

REVIEW OF EARMARKED RESERVS
REPORT OF THE DEPUTY CHIEF EXECUTIVE (CORPORATE
DIRECTION)

WARDS AFFECTED: ALL WARDS

1. **PURPOSE OF REPORT**

- 1.1 This report provides Council with the outcomes of a review by management of earmarked reserves. The report includes a number of recommendations around further earmarking of monies from Balances to address future spending pressures
- 1.2 The recommendations arising from this review will be formally implemented in September 2014 following completion of the Statement of Accounts process and confirmation of the 2013/2014 General Fund and Housing Revenue Account balance.
- 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 Council.

2. **RECOMMENDATION**

- 2.1 That Council approves of the recommended transfers to earmarked reserves from balances (section 3.2 and 3.6)
- 2.2 That Council considers approval of additional earmarked reserves to fund anticipated expenditure (section 3.3)

3. **BACKGROUND TO THE REPORT**

General Fund Reserves

- 3.1 The Council's earmarked General Fund reserves as at 31st March 2014 are summarised in the draft Statement of Accounts as set out below.

	Balance at 31st March 2012	Transfers out 2012/2013	Transfers in 2012/13	Balance at 31st March 2013	Transfers out 2013/14	Transfers in 2013/14	Balance at 31st March 2014
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Commutation and Feasibility	287	(120)	0	167	(41)	0	126
Benefits Reserve	272	0	208	480	(274)	51	257
Local Plan	442	(34)	73	481	(119)	0	362
Historic Buildings	14	0	0	14	(14)	0	0
Land Charges	51	(20)	233	264	(45)	0	219
Pensions Contributions	49	0	0	49	0	85	134
Building Control	134	0	0	134	(134)	0	0
Waste Management Reserve	243	0	74	317	(54)	0	263
ICT Reserve	253	(41)	0	212	0	0	212
Project Management/Master plan	333	0	0	333	(130)	0	203
Shared Services Reserve	74	0	0	74	(74)	0	0
Housing and Planning Delivery	172	(43)	0	129	(68)	0	61

Grant							
Flexible Working	15	0	0	15	(15)	0	0
Freedom of Information Act Training	3	(3)	0	0	0	0	0
New Performance Improvement Set	10	(2)	0	8	(8)	0	0
Housing Energy Certificate Training	11	0	0	11	(11)	0	0
Finance Capacity Fund	22	0	0	22	(22)	0	0
Priority Improvement Fund	70	(70)	0	0	0	0	0
Workforce Strategy	3	0	10	13	0	0	13
Elections	62	0	25	87	0	0	87
Grounds Maintenance Machinery Replacement	75	(16)	25	84	(25)	0	59
Transformation	50	0	0	50	(21)	0	29
Relocation Reserve	317	(326)	346	337	(406)	170	101
Future Capital Projects	611	(611)	0	0	0	0	0
Modern.Gov Reserve	2	0	0	2	(2)	0	0
Greenfields Reserve	19	0	0	19	(19)	0	0
Special Expenses	48	(74)	177	151	(8)	175	318
Carry Forwards	136	(136)	139	139	(139)	217	217
Hub Future Rental Management	250	0	0	250	(85)	750	915
Business Rates Pooling	0	0	110	110	0	60	170
Leisure Centre	0	0	1,353	1,353	(27)	1,325	2,651
Community Safety	0	0	3	3	(3)	0	0
Troubled Families	0	(30)	90	60	(30)	0	30
Hinckley Club for Young People	0	0	5	5	0	0	5
Development Control	0	0	40	40	(40)	0	0
Customer Services	0	0	0	0	(11)	11	0
Market Income management	0	0	0	0	0	15	15
Car Parking Income	0	0	0	0	0	25	25
Total Earmarked Reserves	4,028	(1,526)	2,911	5,413	(1,824)	2,884	6,472

- 3.2 The Medium Term Financial Strategy (MTFS) requires that at least 10% of the Council's budget requirement should be held in balances to ensure ongoing financial stability. Based on the draft outturn budget contained elsewhere on this agenda, "excess" balances of £1.153 million are currently available as calculated below.

