

**REPORT OF THE DEPUTY CHIEF EXECUTIVE (CORPORATE DIRECTION)**

**RE REVIEW OF GENERAL FUND EARMARKED RESERVES**

**WARDS AFFECTED : ALL WARDS**

**1. PURPOSE OF REPORT**

- 1.1 This report provides Council with the outcome of a review of the Council's earmarked reserves. The report includes a number of recommendations around further earmarking of these monies and potential transfers from balances to fund future expenditure.
- 1.2 The recommendations arising from this review will be formally reported to Council again in September 2013 following completion of the Statement of Accounts process.
- 1.3 It is important that earmarked reserves are appropriately and adequately earmarked for future spends and that the Council reviews its reserves on an annual basis to ensure the financial resilience of the Authority.

**2. RECOMMENDATIONS**

- 2.1 That Council considers approval of the recommended transfers to earmarked reserves from balances (section 3.4 and 3.5).
- 2.2 That Council considers approval of additional earmarked reserves to fund future expenditure (section 3.8).

**3. BACKGROUND**

**Current Earmarked Reserve Balances**

- 3.1 The Council's earmarked reserves as at 31<sup>st</sup> March 2013 are summarised in the draft Statement of Accounts as below. Details of the use of these reserves are included in **Appendix 1**:

	Balance at 31st March 2012	Transfers out 2012/2013	Transfers in 2012/13	Balance at 31st March 2013
	£'000	£'000	£'000	£'000
<b>General Fund:</b>				
Commutation and Feasibility	287	(120)	0	167
Benefits Reserve	272	0	208	480
Local Plan	442	(34)	73	481
Historic Buildings	14	0	0	14
Land Charges	51	(20)	233	264
Disaster Recovery	0	0	0	0
Pensions Contributions	49	0	0	49
Building Control	134	0	0	134

Waste Management Reserve	243	0	74	317
ICT Reserve	253	(41)	0	212
Project Management/Masterplan	333	0	0	333
Shared Services Reserve	74	0	0	74
Housing & Planning Delivery Grant	172	(43)	0	129
Flexible Working	15	0	0	15
IFRS Capacity Support	0	0	0	0
Freedom of Information Act Training	3	(3)	0	0
New Performance Improvement Set	10	(2)	0	8
Housing Energy Certificate Training	11	0	0	11
Finance Capacity Fund	22	0	0	22
Priority Improvement Fund	70	(70)	0	0
Workforce Strategy	3	0	10	13
Elections	62	0	25	87
Grounds Maintenance Machinery Replacement	75	(16)	25	84
Transformation	50	0	0	50
Relocation Reserve	317	(326)	346	337
Future Capital Projects	611	(611)	0	0
Modern Gov Reserve	2	0	0	2
Greenfields Reserve	19	0	0	19
Special Expenses	48	(74)	177	151
Atkins	0	0	0	0
Carry Forwards	136	(136)	139	139
Hub Future Rental Management	250	0	0	250
Business Rates Pooling	0	0	110	110
Leisure Centre	0	0	1,353	1,353
Community Safety	0	0	3	3
Troubled Families	0	(30)	90	60
Hinckley Club for Young People	0	0	5	5
Development Control	0	0	40	40
<b>Total General Fund Earmarked Reserves</b>	<b>4,028</b>	<b>(1,526)</b>	<b>2,911</b>	<b>5,413</b>

3.2 **This report only covers recommendations relating to General Fund earmarked reserves. All HRA reserves will be reviewed as part of the HRA Investment Plan.**

#### Current General Fund Balances

3.3 The Council's Medium Term Financial Strategy sets out a minimum requirement that 10% of the net budget requirement should be held in General Fund Balances (in addition to any earmarked reserves). Based on this principle, the following transfers can be considered from Balances to Earmarked Reserves.:

	<b>HBBC</b>	<b>Special Expenses</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Net budget requirement	10,298	474	10,772
Minimum balances	1,030	47	1,077
General Fund Balance 31/03/2013 (subject to audit)	1,598	183	1,781
Maximum transfer	568	136	704

3.4 Based on these calculations, it is recommended that **£0.568 million** is transferred from General Fund balances to General Fund Earmarked Reserves. This will be split as follows:

- £0.170million transfer to the Relocation Reserve to fund the costs associated with stamp duty on the Hinckley Hub and demolition costs for the Argents Mead site
  - £0.398million transfer to the Leisure Centre reserve to fund capital expenditure on the new site
- 3.5 In it is recommended that, **£0.136 million** from Special Expenses balances in 2013/14 to the Special Expenses Earmarked Reserve.
- 3.6 Following these transfers, the balance of total available earmarked reserves would therefore be:

