



Corporate Policy and
Resources Committee

17 January 2024

Subject: Annual Review of Earmarked Reserves 2023/2024

Report by:

Director of Corporate Services (S151)

Contact Officer:

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Purpose / Summary:

To receive the annual review of earmarked reserves in advance of the formal Section 25 report (Section 151 Review of Robustness of Reserves) being brought to Council on the 5th March 2024.

RECOMMENDATIONS:

- a) To note the levels of reserves summarised in Section 2 of the report.
- b) To delete the obsolete earmarked reserves outlined in Section 3 of the report.
- c) To consider the balance on the Civic Reserve as outlined in section 4 of the report.
- d) To approve an ongoing contribution of £10,000 per year to the Members ICT reserve to cover the cost of new ICT equipment for Members every four years.
- e) To approve the transfer of £1m from the General Fund Balance to the Budget Stability Reserve as outlined at section 6 of the report.
- f) To approve an amendment the minimum working balance on the General Fund from £2.5m to £2.0m (this is recommended to only be taken in conjunction with recommendation 11 as the decrease is mitigated by additional earmarked funding provided in recommendation e).

IMPLICATIONS

Legal:

Section 25 of the Local Government Act 2003 requires each local authority, when setting its annual General Fund budget and level of Council Tax, to take account of a report from its Section 151 Officer on the robustness of estimates and adequacy of reserves

As part of the annual budget setting process, the Section 151 Officer is required to give the Council formal advice on the robustness of estimates and the adequacy of reserves. This is so Members can set a budget in full awareness of the risks and uncertainties and ensure that adequate contingency reserves exist.

This report documents the annual review required to provide context to the Section 151 Officer when giving formal advice on levels of reserves.

Financial: FIN/121/24/CPR/SL

As of 31 March 2023, Earmarked Reserves totalled £19.340m. After taking account of all approved movements and the proposals within the report the forecast balance of 31st March 2024 is £18.676m.

Detailed tables are provided in Appendix One. In forming the advice for this report, the Director of Finance and Corporate Services has considered the following:

- The requirement established in the Council's Medium Term Financial Strategy to ensure that a safe level of contingency is maintained.
- The degree to which the Council's financial plans are aligned to the Council's statutory obligations, local priorities and policy objectives.
- The adequacy of the information systems underpinning the Council's financial management processes.
- Risks associated with the Council's activities, as identified within the Strategic Risk register.
 - The level of earmarked and unearmarked reserves within the General Fund.
 - The degree to which uncertainties exist within the draft 2024/25 budget.

Staffing: None arising as a result of this report.

Equality and Diversity including Human Rights: None arising as a result of this report.

Risk Assessment :

It is considered the Council has a strong level of both earmarked and general reserves.

Climate Related Risks and Opportunities: None arising as a result of this report.

Title and Location of any Background Papers used in the preparation of this report: No background papers were used in the preparation of this report.

Call in and Urgency:

Is the decision one which Rule 14 of the Scrutiny Procedure Rules apply?

Yes

No

Key Decision:

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 Corporate Services) is required to make a statement on the robustness of estimates and adequacy of reserves. This statement is known as the Section 25 report.
- 1.2 In advance of finalising the Base Budget 2024/2025, 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 2024/2025 will be presented to Corporate, Policy and Resources committee in February 2024 and recommended to Council in March 2024.
- 1.3 In summary the Earmarked Reserves review proposes to:
- Reduce the number of reserves by deleting those which are no longer required.
 - Consider the balance on the Civic Reserve and future options around the purchase of a suitable Mayoral car.
 - Agree to contribute £10,000 per year into the Members ICT reserve
 - Consider the level of General Fund Balance
 - Consider the definitions of existing earmarked reserves and discuss desired levels to deliver policy objectives.
- 1.4 Earmarked reserves are amounts set aside for specific policy purposes. For each reserve established, the purpose, usage and basis of transactions needs to be clearly defined.

2. Background

- 2.1 The Council retains a robust level of reserves, with balances on 31st March 2023 totalling £28.157m as detailed below.
- General Fund £4.682m
 - Earmarked Reserves £19.340m
 - Capital Receipts £1.117m
 - Capital Grants £3.018m
- 2.2 Reserves are sums set aside to meet possible future costs where there is no certainty about whether 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 overall 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 Corporate Services) 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 could be reduced to £2.0m if a separate budget stability reserve is maintained. At this level it represents 12% of the Council's revenue budget 2023/24. This will provide some element of resilience for any detrimental impact on our resources of the Fairer Funding Review, due for 2025/2026 at the earliest.
- 2.7 The Earmarked reserves and Revenue Grants unapplied with a forecast balance of £18.676m as of 31st March 2024 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. Deletion of Earmarked Reserves

