31.9k for investment properties and £17k from solar panel income which is ring fenced for carbon reduction projects. The fund is in excess of the current 5 year requirement, with a projected balance of £583k by 2025/26.

- *It is proposed that £100k of the reserve is transferred to the General Fund Balance*
- *It is proposed that annual contributions are reduced by £10k p.a.*

11.7.5 Elections Reserve; The reserve is utilised to smooth the tri-year election timetable. Contributions of £40k are made annually with £160k being utilised every third year to support election costs. There are no amendments required.

11.7.6 Vehicle Replacement Programme; The contributions to the reserve of £347.8k per annum (£338.8k 2020/21) are appropriate to meet the 10 year replacement programme.

- ***It is therefore proposed that an additional £9k annual contribution is made to the Vehicle Replacement Reserve***

- 11.7.7 **Valuation Volatility Reserve;** The reserve was created to mitigate the risk of a reduction in value upon sale of our investment properties. There is an approved minimum balance of 5% of purchase price. The amount held is £1.767m and equates to 8.6%, however due to the current market conditions it would be prudent to retain this level of reserve at this time.
- 11.7.8 **Dangerous Structures – Building Control;** This reserve has a balance of £10k and is a reactive fund to manage any costs of dangerous structures. Due to the low value and the purpose of the General Fund Working balance being available to mitigate any in year budget risks;
- ***It is proposed that this reserve £10k is returned to the General Fund Balance and any future costs be met in year.***
- 11.7.9 **Enforcement Costs;** A balance needs to be retained to pay for irrecoverable costs - to be drawn down as required through delegated decision for Enforcement element. The Civil penalties balance will be drawn down to cover any income short falls. An assessment of the level of reserve required has been given as £47.4k and therefore;
- ***It is proposed that £15.03k be transferred to the General Fund Balance***
- 11.7.10 **Finance Budget Risks;** This fund mitigates financial risks within the Medium Term Financial Plan
- 11.7.11 **Insurance Fund;** The balance of the fund is maintained at £80k and is utilised to meet the cost of excesses. The insurer, Zurich Municipal advises a level of £156k, however, based on past 10 years, this reserve has not been significantly impacted due to the low level of claims. Should any excesses exceed the balance of this reserve, the General Fund would meet any in year budget pressures.
- 11.7.12 **Redundancy Reserve;** The reserve is considered adequate at its current level of £210k. However, there are currently no proposals for redundancies.
- 11.7.13 **Monitoring Officer;** The reserve is considered adequate at its current level of £20k.
- 11.7.14 **Property Asset Fund;** No requirements identified beyond 2021/22 but retain balance for future schemes £400k.
- 11.7.15 **Investment for Growth;** This reserve has benefitted in the past from contributions from New Homes Bonus in support of regeneration and growth initiatives. The current forecast balance at 2025/26 is £3.73m. Members should be mindful that this fund supports viability gap funding

and is used to attract inward investment and grant funding. Consideration of increasing this reserve at a future time and when our future funding is certain will be necessary to ensure ongoing growth in the district.

- 11.7.16 **Feasibility Fund**; This fund was created during 2019/20 at a total of £150k in support of providing funding for studies and professional advice of future growth, housing and regeneration schemes. At this time it is considered adequate.
- 11.7.17 **Park Springs Community Centre**; Contingency fund to support major works.
- 11.7.18 **Connectivity Fund**; forecast to be expended during 2021/22
- 11.7.19 **Community Grant Scheme**; 3 year grant scheme to be expended by 2022/23
- 11.7.20 **Project Investment Reserve**; This reserve is utilised to support significant internal commercial/transformational or investment projects such ERP implementation, the Crematorium, Depot etc. and is considered adequate at this time.
- 11.7.21 **Revenue Grants Unapplied**; ring fenced revenue grants awaiting drawdown.
- 11.7.22 **Communities at Risk**; newly created reserve in support of the new policy objectives
- 11.7.23 **Neighbourhood Planning Grant**; ring fenced to finance costs of supporting Neighbourhood plans.
- 11.7.24 **Local Development Order (LDO)**; ring fenced grant to finance costs of LDO's
- 11.7.25 **Trinity Arts Centre**; Ticket sale contribution of £1.50 towards future project funding.
- 11.7.26 **Wheeled Bin Replacement**; annual contribution of £19.3k and expected expenditure of £20k. Current balance £30k. Due to the small differential in expected movements;
 - ***Propose to include an annual base budget of £20k, removing the requirement for contributions to the reserve and use of the reserve***
 - ***Propose to transfer the current balance of £30k to the General Fund with any in year budget pressures being met from the General Fund***

