

Appendix 4 – Usable Reserves Outturn and Look Forward

Usable Reserves Outturn as at 31 March 2019

- The level of usable reserves as at 31 March 2019 is shown in the table below. The balances are subject to the annual audit of the accounts which is due to be completed by 31 July 2019.

Reserve	Balance in £'000 as at		
	31/03/17	31/03/18	31/03/19
General Fund	4,725	5,067	5,714
Earmarked Reserves			
Business Rates Retention	381	4,602	6,283
Budget Support	0	711	2,532
Invest to Save	1,820	1,506	1,450
S106 Commuted Sums	640	1,192	1,147
Revenue Grants Unapplied	0	744	694
Restructure	550	566	531
Corporate Property	418	412	372
Welfare Reforms	266	223	349
Renewals Reserves	857	451	330
Capital Support	452	485	262
Canal Quarter	0	214	237
Economic Growth	0	359	204
Other Earmarked Reserves	384	404	451
Total Earmarked Reserves	5,768	11,869	14,843
Total Usable Revenue Reserves	10,493	16,936	20,566
Capital Receipts Reserve	0	0	0
Capital Grants Unapplied	103	103	103
Total Usable Capital Reserves	103	103	103
Total Usable Reserves (per balance sheet)	10,596	17,039	20,669

- The outturn shows a significant increase in both the General Fund balance and in Earmarked Reserves. The increase in the General Fund balance of £647k is due entirely to the revenue budget underspend which is reported in appendix one. The increase in earmarked reserves is due, in the main part, to an accumulation of business rates gains over the last few years. The table below provides an analysis of the change in reserves during 2018/19.

