

Agenda Item No:	5	
Committee:	Cabinet	
Date:	9 January 2020	
Report Title:	Amendment of Reserves	

## 1 Purpose

- To seek Cabinet approval to re-allocate balances currently held in earmarked reserves and the Council's General Fund in line with the Council's priorities.

## 2 Key issues

- At 31 March 2019 the Council had a General Fund Reserve balance of £2.622M and Earmarked Reserve balances of £7.681M.
- Cabinet considered a paper at its meeting held on 18 July 2019 which explained the types of reserve held by the Council. This report revisits the analysis provided in that report. It is suggested that earmarked reserve balances not already committed in the current Medium Term Financial Strategy or held for reasons specific to individual services or the conditions of grant-funding received by the Council be allocated into a new Investment Strategy reserve.
- The report proposes the establishment of two new reserves, a Budget Equalisation Reserve and an Elections Reserve. The purpose of these reserves is explained in more detail within the report.
- The Council also maintains an unearmarked reserve known as the General Fund. The balance on this reserve is currently £2.622M. This balance is held to cater for unavoidable and/or unforeseen funding. The General Fund balance has increased in recent years. The Chief Finance Officer has reviewed the balance required and determined on the basis of a risk-assessment that a balance of £2M will provide sufficient financial cover. The report details re-allocations between reserves to reduce the balance on the General Fund.

## 3 Recommendations

It is recommended that:

- Cabinet approves the re-allocation of reserves set out in this report, including the creation of an Investment Strategy Reserve; and

It is recommended to Council that:

- the creation of a Budget Equalisation Reserve and an Elections Reserve for the reasons set out in this report be approved.

<b>Wards Affected</b>	All
<b>Portfolio Holder(s)</b>	Cllr Chris Boden, Leader and Portfolio Holder, Finance
<b>Report Originator(s)</b>	Peter Catchpole, Chief Finance Officer and Corporate Director Mark Saunders, Chief Accountant
<b>Contact Officer(s)</b>	Peter Catchpole, Chief Finance Officer and Corporate Director Mark Saunders, Chief Accountant Neil Krajewski, Deputy Chief Accountant
<b>Background Paper(s)</b>	Medium Term Financial Strategy 2019/20 to 2023/24, Council Revenue and Capital Outturn 2018/19

## **1 Introduction**

- 1.1 The Council presents information regarding its reserve balances throughout the year. The budgeted use of reserves is presented as part of the annual budget-setting process and the year-end balance on reserves is presented as part of the Statement of Accounts.
- 1.2 The Chief Finance Officer is responsible for ensuring the level of reserves held by the Council is adequate. The Chartered Institute of Public Finance and Accountancy (CIPFA) regularly publish guidance to assist Chief Finance Officers in fulfilling this function. In their 2016 publication on the Role of the Chief Finance Officer in Local Government, CIPFA emphasise that the Chief Finance Officer must 'take into account future commitments, resources available and the desirable levels of reserves, to ensure that the authority's finances remain sustainable'.
- 1.3 Under the Council's constitution the Chief Finance Officer is responsible for ensuring that the purpose of each reserve, its usage and the basis of transactions is clearly identified. These cannot be varied without the consent of Cabinet. The constitution provides members of Corporate Management Team with the authority to fund expenditure charged to the revenue account from reserves subject to the ultimate approval of the Chief Finance Officer.
- 1.4 Cabinet considered a report on balances currently held in reserve at its meeting held on 18 July 2019. This report proposes to re-allocate balances held in reserves to reflect Council priorities where there is no longer a reasonable basis for holding a reserve for the purpose for which the funds were originally earmarked or where amalgamation of a reserve with other reserves is considered to provide more flexibility to address future funding pressures and/or realise potential opportunities.