- 3.1 The following reserves have zero balances and are no longer required therefore it is proposed to delete them: -

- 3.2 **Car Park Strategy Investment Reserve** – To deliver the Car Park Strategy
- 3.3 **Dangerous Structures – Building Control Reserve** - To support any costs incurred relating to the building control service for dangerous structure work.
- 3.4 **Local Development Order (LDO) Reserve** - a grant from DCLG was received in 2014/15 to support local authorities' issue LDOs.
- 3.5 **Monitoring Officer Reserve** - To support the role and duties of the Council's Monitoring Officer. The reserve is held in case any standards investigations are required which would have to be carried out via an external investigator.
- 3.6 **Wheeled Bin Replacement Reserve** - To cushion the impact of the replacement of wheeled bins as they begin to come to the end of their useful life.
- 3.7 **Connectivity Fund Reserve** - To support rural transport initiatives.
- 3.8 **Supporting Vulnerable Communities Reserve** – To give support to vulnerable communities.

4. Civic Reserve

- 4.1 The Civic Reserve was originally set up to smooth the effect of replacing the Mayoral Car every four years. A contribution is budgeted into the reserve of £5,000 per year and then the car is replaced every four years at a cost of £20,000.
- 4.2 Due to the pandemic and the varying levels of use by different Chairpersons sometimes the car is used extensively and during other periods infrequently.
- 4.3 Whilst considering the level of reserve required it could be an opportunity to discuss the future of this provision in terms of seeking to use public transport, purchasing an electric vehicle or any options Members may have.

5. Contribution to the Members ICT Reserves

- 5.1 The Council has a Members ICT Reserve and this reserve is required to cover the cost of new ICT equipment for either new Council members or as current equipment becomes obsolete or does not work as desired.
- 5.2 It is proposed to contribute £10,000 on an annual basis into this reserve to cover the costs.

6. Consider the level of General Fund Balance

- 6.1 The Council's General Fund balance as of 31st March 2023 was £4.684m. At the end of 2028/2029, the uncommitted balance is currently £3.016m. It is considered by the Director of Corporate Services (S151 Officer) that in order to cope with future budget challenges that a portion of this is specifically earmarked for future Budget Stability whilst retaining a safe level.
- 6.2 Whilst there is no prescribed level of General Reserve the Council should hold, the level should not be excessive, should be prudent and should take into account the size of the Council's revenue budget. It is proposed to reduce the level to £2m which is just under 12% of the Council's 2023/2024 budget requirement. Historic guidance produced by the Audit Commission some years ago was that 10-15% of a Council's budget requirement be held in a General Reserve.
- 6.3 It is proposed to move the amount over this of £1m to the Budget Stability Reserve. This reserve is set aside to smooth the effects of reductions to government funding which may happen during the next Parliament. This will give the Council 12 months to deliver plans to address the following year's budget shortfall and carefully plan any service redesign which may be necessary.
- 6.4 In previous years, reports have been brought forward requesting the use of General Fund Balances to fund service requests, with future financial challenges unknown it is recommended that services look for in year underspends and virements before General Fund balances are requested in future.
- 6.5 It is recommended that the Section 151 officer reviews the level of general fund reserve each year to ensure that the reserve is at the correct level.

7. Use of New Homes Bonus and Growth and Investment Reserve

- 7.1 In previous years the Council has been able to contribute a portion of New Homes Bonus to fund the Growth and Investment Reserve. Without this funding we would not have been able to deliver Scampton or Levelling Up Fund ambitions.
- 7.2 The table below shows the contributions to the reserve over the last three years.

| <u>Year</u> | <u>NHB Received</u> | <u>NHB used for Growth</u> |
|-------------|---------------------|----------------------------|
| 2021/22 | £712,142 | £572,400 |
| 2022/23 | £924,397 | £924,397 |
| 2023/24 | £561,488 | £561,488 |

- 7.3 The latest Local Government Finance draft settlement has indicated that we will receive £824,000 of New Homes Bonus but due to the increased level of New Homes Bonus, Government has reduced the level of our other core grants. If we were to put all New Homes Bonus into the Growth and Investment reserve our revenue funding gap would then grow. Due to the fact that our spending

power includes the New Homes Bonus Funding we will be unable to dedicate all of the New Homes Bonus to the Growth and Investment Reserve and we will need to use this funding across the following areas:

- Net Cost of Services
- Pressures of joint planning partnership costs
- Neighbourhood planning pressures
- Growth and Investment Reserve