Reconciliation between level of reserves at March 2018 and 2019

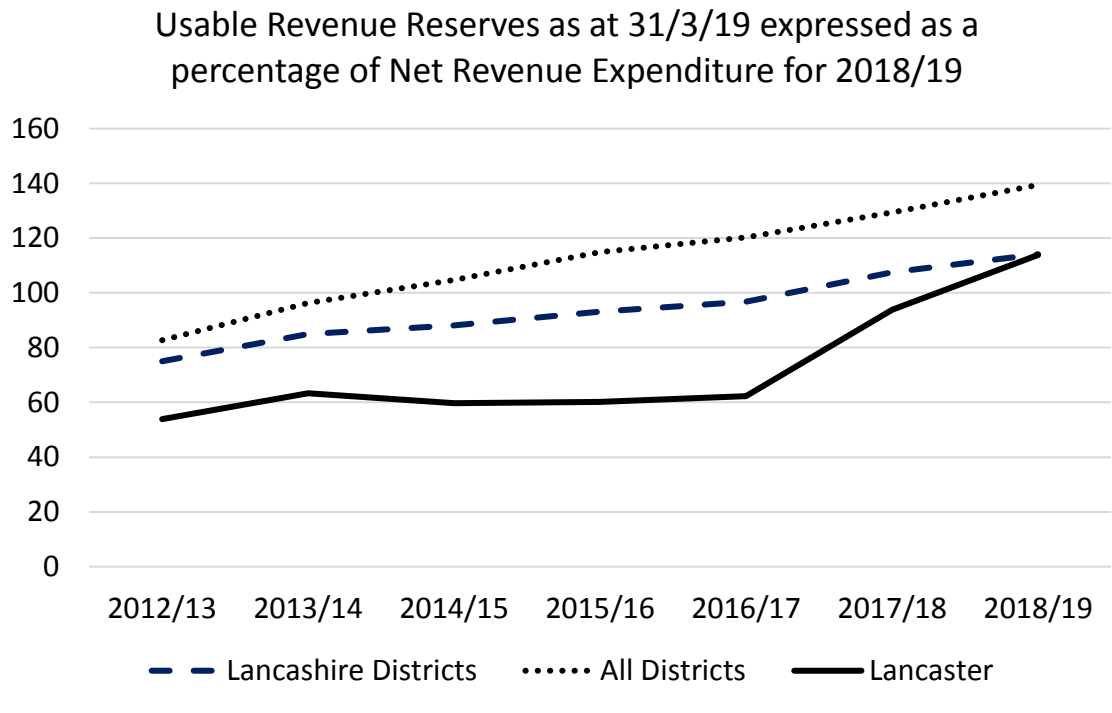
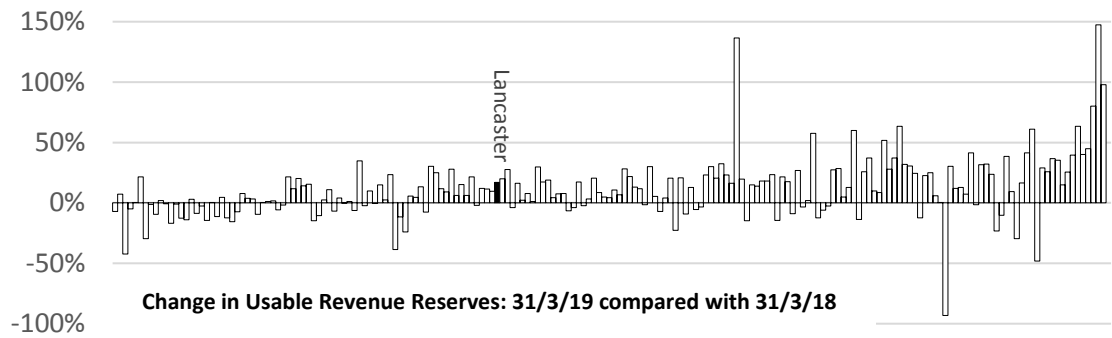
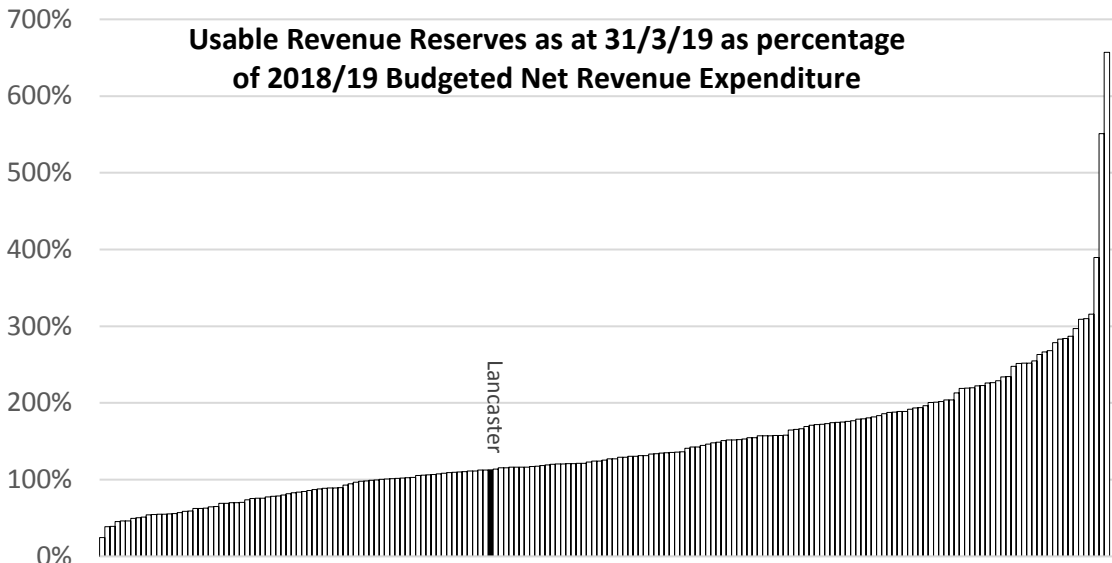
General Fund Reserve Balance at 31/03/18	5,067
<i>Add: Revenue Underspend at 2018/19 (see appendix one)</i>	<u>647</u>
General Fund Reserve Balance at 31/03/19	<u>5,714</u>
Earmarked Revenue Reserves Balance at 31/03/18	11,869
<i>Add: forecast increase in reserves (per 2018/19 rev. budget)</i>	8,301
<i>Less: forecast use of reserves (per 2018/19 rev. budget)</i>	<u>(6,169)</u>
Earmarked Revenue Reserves Balance per 2019/10 rev. budget	<u>14,001</u>
<i>Add: Earmarked reserves allocations not used in 2018/19</i>	<u>842</u>
Earmarked Revenue Reserves Balance at 31/03/19	<u>14,843</u>

Business Rates Reserves

3. This reserve was set up to manage fluctuations in business rates income and ensure that risks attributable to business rates appeals and the potential shutdown of Heysham Power Station. However, in six years these risks have only been partially realised and the Council has been able to accrue the rewards from good levels of business rates growth in the Lancaster district. As the above analyses show it is the accumulation of this additional income which is the major contribution to the increase in usable reserves. Future plans for this reserve are considered later in this report.