11.7.27 **Civic Reserve;** To support the replacement of a civic vehicle. A contribution of £5k is made to support the replacement programme of the civic vehicle (every 3 years) for this purpose.

11.7.28 **Car Park Strategy Reserve;** £0 balance as expected income has been less than expected and therefore no contributions. However, investment requirements for additional spaces will be subject of a future report.

In summary

- £172.545 of Reserves will be returned to the General Fund as no longer required
- £400k will be transferred from the ICT Refresh/Upgrade Reserves to the Project Investment Reserve to fund the ERP project.
- Reduce ongoing contributions to reserves by £11k representing a saving in the MTFP.

Assuming the above proposals are approved the forecast Earmarked Reserves are detailed at Appendix 1 below.

RESERVE	YEAR END	MTFP				
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
General Fund Working Balance	4,623,563	4,288,863	4,281,863	4,233,863	4,169,863	4,169,863
Earmarked Reserves	17,141,204	12,480,090	10,725,224	9,835,157	9,662,957	9,723,757
Capital Receipts	1,035,524	1,035,524	558,408	623,592	688,776	753,960
TOTAL	22,800,291	17,804,477	15,565,494	14,692,612	14,521,596	14,647,580
EARMARKED RESERVES	YEAR END	MTFP				
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Budget Smoothing	4,583,331	3,614,565	2,688,698	1,688,531	1,649,231	1,769,931
Capital Funding Total	783,813	693,213	213,013	408,813	341,613	277,413
Risk/Insurance Reserves	2,226,900	2,226,900	2,226,900	2,226,900	2,226,900	2,226,900
Economic Regeneration	7,535,892	4,399,945	4,299,945	4,299,945	4,299,945	4,299,945
Invest to Save	1,314,497	1,026,197	794,197	724,197	654,197	654,197
Service Investment Total	696,770	519,270	502,470	486,770	491,070	495,370
Grand Total	17,141,204	12,480,090	10,725,224	9,835,157	9,662,957	9,723,757

