**Title:** Reserves Update

**Report of:** Director of Finance

<table>
<thead>
<tr>
<th>Open</th>
<th>For Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wards Affected: None</td>
<td>Key Decision: No</td>
</tr>
</tbody>
</table>

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**Accountable Director:** Kathy Freeman, Director of Finance

**Summary**

A request was made by PAASC that an update on the Council’s reserves situation is presented to them.

The report also highlights the definition and guidance on reserves from CIPFA.

The key points of the report are:

- Each of the Council’s reserves are clearly identified
- The intended use of each reserve,
- Forecast spend and use of each reserve
- The forecast balances of each reserve for the financial years 2017/18, 2018/19 and 2019/20.

The key issues to note currently are:

- All reserves are being used in accordance with their intention
- The Council’s levels of reserves are greater than the minimum requirements needed for the organisation.

**Recommendation(s)**

To note the content of the report.
1. **Introduction and Background**

1.1. It has been requested that a short report outlining the authority’s reserves financial position for 2017/18, and a forecast to the position for 2018/19 and 2019/20.

1.2. The report should also list each of our reserves and with a brief explanation regarding their purpose.

1.3. For information purposes, CIPFA defines reserves as:

   “Amounts set aside for purposes falling outside the definition of provisions should be considered as reserves, and transfers to and from them should be distinguished from service expenditure disclosed in the Statement of Accounts. Expenditure should not be charged direct to any reserve. For each reserve established, the purpose, usage and the basis of transactions should be clearly identified. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management.”

1.4. When the authority reviews their medium term financial plans and preparing their annual budgets, we should consider the establishment and maintenance of ‘usable’ or cash reserves. These can be 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;
   - A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
   - A means of building up funds, often referred to as earmarked reserves to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.

2. **Reserves and the MTFS**

2.1. At the close of 2016/17, General Fund Balances were £19.33m. There was also a revenue overspend for 2016/17. To balance this, we drew down £4.94m from General Fund Balances to balance the 2016/17 budget. This was funded from reserves that are designed to mitigate such risks. The risks associated with those areas that were overspending in 2016/17 have been mitigated in the creation of the 2017/18 budget and MTFS. As part of the MTFS, it was agreed that £8.1m would be utilised to balance the 2017/18 budget.

2.2. £15m is currently the minimum recommended level of balances for the General Fund Balance. This recommendation will be kept under review in the light of our changing financial context. The minimum levels of reserves are assessed annually at a local level. This assessment is based upon strategic, operational, and financial risks facing the authority. It is the responsibility of the Chief Financial Officer to ensure that the reserves are at an adequate level as per section 114 of the Local Government Finance Act 1988. The
levels of reserves and their suitability are kept under constant review as the shape and size of the council changes. Any changes would be recommended to Cabinet. The current assessment of the minimum level of reserves is adequate and no change needs to be made.

2.3. General Fund Balances for the Council has increased from £3.7m in 2008/09 to £19.3m (2016/17); an increase of £15.6m over the period. The balances peaked in 2013/14 to £27.1m and has since reduced to £19.3m, a reduction of £7.8m to meet continued Council budget pressures.

These are the absolute figures but its is interesting to note how these amounts compare to the councils' net budget which has been decreasing over the same time. The is shown the graph below.
2.4. It is forecast that the General Fund balance would reduce to £15.9m at the beginning of 2019/20.

Summary of Reserves Position from 2017 onwards

<table>
<thead>
<tr>
<th></th>
<th>Balance 1st April 2017</th>
<th>Balance 1st April 2018</th>
<th>Balance 1st April 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund Balances</td>
<td>19,330</td>
<td>17,030</td>
<td>15,906</td>
</tr>
<tr>
<td>General Fund Earmarked</td>
<td>27,649</td>
<td>13,540</td>
<td>10,141</td>
</tr>
</tbody>
</table>