Financial Health Analysis

4. There has been significant media focus on the level of revenue reserves as the main determinant of financial health of local authorities as well as a measure of resilience against potential future funding reductions.
5. The increase in usable revenue reserves over the last two years has significantly improved the financial health and resilience of the Council. This is demonstrated in the three charts overleaf. The top chart shows the usable revenue reserves at 31 March 2019 expressed as a percentage of net revenue expenditure for all district authorities. The middle chart shows the change in those reserves during 2018/19. The bottom chart shows the same analysis in a line graph over a longer period comparing Lancaster with the Lancashire districts average and all districts average.
6. The charts show almost a doubling in usable revenue reserves over the last two years and Lancaster City Council now has over a year's worth of net revenue expenditure held in reserve.



Looking forward

7. There are a number of commonly accepted reasons for holding and using reserves which are all associated with managing current and future financial challenges and risks. These include:
 - Using reserves to offset funding reductions to protect services – although this can only be a short-term strategy as reserves are a one-off funding resource.
 - Increasing reserves to strengthen resilience against future, uncertain cost pressures.
 - To fund project expenditure, particularly in respect of key projects which meet the Council's priority areas.
 - Investing in making changes that reduce the cost of providing services in the longer-term.
 - Using reserves to fund significant one-off (eg. Elections, Local Plan) or unpredictable (eg. Renewals) expenditures in order to even out contributions over the period of the expenditure.

8. The Council agreed its Reserves Strategy on 28 February 2019 agreeing the following:
 - Revenue contributions from reserves of £1.219m and contributions to reserves from the revenue budget of £755k and capital contributions from reserves of £864k resulting in a budgeted reduction in reserves of £1.328m.
 - That following on from the year end the balance on the business rates reserves is reviewed and any surplus funds, over and above those required to provide funding certainty, are redesignated towards the delivery of corporate priorities as set out in the Council Plan or accompanying strategic documents as and when revised by the new Council.
 - That the budget support reserve purpose should be extended to include any upfront costs which are attributable to work undertaken in respect of Funding the Future.

9. Since the Reserves Strategy was agreed, a new Council has been elected and the new Cabinet is in the process of agreeing priorities which include key projects and assigning responsibilities to Portfolio Holders. Additionally, a number of key strategies will be considered over the next few months covering key priority areas.

10. Taking account of the above the following recommendations are now made.

a. Improved clarity with respect to the Use of Reserves

Any bid for the use of reserves should be supported by a business case showing the need for resources and the impact arising from the use of the reserve. A pro-forma has been developed which, for each reserve bid, includes:

- Description of project
- Amount of reserve bid
- Link to reserve purpose and link to relevant Strategy
- Full costing of project linked to a SMART Action Plan
- List of Outcomes and Impacts arising from the use of reserve
- Completion of Social Value matrix including reference to Climate Change Emergency and Community Wealth Building priorities
- Sign off by relevant Director and Portfolio Holder

The pro-forma will be applied to all existing budgeted use of reserves as well as any new bids for the use of reserves. A quarterly report covering use of reserves will be incorporated into the performance management reporting framework.

b. Alignment of Earmarked Reserves to Portfolio Holders

Earmarked reserves will be assigned to relevant Portfolio Holders for the purposes of approval (subject to Reserves Policy) and monitoring. The list of responsibilities is included in the table below.

Reserve	Portfolio Holder
Business Rates Retention	Economic Development
Budget Support	Finance
Invest to Save	Finance
S106 Commuted Sums	Planning
Revenue Grants Unapplied	Finance
Restructure	Resources
Corporate Property	Economic Development
Welfare Reforms	Social Justice
Renewals Reserves	Various
Capital Support	Finance
Canal Quarter	Economic Development
Economic Growth	Economic Development

The Portfolio Holder for Finance will retain an overarching responsibility for managing the overall level of usable revenue reserves having regard for the Council's financial resilience and future financial risks.

c. Business Rates Reserve

The Business Rates reserve has a balance of £6.283m at 31/03/19 and this is likely to increase further in 2019/20 so long as there is no closedown at Heysham Nuclear Power Station. This balance is significantly greater than the level which is required to secure continued resilience over the four year period of the Council. It is therefore recommended that bids to the Business Rates reserve be allowed using the process set out in **a** and **b** above in order that key corporate projects can be progressed.

d. Budget Support Reserve

A number of Funding the Future Strategy projects are planned to be progressed over the next few months. It is therefore recommended that bids to the Budget Support reserve be allowed using the process set out in **a** and **b** above in order that key financial resilience projects can be progressed.