## **2 Identifying Balances to be Re-allocated or Re-designated**

- 2.1 The report on Council reserves considered by Cabinet on 18 July 2019 identified £2.754M held in 'Other Reserves' which was available to be re-allocated or re-designated. This balance was determined after identifying the balance held on reserves not specific to grant-funding held by the Council or specific Council services and subtracting the balance already committed as part of the current Medium Term Financial Strategy.
- 2.2 Within the £2.754M referred to in the 18 July 2019 report, £1.314M related to balances held on six reserves where no funds had been committed as part of the current Medium Term Financial Strategy. The Chief Finance Officer, together with Accountancy Team, have reviewed the reasons why these reserves were originally established and concluded that these reserves have either ceased to be relevant or the needs can be met through application of other funds held in reserve once balances have been allocated in line with the proposals set out in this report. The balance on these six reserves, together with the reason why these balances can be re-allocated or re-designated is set out in Appendix 1.
- 2.3 The remaining £1.440M identified in the 18 July 2019 report comprised £940,000 held in the Management of Change Reserve which had not been allocated to an existing project and £500,000 in the Local Government Resources Review Reserve. This report proposes that both reserves be retained. The Local Government Resource Reserve is in place to address the financial impact on the Council's Medium Term Financial Plan of changes to funding for local government including, but not limited to, reforms to the business rates system. The Management of Change Reserve will provide the necessary funds to invest capital and revenue funds in the development of Council services to not only improve customer experience and engagement but also to reduce cost.

- 2.4 In addition to the Management of Change Reserve and the Local Government Resources Review Reserve it is proposed that an Investment Strategy Reserve be established. This reserve will be funded from the re-allocation of balances set out in Appendix 1. Its purpose will be not only to provide funding to enable projects linked to the Investment Strategy to be taken forward but also to act as a repository for returns generated from successful projects over and above that budgeted for. Such funds can be used either to fund future investments or to minimise the impact on the General Fund if approved projects do not generate a return as quickly or to the extent originally envisaged.
- 2.5 The Council currently holds separate reserves for Neighbourhood Planning and the Local Plan. Following discussions with colleagues in planning, it is recommended that these reserves be amalgamated to provide the necessary flexibility to cover the cost in the medium-term of developing the new Local Plan for the District, together with meeting the additional cost associated with support the cost of developing and arranging for the approval of Neighbourhood Plans.

### **3 Review of the General Fund Balance**

- 3.1 The Council's General Fund balance has exceeded £2M since 1 April 2006. Following the housing stock transfer in 2009/10 the balance increased to a maximum of £3.007M as at 31 March 2010 and since then the balance has averaged at £2.653M and has never fallen below £2.394M. The current General Fund Balance as at 31 March 2019 is £2.622M.
- 3.2 Originally it had been assumed that a contribution of £151,000 from the General Fund would be needed in the 2019/20 financial year to offset the impact of not increasing Council Tax in 2019/20 in line with the assumptions made in the Medium Term Financial Strategy. The revised budget considered as a separate item on the agenda for today's meet indicates that, based on the anticipated underspend, it is unlikely the Council will need to draw upon the General Fund in this financial year. The updated Medium Term Financial Strategy identifies an underlying deficit peaking at £1.492M in 2024/25 but no assumption has been made at this stage regarding the use of reserve balances, including the General Fund, to address the anticipated deficits.
- 3.3 Officers have considered the circumstances which might give rise to the need to draw on the General Fund taking account of the Council's track record of managing its finances within budget. In arriving at their assessment officers have considered:
- the cost-drivers associated with delivering services considered to be statutory in nature and the extent to which those costs might increase over and above the assumptions built into the Medium Term Financial Strategy;
  - the Council's degree of exposure to contracts or other legal agreements which may become excessively onerous in the event of an economic downturn;
  - the other earmarked reserves in place to deal with changes in the allocation of funding from central government which negatively impact on the Council; and
  - the costs associated with dealing with a natural disaster or other civil emergency which not be eligible for government support and or eligible for recovery from the Council's insurers
- 3.4 Having completed this assessment officers are satisfied that a General Fund Balance of £2M will be sufficient to cover pressures envisaged over the life of the current Medium Term Financial Strategy.
- 3.5 Aside from the Repairs and Maintenance Reserve, which is in place to address unforeseen needs to incur revenue and capital expenditure to repair or maintain existing assets, there is no unallocated provision within the reserves to address the cost of undertaking capital expenditure where no grant funding is available and where it is not expected that carrying out the required works will generate a financial return for the

Council. Examples of such schemes including necessary works on the Council's sewage treatment work infrastructure which cannot be reasonably be expected to be adopted by Anglian Water and ongoing structural works required at the Port.