	<b>General Fund</b>	<b>Special Expenses</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Opening Balance (1st April 2013 – subject to audit)	5,262	151	5,413
Transfer	568	136	704
Unapplied grants and contributions	2,939	0	2,939
<b>Available Balance</b>	<b>8,769</b>	<b>287</b>	<b>9,056</b>

#### Review of earmarking

- 3.7 In addition to the transfer of Balances to Earmarked Reserves as set out in 3.3-3.5 above, the current list of earmarked reserves has been reviewed by the Corporate Operations Board based on current service needs and the requirements as outlined in the Medium Term Financial Strategy. The main objective of this review was to identify those reserves which are no longer required and can therefore be transferred to the priority “Leisure Centre” reserve to fund future capital spend on this scheme as an alternative to borrowing. In performing this review, COB identified reserves that have been static for a number of financial years that can be released, in addition to those that were put aside for schemes that are no longer a strategic priority.
- 3.8 The outcome of this review was a proposal that the following reserve balances are “released” to the priority Leisure Centre reserve:

<b>Reserve name</b>	<b>Current Balance</b>	<b>Balance proposed for release</b>	<b>Closing balance</b>	<b>Notes</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	
Benefits	480	265	215	Reserve set up to manage differences in subsidy payments. Reserve reduced to reflect the removal of Council Tax Benefit subsidy but balance retained to fund future costs associated with benefit reform
Historic Buildings	14	14	0	This reserve was set up to allow owners of listed buildings the opportunity to borrow money to fund historic alterations and restorations. It has not been utilised for a number of years.

Modern.gov	2	2	0	Reserve set up to fund the implementation of the Modern.gov system which is now complete.
Greenfields	19	19	0	No further work is required on improvements to the Greenfield site and therefore this reserve can be released.
Community Safety	3	3	0	Training has now been provided for those officers requiring use of this reserve and therefore the balance can be released.
Building Control	134	134	0	Building Control income is forecast to increase as outlined in the MTFs and therefore this contingency is no longer required.
Project Management	333	130	203	A balance is required in this reserve to fund future costs associated with Bus Station development. However an element for the Leisure Centre procurement is proposed for transfer.
Shared Services	74	74	0	Shared services are now embedded within the Council and therefore additional resource for these arrangements is no longer required.
Grounds Maintenance	84	25	59	A balance is required in this reserve to fund future capital costs of Grounds Maintenance equipment. However a surplus element has been identified for transfer.
Flexible working	15	15	0	Flexible working arrangements are now set up in the Council and this reserve has not been utilised for a number of financial years.
Performance Improvement	8	8	0	The Councils Performance Improvement set has now been introduced and therefore this reserve is no longer required.
Housing Energy Cert	11	11	0	Static reserve - no longer required.
Finance Capacity	22	22	0	This reserve can be released following a recent restructure of the finance team.
Development Control	40	40	0	Development Control income is forecast to increase as outlined in the MTFs and therefore this contingency is no longer required.
<b>Total</b>	<b>1,239</b>	<b>762</b>	<b>477</b>	

Therefore it is proposed that £0.762million as identified above is transferred to the Leisure Centre reserve, along with the £0.398million from balances to take the balance of this reserve to **£2.513million**. Following the additional transfer to the relocation reserve, this reserve will have a balance of **£0.507million**.

3.9 Pending the approval of the above suggestions, the revised opening balance, at 1<sup>st</sup> April 2013, of the Council's earmarked reserves is outlined below:

	Balance at 31st March 2012	Balance at 31st March 2013	Proposal for transfer	Revised Balance
	£'000	£'000	£'000	£'000
<b>General Fund:</b>				
Commutation and Feasibility	287	167	0	167
Benefits Reserve	272	480	-265	215
Local Plan	442	481	0	481
Historic Buildings	14	14	-14	0
Land Charges	51	264	0	264
Disaster Recovery	0	0	0	0
Pensions Contributions	49	49	0	49
Building Control	134	134	-134	0
Waste Management Reserve	243	317	0	317
ICT Reserve	253	212	0	212
Project Management/Masterplan	333	333	-130	203
Shared Services Reserve	74	74	-74	0
Housing & Planning Delivery Grant	172	129	0	129
Flexible Working	15	15	-15	0
IFRS Capacity Support	0	0	0	0
Freedom of Information Act Training	3	0	0	0
New Performance Improvement Set	10	8	-8	0
Housing Energy Certificate Training	11	11	-11	0
Finance Capacity Fund	22	22	-22	0
Priority Improvement Fund	70	0	0	0
Workforce Strategy	3	13	0	13
Elections	62	87	0	87
Grounds Maintenance Machinery Replacement	75	84	-25	59
Transformation	50	50	0	50
Relocation Reserve	317	337	170	507
Future Capital Projects	611	0	0	0
Modern.Gov Reserve	2	2	-2	0
Greenfields Reserve	19	19	-19	0
Special Expenses	48	151	136	287
Atkins	0	0	0	0
Carry Forwards	136	139	0	139
Hub Future Rental Management	250	250	0	250
Business Rates Pooling	0	110	0	110
Leisure Centre	0	1,353	1,160	2,513
Community Safety	0	3	-3	0
Troubled Families	0	60	0	60
Hinckley Club for Young People	0	5	0	5
Development Control	0	40	-40	0
<b>Total Earmarked Reserves</b>	<b>4,028</b>	<b>5,413</b>	<b>704</b>	<b>6,117</b>
Unapplied Grants and Contributions	942	2,939	0	2,939
<b>Total General Fund</b>	<b>4,970</b>	<b>8,352</b>	<b>704</b>	<b>9,056</b>

