



Corporate Policy and  
Resources Committee

9<sup>th</sup> January 2025

**Subject: Annual Review of Earmarked Reserves 2024/25**

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 3<sup>rd</sup> March 2025.

**RECOMMENDATION(S):**

- a) To delete the nil balance earmarked reserves as outlined at section 3 of the report.
- b) To create a new reserve for any government funding allocated to the Council for Extended Producer Responsibility Obligations.
- c) To maintain a minimum general fund balance of between £2.0m - £2.5m
- d) To consider the reserves the Council retains and their levels as detailed in Appendix A.

**IMPLICATIONS**

**Legal: None arising as a result of this report.**

**Financial: FIN/118/25/MT/SL**

As at 31 March 2024 Earmarked Reserves totalled £20.047m. After taking account of all approved movements the forecast balance at 31<sup>st</sup> March 2025 is £21.349m.

**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.

- 1.2 In advance of finalising the Revenue Budget 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. The Base Budget 2025/26 will be presented to this Committee in February and recommended to Council in March 2025.
- 1.3 This process involves looking at each reserve in detail to ascertain the calls on the reserve for current and future years. The balance is then looked at to see if it is still required and then whether the amount is still accurate for the purpose of the reserve.
- 1.4 In summary the Earmarked Reserves review proposes to;
  - Reduce the number of reserves by deleting those which are no longer required.
  - Create a new reserve for Extended Producer Responsibility obligations
  - Consider the level of General Fund Balance

## **2. Background**

- 2.1 The Council retains the following useable reserves, with balances at 31<sup>st</sup> March 2024 totalling £28.486m as detailed below;
  - General Fund £3.402m
  - Earmarked Reserves £20.047m
  - Capital Receipts £1.460m
  - Capital Grants £3.577m
- 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. Earmarked reserves can only be used for the purposes they are earmarked for. If the purpose of the reserve is to be changed then this would require Council approval.
- 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 was recommended in the review of reserves report 2023/24 that the General Fund balance should be between £2.0m to £2.5m. It is the view of the Chief Finance Officer that this level be maintained for 2024/25 for West Lindsey District Council. At this level it represents between 11.6% - 14.4% of the Council's revenue budget 2024/25. This will provide some element of resilience for any detrimental impact on our resources of the Fairer Funding Review, due for 2026/27.
- 2.7 The Earmarked reserves and Revenue Grants unapplied totalling £28.486m have been reviewed for relevance, accuracy and sustainability.
- 2.8 The full list of Earmarked Reserves and their current balance is attached at Appendix A.

### **3. Deletion of Earmarked Reserve**

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

3.2 **CCTV Replacement Equipment Reserve** – To allocate commercial CCTV income achieved above budgeted levels to invest in future CCTV equipment replacement

3.3 **Local Development Framework Reserve** – Set up to manage the impact on revenue budgets of reviews of the Local Development Framework.

#### **4. Budget Setting 2025/26**

4.1 As the Council looks to set its budget for 2025/26 it is yet to receive final funding figures from the government but intelligence has been received from a number of the Council's advisors LG Futures.

4.2 One advisor has commented – *“It appears for a number of district councils, the reduction in the Minimum Funding Guarantee level will be significant, particularly if they previously received high levels of New Homes Bonus (that have now dropped), received Rural Services Delivery Grant and / or are unlikely to receive the additional deprivation based funding. Early modelling suggests some will only receive the same level of funding as 2024/25, even after taking into account Council Taxbase and rate growth i.e. Central Government grants will be reduced.”*

4.3 Once the funding position is fully known Members will be updated accordingly. It is worth noting though that the review of reserves undertaken at this time last year included increasing the balance of the Budget Stability Reserve. This reserve currently has a balance of circa £2.5m which if the Council does face a budget shortfall could be used in the short term to cushion the effect on services whilst savings are identified to bridge any budget gap.

4.4 The Government has also recently announced a business rates reset in 2026/27 which will mean any growth the Council has over the original baseline may be lost. Whilst it is difficult to quantify this at this stage, the Council does have a Business Rates Volatility Reserve of circa £2m to help smooth any impact this reset may have. Recent external advice has suggested that at least £1m of this reserve will be needed to fund the business rates reset at 1<sup>st</sup> April 2026.

#### **5 Consider the level of General Fund Balance**

5.1 The Council's general fund balance currently stands at £3.402m. At the end of 2024/25 the balance will be £2.5m due to pre-approved allocations. It is considered by the Director of Corporate Services (S151 Officer) that this is a satisfactory level of general fund to be maintained compared to the size of the general fund budget.