- 3.6 The current capital programme identifies that after the 2019/20 financial year when the Council has achieved some success disposing of assets via auction there are limited prospects for realising significant capital receipts to fund the capital programme
- 3.7 When reserves, grants and capital receipts are unavailable capital expenditure must be funded from internal or external borrowing. Such an approach results in the General Fund bearing the cost of additional Minimum Revenue Provision, together with external interest if a decision is made to undertake external borrowing.
- 3.8 To reduce the potential impact on the General Fund of financing the capital programme it is proposed that £422,000 of the £622,000 balance held in the General Fund above the £2M assessed as being required is re-allocated to the Capital Contribution Reserve.
- 3.9 A revised schedule of reserves taking account of the proposals set out in this paper is set out in Appendix B.

#### **4 Establishment of a Budget Equalisation Reserve and an Elections Reserve**

- 4.1 Throughout the year officers review the Council's in-year financial performance to understand the reasons for any variances against budget. This review includes an evaluation of whether the use of reserves proposed at the start of the year remains appropriate.
- 4.2 At the end of year an assessment is undertaken to finalise which transfers to reserves are required. Currently, once these transfers have been finalised any remaining surplus or deficit is transferred to the General Fund. It is proposed that a Budget Equalisation Reserve be established to recognise separately from the General Fund year-end underspends or overspends. It is proposed that this reserve is established immediately. The first use of this reserve will be to recognise the underspend of £200,000 reflected in the audited 2018-19 financial statements. This underspend is consistent with that reported to members in June 2019 as part of the 2018-19 outturn report. The anticipated underspend for the 2019-20 financial year of £142,000 reported separately in the Budget report, which is included as item on the agenda for today's meeting, will also be transferred into this reserve. The equivalent process will be followed in each subsequent financial year with an annual transfer to/from the Budget Equalisation Reserve being processed as part of each year's budget-setting process. This reserve can therefore be used to help the Council achieve a balanced budget. Transactions referred to above are reflected in Appendix B to this report.
- 4.3 The Council's system of 'all-out' elections means the Council's budget disproportionately bears the impact of the cost of administering District elections every four years. To address this imbalance, as explained in the aforementioned report on the Council's proposed budget for 2020/21, at the start of the 2020/21 financial year the Council will establish an Elections Reserve. In 2020/21 and each of the following years the Council will budget for an annual sum of £30,000 to contribute to the cost of the next District-wide election. The balance on this reserve will then be utilised in the year the election is held.

**Appendix A:**

<b>Reserve</b>	<b>Balance at 31 March 2019 (£000)</b>	<b>Summary of reasons why balance can be re-allocated/re-designated</b>
Conservation Reserve	4	Residual balance remaining in reserve after application of £50,000 in 2018/19 financial year towards the cost of the Wisbech High Street scheme not covered by Heritage Lottery Fund Grant. Future proposals linked to conservation will be considered on their merits and funded from mainstream resources.
Community Projects	12	Balance has not been used for five years having been set up using underspends on what were formerly 'Leader's Grants'. There are no current schemes in place enabling this funding to be allocated. Should any new initiatives be developed by Council to fund community projects funding could be allocated as part of the annual budget-setting process.
Personal Search Fees	115	The Council received a grant to cover the cost of settling claims from personal search companies. No further claims are expected as a national settlement has been reached. There was no provision for the grant to be re-paid if the full amount received was not required.
Housing Benefit Reforms and Subsidy Claims	149	The reserve was originally established to cover the additional administrative costs of addressing reforms to the Housing Benefit system and also to absorb the impact of any clawback of Department for Work and Pensions subsidy arising from a qualified subsidy claim. The business plan of the Council's service-provider, the Anglia Revenues Partnership ('ARP') Business Plan makes provision for the cost of implementing the current reform agenda. The financial impact of delivering this plan is not expected to have a significant impact on this Council. When housing benefit subsidy claims have been qualified in recent years the financial impact of that qualification has been trivial.
Property Development Fund	1,000	Whilst the Council has identified the need for funding to support the implementation of its Commercial and Investment Strategy, it is considered to be more appropriate to combine this balance to more clearly identify total funding available from reserves to support delivery of the Commercial and Investment Strategy.
Warm Homes	17	This funding relates to unspent government grant received to support a home insulation scheme. There are no arrangements for clawback and the balance has not been utilised since the 2014/15 financial year.
Brexit Preparation Reserve	17	This balance reflects funding received from the Ministry of Housing, Communities and Local Government to prepare for Britain's exit from the European Union in the 2018/19 financial year. There is no requirement to hold this funding in a specific reserve and officers are satisfied that any additional costs associated with Britain leaving the European Union can be met from other reserves held by the Council, including the General Fund.
<b>TOTAL</b>	<b>1,314</b>	