#### **4. FINANCIAL IMPLICATIONS (KB)**

The Council's Medium Term Financial Strategy sets out a minimum requirement that 10% of the net budget requirement should be held in general balances (in addition to any earmarked reserves). In order to ensure the financial resilience of the Council, amounts may be set aside in earmarked reserves for future spending.

#### **5. LEGAL IMPLICATIONS (AB)**

It is the responsibility of the S151 Officer under S26 and S27 of the Local Government Act 2003 to advise the Authority annually on the appropriate amount of reserves and to make recommendations on the Authority's strategy with regard to reserves

#### **6. CORPORATE PLAN IMPLICATIONS**

This report contributes to the achievement of the following Corporate Plan Priorities:

- The Council sets a balanced budget that meets all requirements of the Council and is aligned to the priorities of the Council and its citizens
- The Council's major projects are completed to time and to budget
- The Council's financial standing is maintained and the finances remain healthy over the period of the plan

#### **7. CONSULTATION**

Consultation has taken place with the Strategic Leadership Board and the Corporate Operations Board.

#### **8. RISK IMPLICATIONS**

It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision/project have been identified, assessed and that controls are in place to manage them effectively.

The following significant risks associated with this report/decision were identified from this assessment:

<b>Management of Significant (Net Red) Risks</b>		
<b>Risk Description</b>	<b>Mitigating Actions</b>	<b>Owner</b>
None		

#### **9. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS**

There are none.

## 10. CORPORATE IMPLICATIONS

By submitting this report the author has taken the following into account:-

- Community Safety Implications
- Environmental Implications
- ICT Implications
- Asset Management Implications
- Human Resources Implications

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Background Papers:      Civica Authority Financials reports  
                                    Draft Statement of Accounts

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## **Appendix 1**

### **Details of Current Reserves**

#### **Commutation and Feasibility Reserve**

The Borough Council has been applying the commutation adjustment to reduce its minimum revenue provision, but prospective increases in the capital financing requirement and a reducing commutation adjustment means that there will be a progressive increase in future MRP.

Proposed capital projects often need feasibility studies before final commitment can be made to a project. This reserve will be used to cater for each of these requirements.

#### **Benefits Reserve**

This reserve is to allow for variances between estimates for benefit payments and the subsidy received. In view of the material budget only a small variation would have a significant effect on balances. It is therefore prudent to keep an earmarked reserve for such variations particularly in light of the changes in Council Tax Benefit support from 2013/14.

#### **Hub Future Rental Management**

Developer incentives received have been transferred into this reserve to minimise the risk of future movement in rental indices which may impact the Council's expenditure on the new Hinckley Hub.

#### **Special Expenses**

This reserve has been established to fund additional parks and open spaces expenditure within the Hinckley area.

#### **Local Plan Procedure**

This reserve is to fund the costs of the Local Development Framework. The reserve will be used as elements of the framework are required.

#### **Atkins**

Reserve has been put in place was to fund additional improvements to the Atkins Building.

#### **Business Rates Pooling**

From 2013/2014, Business Rates Retention will mean that losses in rates will need to be funded by the Council. This reserve has been created to reflect the total amount of Business Rates this Council is required to "loose" before receipt of a safety net payment from the Leicestershire Pool.

#### **Historic Buildings**

This reserve is to allow owners of listed buildings the opportunity to borrow money to fund historic alterations and restorations. It will be used as and when applications for loans are submitted and contributions will be made as and when repayments are received.

#### **Relocation Reserve**

This reserve has been established from savings in 2010/11 to provide resources to support the Council's office move planned for 2013/2014



**Modern.Gov Reserve**

This reserve was established to cover the cost of the acquisition and subsequent upgrades of the Modern.gov software system.