5.2 Whilst there is no prescribed level of General Reserve the Council should hold, the level should not be excessive and it should be prudent and take into

account the size of the Council's revenue budget. It is proposed to maintain a £2.0m - £2.5m minimum balance which is between 11.6% - 14.4% of the Council's 2024/25 budget requirement.

## **6. Extended Producer Responsibility**

- 6.1 Whilst the Council has received notification of an Extended Producer Responsibility payment to be received in December 2025, uncertainty remains around whether the forecast figures will be reflected in the actual figure. We also have concerns that this payment will be reduced on an ongoing basis. It is therefore recommended that we initially place this funding in an earmarked reserve for budgetary purposes until further information is confirmed .
- 6.2 It is proposed to set up a new reserve to be used to allocate any monies when received which can then be drawn down as and when required. The Council is still unclear on what the impact will be on its waste service and therefore this will mean the funds can be tracked and allocated appropriately across the MTFS period.

## **7. Conclusion**

7.1 In conclusion it is recommended to: -

- Reduce the number of reserves by deleting those with a nil balance as detailed at section 3
- Create a new reserve for Extended Producer Responsibility obligations
- Maintain the minimum general fund balance between £2.0m - £2.5m

## APPENDIX A

Reserve Name	Purpose	Balance @ 31/03/24 £	Balance @ 31/03/29 £
CCTV Replacement Equipment	To allocate commercial CCTV income achieved above budgeted levels to invest in future CCTV equipment replacement.	0	0
Civic Reserve	To fund replacement of Civic Car.	20,000	5,000
District Elections	To finance future Election costs - held every 4 years.	14,000	54,000
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.	56,300	56,300
IT Upgrade/Refresh	To meet the costs of Information & Communications Technology Upgrades and Revs & Bens System.	498,180	442,180
Members ICT Reserve	Provision of Members' ICT from May 2023.	32,086	20,086
Local Development Framework	Set up to manage the impact on revenue budgets of reviews of the Local Development Framework (JPU).	0	0
Maintenance of Facilities	To meet future property maintenance requirements.	749,403	617,403
Neighbourhood Planning Grant	To allocate Neighbourhood Planning Grant income from DCLG to support cost of Neighbourhood Planning process.	0	47,700
Uphills Community Centre	Contingency budget (capped at £20k) for unforeseen repairs & maintenance events at Uphills Community Centre-WLDC is obliged to pay/contribute under current arrangements.	20,000	14,600
Project Investment Reserve	To assist with costs associated with Business Case Development.	1,197,947	583,747
Invest to Save	To support initial investments which deliver savings to the Council over the medium to longer term.	479,000	446,000
Revenue Grants Unapplied	Revenue grants which have yet to be expended.	706,047	473,750
Trinity Arts Centre	Increase in ticket prices (eff 18/19) to be transferred to EMR for contribution towards future projects.	50,000	50,000
Vehicle Replacement Programme	To support service development and replacement fleet across the Authority.	640,558	639,158
Business Rates Volatility Reserve	To meet the costs of any variances of the business rate retention scheme.	1,950,807	1,950,807
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	2,450,427	2,139,927

	plans to address any budget shortfall and carefully plan any service redesigns which may be necessary.		
Insurance Fund	To meet any excess on insurance claims.	73,200	73,200
Redundancy Contingency	To meet costs of staff redundancies.	268,800	268,800
Valuation Volatility	To mitigate any loss on investment from the sale of commercial investment properties.	967,000	650,000
Property Asset Fund	To support strategic housing and commercial property initiatives.	608,016	562,216
Community Grant Scheme	Community grant scheme to support community projects and the councillor award initiative.	18,200	23,400
Cultural Strategy Reserve	To develop the Council's Cultural Strategy in line with the recommendation contained within the Peer Review.	321,900	48,600
Communities at Risk	Support for communities at risk (2 identified CAR are currently Hemswell Cliff and South West Ward).	474,282	193,682
Environmental and Climate Change Reserve	Fund projects designed to reduce the carbon impact of the Council's operations.	531,206	477,206
Feasibility Fund	Match funding for the rural business intervention to support businesses with revenue costs.	75,000	0
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.	250,000	186,100
Investment for Growth	To support internal and local housing and business growth.	7,518,618	690,018
CIL Reserve	Budget smoothing for CIL contributions and expenditure. To fund CIL officer and any other CIL related spend.	76,500	76,500
<b>TOTAL</b>		<b>20,047,479</b>	<b>10,790,382</b>