7.4 The activity on the Growth and Investment Reserve in the last three years has been as follows: -

| Investment for Growth Reserve | ACTUAL 2021/22 | ACTUAL 2022/23 | FORECAST 2023/24 |
|---|--------------------|--------------------|---------------------|
| Balance Brought Forward | (6,213,816) | (7,081,361) | (7,598,718) |
| Contribution of New Homes Bonus | (572,400) | (924,400) | (561,500) |
| Contribution in MTFP | (500,000) | | |
| Levelling Up Fund Bid Work | 125,000 | | |
| Private Sector Renewal | 46,000 | | |
| LUF Legal Spend | 13,454 | | |
| Gainsborough Heritage Regeneration Sun Inn | 20,400 | 18,800 | |
| | | 22,199 | |
| Gainsborough Heritage Regeneration | | 2,244 | 31,134 |
| RAF Scampton - Site Acquisition | | 363,800 | 35,100 |
| Gainsborough Shop Front Improvement | | | 7,587 |
| Cinema Land Purchase | | | 60,800 |
| 5-7 Market Place Redevelopment | | | 4,300 |
| Thriving Gainsborough - LUF (Wayfinding) | | | 2,200 |
| Market Street Renewal - Purchase | | | 345,500 |
| UKSPF - Growing Innovation Match Funding | | | 50,000 |
| STEP Economic Impact Assessment | | | 12,500 |
| Balance Carried Forward | (7,081,361) | (7,598,718) | (7,611,097) |

APPENDIX A

Earmarked reserves and balances after taking account of all approved movements and the proposals contained within the report (balances as at 08.12.23)

| Reserve Name | Purpose | Balance @ 31/03/23 €m | Balance @ 31/03/29 €m | Movement €m |
|--|---|--------------------------|--------------------------|----------------|
| CCTV Replacement Equipment | To allocate commercial CCTV income achieved above budgeted levels to invest in future CCTV equipment replacement. | 0.000 | 0.000 | 0.000 |
| Civic Reserve | To fund replacement of Civic Car. | 0.015 | 0.005 | (0.010) |
| Elections | To finance future Election costs - held every 4 years. | 0.124 | 0.044 | (0.080) |
| 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. | 0.056 | 0.056 | 0.000 |
| IT Upgrade/Refresh | To meet the costs of Information & Communications Technology Upgrades and Revs & Bens System. | 0.510 | 0.401 | (0.108) |
| Local Development Framework | Set up to manage the impact on revenue budgets of reviews of the Local Development Framework (JPU). | 0.000 | 0.000 | 0.000 |
| Maintenance of Facilities | To meet future property maintenance requirements. | 0.907 | 0.664 | (0.244) |
| Neighbourhood Planning Grant | To allocate Neighbourhood Planning Grant income from DCLG to support cost of Neighbourhood Planning process. | 0.007 | 0.000 | (0.007) |
| Uphills Community Centre | Contingency budget (capped at £20k) for unforeseen R&M events at Uphills Community Centre-WLDC is obliged to pay/contribute under current arrangements. | 0.020 | 0.020 | 0.000 |
| Project Investment Reserve | To assist with costs associated with Business Case Development. | 1.479 | 0.472 | (1.006) |
| Invest to Save | To support initial investments which deliver savings to the Council over the medium to longer term. | 0.000 | 0.450 | 0.450 |
| Revenue Grants Unapplied | Revenue grants which have yet to be expended. | 0.682 | 0.573 | (0.109) |
| Trinity Arts Centre | Increase in ticket prices (eff 18/19) to be transferred to EMR for contribution towards future projects. | 0.050 | 0.050 | 0.000 |
| Vehicle Replacement Programme | To support service development and replacement fleet across the Authority. | 0.330 | 0.214 | (0.116) |
| Business Rates Volatility Reserve | To meet the costs of any variances of the business rate retention scheme. | 1.948 | 1.951 | 0.002 |
| Budget Stability Reserve | This reserve is set aside to smooth the effects of reductions to government funding which may happen during the next Parliament. This will give the Council time to come up with plans to address any budget shortfall and carefully plan any service redesigns which may be necessary. | 1.556 | 2.350 | 0.794 |
| Insurance Fund | To meet any excess on insurance claims. | 0.073 | 0.073 | 0.000 |
| Redundancy Contingency | To meet costs of staff redundancies. | 0.247 | 0.269 | 0.022 |
| Valuation Volatility | To mitigate any loss on investment from the sale of commercial investment properties. | 1.084 | 0.650 | (0.434) |
| Property Asset Fund | To support strategic housing and commercial property initiatives. | 0.620 | 0.562 | (0.058) |
| Community Grant Scheme | Community grant scheme to support community projects and the councillor award initiative. | 0.014 | 0.019 | 0.005 |
| Cultural Strategy Reserve | To develop the Council's Cultural Strategy in line with the recommendation contained within the Peer Review. | 0.424 | 0.251 | (0.173) |
| Communities at Risk | Support for communities at risk (2 identified CAR are currently Hemswell Cliff and South West Ward). | 0.496 | 0.301 | (0.195) |
| Environmental and Climate Change Reserve | Fund projects designed to reduce the carbon impact of the Council's operations. | 0.608 | 0.478 | (0.130) |
| Feasibility Fund | Match funding for the rural business intervention to support businesses with revenue costs. | 0.150 | 0.000 | (0.150) |
| Health and Wellbeing Reserve | To support the delivery of projects aligned to the strategic aims set out in the 'our people' theme within the Corporate Plan. | 0.250 | 0.206 | (0.044) |
| Investment for Growth | To support internal and local housing and business growth. | 7.599 | 4.875 | (2.724) |
| CIL Reserve | Budget smoothing for CIL contributions and expenditure. To fund CIL officer and any other CIL related spend. | 0.091 | 0.091 | 0.000 |
| Grand Total | | 19.340 | 15.025 | (4.315) |