**Greenfields Reserve**

This reserve has been created to finance minor alterations to the Greenfields Industrial Units to make them more attractive to tenants.

**Community Safety Reserve**

Costs of funding intranet development work for informing officers of potentially violent customers.

**Leisure Centre Reserve**

Reserve created to fund capital costs of new Leisure Centre in order to minimise levels of borrowing required for the scheme.

**Carry Forwards**

Relates to those budget carry forwards authorised from the previous financial year.

**Troubled families**

The Council has agreed to make a cash investment of £90,000 towards the Leicestershire Troubled Families programme. This reserve will be released over a 3 year period to fund this scheme.

**Building Control**

The Council strives to ensure that fee income from Building Control work is sufficient to cover the associated costs of the work over a rolling three-year period. This reserve will be used to smooth out variations in surpluses and deficits from year to year.

**Land Charges Reserve**

Reserve has been set aside to fund potential legal costs arising from land charge action against Local Authorities nationally.

**ICT Reserve**

This reserve was set up from the 2007/08 underspend on the ICT budget and will be used to further improve the ICT support service, in particular by upgrading the aging infrastructure and to fund the infrastructure moves to the Hinckley Hub.

**Waste Management Reserve**

The Waste Management Service is currently experiencing a number of pressures on its resources particularly in respect of the need to recycle more and conduct additional rounds. This reserve has been set up using under spends to provide resources to address the pressures ahead for this high priority service area.

**Project Management/Masterplan Reserve**

At the present time the Council has an ambitious Capital Programme and is looking to facilitate the regeneration of Hinckley Town Centre through the Town Centre Renaissance Masterplan. This reserve is intended to provide project management support to the Capital Programme and resources to support the implementation of the Masterplan.

**Shared Services Reserve**

This reserve has been created to deal with any one off costs associated with increased collaboration and shared working of the Council across Leicestershire.

### **Grounds Maintenance Health and Safety Reserve**

Health and Safety requirements for Grounds Maintenance are mandated therefore this reserve has been set up to ensure any changes can be funded as a result of any required changes or unforeseen events.

### **Housing & Planning Delivery Grant Reserve**

This reserve has been set up to carry forward receipts of Housing & Planning Delivery Grant that are going to be spent in future years. A significant sum of grant was received in 2009/10 based on past performance which could not be spent on improvements to the Planning Service in that year but will be spent on such schemes in future years.

### **Flexible Working**

This reserve has been set up to provide additional resources to promote the Council's flexible working programme.

### **New Performance Improvement Set**

This reserve has been established to develop a base line for the new performance improvement set by Human Resources

### **Housing Energy Certificate Training**

To provide resources for Housing Energy Certificate training in light of changes in legislation

### **Finance Capacity Fund**

This reserve has been created to provide resources to cover short term capacity issues in the Finance service area.

### **Workforce Strategy**

This reserve will fund resources to enable a corporate Workforce Strategy to be developed.

### **Election Reserve**

Elections to the Borough Council are held every four years. It is considered to be inequitable to charge the full cost in the year of the election. An earmarked reserve has therefore been created to allow the cost of the election to be provided for each year.

### **Grounds Maintenance Machinery Replacement Reserve**

This reserve has been established from the savings in rental charges following the initial purchase of new machinery to allow for its replacement at the end of its useful life.

### **Pensions Reserve**

This reserve has been created to meet future potential increases in Employers Pension Contributions resulting from triennial valuations of the Pensions Fund and requirements for "opt in" in 2017.

### **Transformation Reserve**

This reserve has been created to provide resources to support the Transformation agenda within the Council

### **Hinckley Club for Young People Reserve**

This reserve reflects any additional support that may be required for Hinckley Club for Young People following issues with the clubs building.

**Development Control Reserve**

Reserve set up in 2012/2013 to reflect additional salaries costs that may arise from large levels of planning applications.

**Unapplied Grants and Contributions Reserves**

This reserve is an accountancy requirement and contains balances of grants and contributions that have not been applied to finance expenditure as the grant conditions have not yet been satisfied.

**Piper Balance Reserve**

This reserve will provide funding for the replacement of the Piper alarm system at the control centres when the current system becomes unviable.

**Communal Furniture Reserve**

This reserve has been created to provide for the replacement of furniture in communal areas of sheltered housing schemes which currently do not meet safety standards.

**Housing Repairs Reserve**

The Housing Repairs Reserve represents the cost of providing the housing repairs service to the Borough. This is detailed further in the notes to the Housing Repairs Account.

**Regeneration Reserve**

This reserve has been created from the available funds within the Housing Revenue Account following the introduction of self financing. The reserve will be used to fund projects arising from the HRA Business and Investment Plan.