	Total	General Fund	Special Expenses
	£'000	£'000	£'000
Balances at 1 April 2013	1,767	1,584	183
Forecast transfer to/from balances	426	562	-136
Forecast Balances at 31 March 2014	2,193	2,146	47
Net Budget Requirement	10,403	9,849	554
Minimum Balance requirement	1,040	985	55
Balance surplus /(requirement)	1,153	1,161	-8

- 3.3 It is proposed that these excess balances are allocated to a number of priority reserves based on percentages endorsed by Executive, as well as required movements to "top up" existing reserves to required levels. The proposed reserves and allocations of £1.153 million in total are as follows:

	Allocation of surplus balance	Details of reserve
	£'000	
Appeals Reserve	200	In order to ensure that funding is available for any large appeals that are approved by Planning Committee, an appeals reserve is recommended for approval.
Enforcement Reserve	100	Currently enforcement budgets are held for small amounts within individual cost centres. These are frequently under spent though occasionally large calls are made to carry out significant enforcement work. It is therefore proposed to remove individual enforcement budgets and create a corporate reserve that can be called upon should significant cases (e.g. Mallory Park) arise.
Transformation Reserve	150	The Medium Term Financial Strategy outlines that a staffing restructure will be required in 2015/2016. This reserve will provide for the cost of potential severance payments as well as aiding the financing of new car parking facilities required for officers.
Waste Management Reserve	100	Further investment is required in the waste management service going forward, particularly to fund increase requirements in service delivery created by new housing developments in the Borough. It should be noted that it is not proposed that this reserve is used to cover any loss in recycling credits funding as a result of County Council cuts.
Leisure Centre Reserve	526	Further investment to funded any additional costs arising from the build of the Leisure Centre. By using internal finance for these costs the Council will mitigate any costs of servicing debt or reducing the management fee due for the scheme.
Hub Future Rental Management	85	Balance to bring reserve back to £1million developer contribution.
Special Expenses Reserve	-8	Required transfer to Special Expense balances to ensure minimum levels are retained.
Total	1,153	

3.4 Pending the approval of the above suggestions, the revised opening balance, at 1st April 2014, of the General Fund earmarked reserves will be £7.652 million. Taking into account those transfers approved in the 2014/2015 budget, closing General Fund earmarked reserves as at 31st March 2015 will be £4.657 million.

	Balance at 31st March 2014	Proposed transfer from balances	Budgeted transfers to reserves 2014/2015	Budgeted transfers to reserves 2014/2015	Balance at 31st March 2015
	£'000	£'000	£'000	£'000	£'000

Commutation and Feasibility	126	0	0	0	126
Benefits Reserve	257	0	0	-11	246
Local Plan	362	0	152	-376	139
Historic Buildings	0	0	0	0	0
Land Charges	219	0	0	0	219
Pensions Contributions	134	0	28	0	162
Building Control	0	0	0	0	0
Waste Management Reserve	263	100	26	-35	354
ICT Reserve	212	0	0	-57	155
Project Management/Master plan	203	0	0	0	203
Shared Services Reserve	0	0	0	0	0
Housing and Planning Delivery Grant	61	0	0	-11	50
Flexible Working	0	0	0	0	0
Freedom of Information Act Training	0	0	0	0	0
New Performance Improvement Set	0	0	0	0	0
Housing Energy Certificate Training	0	0	0	0	0
Finance Capacity Fund	0	0	0	0	0
Priority Improvement Fund	0	0	0	0	0
Workforce Strategy	13	0	0	0	13
Elections	87	0	25	0	112
Grounds Maintenance Machinery Replacement	59	0	0	0	59
Transformation	29	150	0	0	179
Relocation Reserve	101	0	0	0	101
Future Capital Projects	0	0	0	0	0
Modern.Gov Reserve	0	0	0	0	0
Greenfields Reserve	0	0	0	0	0
Special Expenses	318	-8	64	-50	324
Carry Forwards	217	0	0	-217	0
Hub Future Rental Management	915	85	0	0	1,000
Business Rates Pooling	170	0	0	0	170
Leisure Centre	2,651	526	0	-2,610	567
Community Safety	0	0	0	0	0
Troubled Families	30	0	0	-30	0
Hinckley Club for Young People	5	0	0	0	5
Development Control	0	0	0	0	0
Market Income management	15	0	0	0	15
Car Parking Income	25	0	0	0	25
Appeals	0	200	0	0	200
Enforcement Reserve	0	100	34	0	134
City Deals	0		16	-16	0
Planning Capacity	0	0	100	0	100
Total Earmarked Reserves	6,472	1,153	444	-3,412	4,657