3. Earmarked Reserves

3.1. LBBD currently has a number of Earmarked Reserves that are identified below.

- **Departmental Reserves** – Includes the Adults Social Care reserve and PSL reserves
- **Public Health Reserve** – Used on Public Health Projects
- **Corporate Restructuring Reserve** – Used to fund corporate restructures and budget gaps
- **Insurance Reserve** – Cover for uninsurable costs e.g. MMI, historic asbestos etc.
- **Budget Support Reserve** – Funding for Savings Implementation Costs, budget shortfalls and EIB interest costs.
- **VAT Market Repayment Reserve** – VAT rebate earmarked for Market Trader claims
- **Capital Investment Reserve** – Initial funding for land purchases and start-up costs for the Council’s ESCO
- **Legal Reserve (LBBD Share)** – Committed to fund improvements and unforeseen costs within the legal service
- **Collection Fund Reserve** – Earmarked to fund potential business rates appeals. This also includes the provision for back dated appeals that the Council spread over a 5 year period.
- **Elections Reserve** – Funds set aside to pay for the costs of elections.
- **LEP Housing Rentals Reserves** – Funding earmarked to prime Reside type schemes as part of our investment portfolio
- **Other Miscellaneous** - Investment in commercial portfolio to improve future rental yields
- **Council Entities** – Use of Reside, Abbey Roding, Lifecycle and Clockhouse Tower surpluses for marketing new developments.

3.2. Earmarked Reserves are forecast to reduce from £27.6m to £13.5m during 2017/18. This is due to the following reserves being used:

- The corporate restructuring reserve funding balance the budget gap for 2017/18 (as per the MTFS)
• The budget support reserve being used as an element to balance the 2017/18 budget (as per the MTFS) and to fund initial investment interest payments.
• The budget support reserve to fund potential overspend in 2017/18.
• Drawdown from the Capital Investment Reserves as part of the investment strategy to fund asset purchases and capital investment.

3.3. All the above uses are scheduled uses of the reserves in line with their allocations and this is as per the MTFS. The full table of balances can be seen below.

<table>
<thead>
<tr>
<th>General Fund balances</th>
<th>1st April 2017</th>
<th>1st April 2018</th>
<th>1st April 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19,330</td>
<td>17,030</td>
<td>15,906</td>
</tr>
<tr>
<td>Total Earmarked Reserves</td>
<td>27,649</td>
<td>13,540</td>
<td>10,141</td>
</tr>
<tr>
<td>Departmental Reserves</td>
<td>2,748</td>
<td>2,748</td>
<td>2,748</td>
</tr>
<tr>
<td>Public Health</td>
<td>161</td>
<td>161</td>
<td>161</td>
</tr>
<tr>
<td>Corporate restructuring</td>
<td>2,006</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Insurance</td>
<td>1,639</td>
<td>1,639</td>
<td>1,639</td>
</tr>
<tr>
<td>Budget Support Reserve</td>
<td>11,199</td>
<td>2,626</td>
<td>-</td>
</tr>
<tr>
<td>VAT Market Repayment</td>
<td>211</td>
<td>161</td>
<td>111</td>
</tr>
<tr>
<td>Capital Investment Reserves</td>
<td>3,575</td>
<td>1,000</td>
<td>500</td>
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<tr>
<td>Legal Reserve (B&amp;D Share)</td>
<td>563</td>
<td>563</td>
<td>563</td>
</tr>
<tr>
<td>Collection Fund Reserve</td>
<td>1,581</td>
<td>1,581</td>
<td>1,581</td>
</tr>
<tr>
<td>Elections Reserve</td>
<td>223</td>
<td>223</td>
<td>-</td>
</tr>
<tr>
<td>LEP Housing Rentals Reserves</td>
<td>1,394</td>
<td>1,394</td>
<td>1,394</td>
</tr>
<tr>
<td>Other Miscellaneous</td>
<td>905</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Council Entities</td>
<td>1,444</td>
<td>1,444</td>
<td>1,444</td>
</tr>
</tbody>
</table>

3.4. It should be noted that the figures for 2018 and 2019 are forecast, and are subject to change.

4. Financial Implications

*Implications completed by: Stephen Hinds, Chief Accountant*

4.1. There are no financial implications arising from this report.

5. Legal Implications

5.1. There are no legal implications arising from this report.