**Appendix B - Projected Reserve Balances as at 31 March 2020 Subject to Approval of Proposals Set Out in this Report**

Reserve	Balance at 1 April 2019 (£000)	Proposed Transfers (This Report) - January 2020 (£000)	Expected Movements on Reserve - Year to 31 March 2020 (£000)	Projected Balance as at 31 March 2020	Notes
<b>Changes Proposed in this Report</b>					
General Fund	2,622	(622)	0	2,000	Reduction of General Fund to recommended balance of £2M as per proposals in this report. Expected movements reflects anticipated surplus as per revised budget considered in separate report considered at this meeting of Cabinet. A decision about where to transfer any underspend to will be made by Cabinet when it considers the outturn report for the 2019/20 financial year in June 2020.
Capital Contribution Reserve	420	422	(98)	744	Re-allocation of balance currently held in General Fund above recommended balance of £2M
Re-designation of reserve balances disclosed in Appendix A as no longer being required	1,314	(1314)	0	0	Reserve balances re-designated as per proposals in this report
Investment Strategy Reserve	0	1,314	0	1,314	Reserve created from the re-designation of reserves as per the proposals in this report
Neighbourhood Planning Reserve	185	(185)	0	0	Amalgamated with Local Plan Reserve to establish Planning Reserve
Local Plan Reserve	451	(451)	0	0	Amalgamated with Neighbourhood Planning Reserve to establish Planning Reserve
Planning Reserve	0	636	(100)	536	General planning reserve established to provide flexibility to manage the cost of both developing the Local Plan and supporting neighbourhood plans in the District
Budget Equalisation Reserve	0	342	0	342	Reflects transfer of £200,000 from General Fund in respect of 2018/19 underspend and £142,000 in respect of anticipated underspend for the 2019/20 financial year as reported in the 2020/21 budget report.
<b>Sub-Total</b>	<b>4,992</b>	<b>142</b>	<b>(198)</b>	<b>4,936</b>	
<b>Reserve Balances Not Affected by Proposals in this Report</b>					
Management of Change Reserve	1,202	0	(262)	940	Available to support service development in line with the Council's Business Plan
Repairs and Maintenance Reserve	643	0	(150)	493	Available to fund ad-hoc works to Council premises not provided for in base budgets and to address backlog maintenance issues
Local Government Resources Review Reserve	1,056	0	(428)	628	Available to mitigate the impact of government reforms on finance available to the Council including, but not restricted to, reforms to the business rates system
Reserves funded from Specific Grants	1,680	0	(900)	780	Used to address timing issues to reflect funding being received in advance of need and/or when a project spans more than one financial year
Service-Specific Reserves	730	0	(100)	630	Funded from contributions made by specific services and ring-fenced for use by that service in future years
<b>GRAND TOTAL (ALL RESERVES)</b>	<b>10,303</b>	<b>142</b>	<b>(2038)</b>	<b>8,407</b>	