Housing Revenue Account Reserves

- 3.5 Based on the draft 2013/2014 outturn, it is forecast that HRA balances will be £1.007million for 2013/2014. The HRA Business Plan requires that £250 per property should be held in balances to ensure ongoing financial stability of the HRA. On this basis, "excess" balances of £0.310 million are currently available as calculated below. It is recommended that these are transferred to the "Regeneration Reserve" to fund

future capital projects. In addition, the surplus on the Repairs Reserve (£0. 241 million) will be retained within the Housing Repairs Account (rather than transferred to the Regeneration Reserve) to ensure that funding is available should demand increase.

	Balances	Properties
	£'000	#
1st April 2013	1,891	3,411
Forecast transfer to/from balances	-735	
Forecast 31st March 2014	1,156	3,385
Minimum Balance requirement	846	
Balance surplus /(requirement)	310	

- 3.6 Pending the approval of the above recommendation, the revised opening balance, at 1st April 2014, of the HRA earmarked reserves will be £7.357 million. Taking into account those transfers approved in the 2014/2015 budget, closing HRA earmarked reserves (including the Housing Repairs Account) as at 31st March 2015 will be £9.597 million

	Balance at 31st March 2014	Proposed transfer from balances	Budgeted transfers to reserves 2014/2015	Budgeted transfers from reserves 2014/2015	Balance at 31st March 2015
	£'000	£'000	£'000	£'000	£'000
Piper Balance	135	0	10	0	145
Communal Furniture	4	0	0	0	4
Housing Repairs Account	483	0	3,198	-3,196	486
Regeneration Reserve	4,385	310	3,462	-1,124	7,033
Repayment Reserve	1,900	0	0	0	1,900
Pension Contributions	29	0	0	0	29
Carry forward Reserve	111	0	0	-111	0
Service Improvement Reserve	0	0	0	0	0
Total HRA Earmarked Reserves	7,047	310	6,671	-4,430	9,597

4. FINANCIAL IMPLICATIONS [KP]

- 4.1 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 [EC]

- 5.1 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

6.1 The budget and outturn contributes to the achievement of all Corporate Plan Priorities

7. CONSULTATION

Executive and Scrutiny have been consulted on the Councils priority reserves

8. RISK IMPLICATIONS

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

8.2 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.

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

Management of significant (Net Red) Risks		
Risk Description	Mitigating actions	Owner
Failure to successfully deliver the Medium Term Financial Strategy	<p>The draft out turn position shows a year end forecast under spend of £550K. Majority of this will be allocated to earmarked reserves in order to smooth out the impact of further anticipated reduction (around 16%) in Formula Grant funding and the impact of LCC budget cuts (estimated at the top end at £500K.</p> <p>The budget for 2014/15 was agreed by full Council on 20th February. Minimum amount taken from balances after including just over £300K in base savings and additional income.</p> <p>The draft MTFS is going to be considered by executive at the briefing on 16th April. This will then go to Scrutiny Commission (all Members invited) on 15th May and full Council on 20th May for approval. The financial position for 23015/16 and 2016/17 is extremely challenging (made significantly worse by the announcements of County Council cuts that will affect Leicestershire District Councils)with the Council no longer able to work towards the "forecast" position. Instead the Strategy directs the Council to work towards moving to the "best case" forecast by making certain decisions.</p> <p>One further mitigating action being pursued by senior management is to negotiate a share of Business Rates</p>	S Kohli

	uplift from the Enterprise Zone on the basis that this Council is not worse off from losing BR up lift that it would otherwise would have been entitled to if the Zone had not been established.	
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9. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

There are no direct implications with the budget process

10. CORPORATE IMPLICATIONS

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

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Human Resources implications
- Planning Implications
- Voluntary Sector

Background Papers: Civica Authority Financials reports
Closedown files

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