| Reserve Name | Balance at 31/03/23 £m | Balance at 31/03/24 £m | Balance at 31/03/25 £m | Balance at 31/03/26 £m | Balance at 31/03/27 £m | Balance at 31/03/28 £m | Balance at 31/03/29 £m |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| CCTV Replacement Equipment | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Civic Reserve | 0.015 | 0.020 | 0.005 | 0.010 | 0.015 | 0.020 | 0.005 |
| Elections | 0.124 | 0.004 | 0.044 | 0.084 | 0.124 | 0.004 | 0.044 |
| Enforcement Costs - Housing & Planning | 0.056 | 0.056 | 0.056 | 0.056 | 0.056 | 0.056 | 0.056 |
| IT Upgrade/Refresh | 0.510 | 0.510 | 0.516 | 0.531 | 0.550 | 0.460 | 0.401 |
| Local Development Framework | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Maintenance of Facilities | 0.907 | 0.379 | 0.452 | 0.505 | 0.558 | 0.611 | 0.664 |
| Neighbourhood Planning Grant | 0.007 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Uphills Community Centre | 0.020 | 0.020 | 0.020 | 0.020 | 0.020 | 0.020 | 0.020 |
| Project Investment Reserve | 1.479 | 1.093 | 0.687 | 0.487 | 0.487 | 0.472 | 0.472 |
| Invest to Save | 0.000 | 0.450 | 0.450 | 0.450 | 0.450 | 0.450 | 0.450 |
| Revenue Grants Unapplied | 0.682 | 0.482 | 0.596 | 0.573 | 0.573 | 0.573 | 0.573 |
| Trinity Arts Centre | 0.050 | 0.050 | 0.050 | 0.050 | 0.050 | 0.050 | 0.050 |
| Vehicle Replacement Programme | 0.330 | 0.273 | 0.015 | 0.017 | 0.524 | 0.601 | 0.214 |
| Business Rates Volatility Reserve | 1.948 | 1.951 | 1.951 | 1.951 | 1.951 | 1.951 | 1.951 |
| Budget Stability Reserve | 1.556 | 2.350 | 2.350 | 2.350 | 2.350 | 2.350 | 2.350 |
| Insurance Fund | 0.073 | 0.073 | 0.073 | 0.073 | 0.073 | 0.073 | 0.073 |
| Redundancy Contingency | 0.247 | 0.269 | 0.269 | 0.269 | 0.269 | 0.269 | 0.269 |
| Valuation Volatility | 1.084 | 0.967 | 0.850 | 0.733 | 0.650 | 0.650 | 0.650 |
| Property Asset Fund | 0.620 | 0.562 | 0.562 | 0.562 | 0.562 | 0.562 | 0.562 |
| Community Grant Scheme | 0.014 | 0.019 | 0.019 | 0.019 | 0.019 | 0.019 | 0.019 |
| Cultural Strategy Reserve | 0.424 | 0.322 | 0.251 | 0.251 | 0.251 | 0.251 | 0.251 |
| Communities at Risk | 0.496 | 0.310 | 0.301 | 0.301 | 0.301 | 0.301 | 0.301 |
| Environmental and Climate Change Reserve | 0.608 | 0.532 | 0.478 | 0.478 | 0.478 | 0.478 | 0.478 |
| Feasibility Fund | 0.150 | 0.075 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Health and Wellbeing Reserve | 0.250 | 0.206 | 0.206 | 0.206 | 0.206 | 0.206 | 0.206 |
| Investment for Growth | 7.599 | 7.611 | 4.875 | 4.875 | 4.875 | 4.875 | 4.875 |
| CIL Reserve | 0.091 | 0.091 | 0.091 | 0.091 | 0.091 | 0.091 | 0.091 |
| Grand Total | 19.340 | 18.676 | 15.167 | 14.941 | 15.483 | 15.393 | 15.025 |