Appendix 1

Reserve Name	Contribution to Reserve	Opening Balance 2020/21	MTFP Adjustment	Review of Reserves Adj	Contributions to Reserve	Use of Reserve		Forecast
						Capital	Revenue	As at End 2025/26
Business Rates Volatility Reserve (was nndr retention volatility)	To meet the costs of any variances of the business rate retention scheme.	984,000	0	0	2,702,600	0	-2,702,600	984,000
IT Upgrade/Refresh	To meet the costs of Information & Communications Technology Upgrades and Revs & Bens System.	647,057	491,000	-400,000	440,000	-586,789	-218,900	372,368
Local Development Framework	Set up to manage the impact on revenue budgets of reviews of the Local Development Framework. (JPU)	47,470	0	-47,470	0	0	0	0
Maintenance of Facilities	To meet future property maintenance requirements.	508,164	82,900	-100,000	464,500	-562,000	-60,000	333,564
Elections	To finance future Election costs - held every 4 years.	0	40,000	0	200,000	0	-160,000	80,000
Budget Smoothing Total		2,186,690	613,900	-547,470	3,807,100	-1,148,789	-3,141,500	1,769,931
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	0	0	0	0	0	0
Vehicle Replacement Programme	To support service development and replacement fleet across the Authority.	534,013	338,800	0	1,739,000	-2,334,400	0	277,413
Capital Funding Total	0	534,013	338,800	0	1,739,000	-2,334,400	0	277,413
Valuation Volatility	To mitigate any loss on investment from the sale of commercial investment properties.	1,767,000	0	0	0	0	0	1,767,000
Dangerous Structures - Building Control	To support any costs incurred relating to the building control service for dangerous structure work.	10,000	0	-10,000	0	0	0	0
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.	62,430	0	-15,030	0	0	0	47,400
Finance Budget risks	To mitigate any in year accountancy issues	101,900	0	0	0	0	0	101,900
Insurance Fund	To meet any excess on insurance claims.	80,000	0	0	0	0	0	80,000
Redundancy Contingency	To meet costs of staff redundancies.	210,600	0	0	0	0	0	210,600
Monitoring Officer	To support the role and duties of the Council's Monitoring Officer.	20,000	0	0	0	0	0	20,000
Contingency/Insurance Total	0	2,251,930	0	-25,030	0	0	0	2,226,900

Reserve Name	Contribution to Reserve	Opening Balance				Use of Reserve		Forecast
		2020/21	MTFP Adjustment	Review of Reserves Adj	Contributions to Reserve	Capital	Revenue	As at End 2025/26
Property Asset Fund	To support strategic housing and commercial property initiatives.	742,887	0	0	0	-343,000	0	399,887
Investment for Growth	To support internal and local housing and business growth.	7,169,878	300,600	0	118,536	-3,567,156	-291,800	3,730,058
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	0	0	0	0	0	150,000
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	0	0	0	0	0	20,000
Connectivity Fund	To support rural transport initiatives.	73,946	0	-46	0	0	-73,900	0
Community Grant Scheme	New scheme all reserves amalgamated.	300,000	-100,000	0	0	0	-200,000	0
Economic Regeneration Total	0	8,456,711	200,600	-46	118,536	-3,910,156	-565,700	4,299,945
Project Investment Reserve	To assist with costs associated with Business Case Development.	1,521,247	-300	400,000	56,700	-1,126,050	-197,400	654,197
Invest to Save/Earn Total	0	1,521,247	-300		56,700	-1,126,050	-197,400	654,197
Revenue Grants Unapplied	Revenue grants which have yet to be expended.	575,000	-265,800	0	41,800	0	-111,800	239,200
Supporting Vulnerable	Support for vulnerable communities.	158,235	-33,800	0	0	0	-124,435	0
Communities at Risk	Support for communities at risk	0	0	0	300,835	-177,265	-10,000	113,570
CCTV Replacement Equipment	To allocate commercial CCTV income achieved above budgeted levels to invest in future CCTV equipment replacement.	0	0	0	0	0	0	0
Neighbourhood Planning Grant	To allocate Neighbourhood Planning Grant income from DCLG to support cost of Neighbourhood Planning process.	34,700	0	0	0	0	0	34,700
Local Development Order (LDO)	a grant from DCLG in 14/15 to support local authorities issue LDO's	25,800	0	0	0	0	0	25,800
Trinity Arts Centre	Increase in ticket prices (eff 18/19) to be transferred to EMR for contribution towards future projects.	11,900	0	0	33,500	0	0	45,400
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	-700	0	96,500	0	-100,000	26,700
Civic Reserve	NEW 2020/21 To fund replacement of Civic Car.	0	0	0	25,000	-20,000	5,000	10,000
Car Park Strategy Investment	Car Park Strategy.	0	0	0	0	0	0	0
Service Investment Total	0	836,535	-300,300	0	497,635	-197,265	-341,235	495,370
Total Earmarked Reserves	0	15,787,127	852,700	-572,546	6,218,971	-8,716,660	-4,245,835	9,723,757