

# CABINET

1 October 2019

## Report of Director of Corporate Services

PURPOSE OF REPORT				
To consider and approve an updated Reserves Strategy and Action Plan.				
Key Decision	X	Non-Key Decision		Referral from Cabinet Member
Date of notice of forthcoming key decision	20 September 2019			

### RECOMMENDATIONS OF COUNCILLOR ANNE WHITEHEAD

- (1) To approve the revised Reserves Strategy and Action Plan set out in Appendices One and Two.
- (2) To recommend that full Council amend the Budget & Policy Framework to incorporate the amendment to the Reserves Strategy.

#### 1.0 Introduction

1.1 At a meeting of Cabinet on 6 August 2019, a report on the financial outturn for 2018/19 included recommendations in respect of the management of usable revenue reserves. Cabinet decided to consider this area of work in more detail and requested a white paper for consideration at the first meeting of the Financial Resilience Advisory Group which was held on 12 September 2019.

#### 2.0 Current Position

2.1 The meeting of the Financial Resilience Advisory Group reached the following conclusions:

- Usable revenue reserves have almost trebled over the last two years, mainly as a consequence of business rates growth and whilst it is clear that this increase has boosted the Council's financial resilience, it is important that earmarked reserves particularly have a clear rationale and plan for their future use.

- It was generally held that the Council should improve the clarity around the use of reserves in meeting Council priorities as well as the responsibilities for approving their use. It was also agreed that improved financial and performance monitoring of reserve funded expenditure was required.
- It was agreed that the emerging priorities of the new Cabinet and changes to financial decision levels within the Constitution necessitated a review of the Reserves Strategy. The concept of 'pre-approval' was discussed and this is outlined below.

### **Pre-Approval**

The annual budget framework process will consider revenue, capital and reserves bids in the context of corporate priorities. Where bids are considered at times other than the annual Budget Council it is just as important that these can show that they meet these priorities. This will be achieved if the projects are 'pre-approved' by Cabinet, usually when corporate strategies are considered and approved. Any financial bids made during the financial year (up to £100k in the case of reserves) can be approved by the relevant Portfolio Holder, supported by the relevant bid document, as long as the project has been previously identified and pre-approved in a report to Cabinet.

This will ensure that governance transparency is balanced with speed of decision.

2.2 Specifically, the Financial Resilience Advisory Group recommended the following:

- The Canal Quarter, Capital Support, Economic Growth, Morecambe Area Action Plan, Welfare Reforms and Amenity Improvements should be reviewed to establish whether specific up to date action plans exist for the use of the earmarked resources. Where no plan exists, the reserve should be closed and the balance transferred to the Corporate Priorities reserve (see below).
- The Budget Support Reserve should be renamed Corporate Priorities Reserve to reflect that bids to this reserve should support the achievement of the Council's key priorities.
- The Invest to Save Reserve should be used for all projects which arise from the Funding the Future Strategy (incorporating efficiency reviews, commercialisation and property investment) and any other project which is aimed at delivering efficiencies, reducing costs or increasing income.
- All future bids for reserves use should be supported by a bid document (included as appendix two) which sets out in detail the

resources required, an action plan and outcomes and measures which reconcile to corporate priorities.

- Reserve bids decision limits should be as follows:
  - Up to £25k – to be agreed by Portfolio Holder in consultation with relevant Director. Bid should have been pre-approved by Cabinet.
  - £25k to £100k – to be agreed by Portfolio Holder in consultation with relevant Director. Individual Cabinet Member Decision to be published. Bid should have been pre-approved by Cabinet.
  - Over £100k – to be agreed by Cabinet Meeting.
- As part of the MTFs refresh, the level of Business Rates reserve required to protect the Council from a fall in business rates income should be established. Any surplus funds over and above this level should be transferred to the Corporate Priorities reserve.
- From Quarter Two, the monitoring of reserves will be incorporated into the quarterly performance and financial monitoring reporting process.

2.3 The recommendations set out above have been incorporated into a revised Reserves Strategy and Action Plan which is attached in appendices one and two.

### 3. Options and Options Analysis (including risk assessment)

<b>Option 1: Adopt the Strategy</b>
<b>Advantages</b> <ul style="list-style-type: none"> <li>• Improved clarity with respect to the use of reserves.</li> <li>• Greater assurance that reserves expenditure fits with corporate priorities and is appropriately authorised and monitored.</li> </ul>
<b>Disadvantages</b> <ul style="list-style-type: none"> <li>• None</li> </ul>
<b>Risks</b> <ul style="list-style-type: none"> <li>• The agreement of principles for the use of reserves reduces the risk that reserves expenditure is not adequately controlled which in turn might result in reduced financial resilience.</li> </ul>
<b>Option 2: Do not adopt the Strategy</b>
<b>Advantages</b> <ul style="list-style-type: none"> <li>• None</li> </ul>
<b>Disadvantages</b> <ul style="list-style-type: none"> <li>• Lack of clarity with respect to using reserves and processes for authorisation and monitoring of reserves will remain unclear.</li> </ul>
<b>Risks</b> <ul style="list-style-type: none"> <li>• The lack of an updated Reserves Strategy increases the risks that reserves expenditure is not adequately controlled.</li> </ul>

#### 4. Officer Preferred Option (and comments)

- 4.1 The officer preferred option is Option 1. This option is designed to clarify how reserves are managed and utilised in order to balance the delivery of council priorities with securing financial resilience.

#### 5.0 Conclusion

- 5.1 This report and appendices provide an update to the Council's Reserves Strategy which is part of the budget framework.
- 5.2 Any decision to amend the budget framework is a function of full Council.

<b>RELATIONSHIP TO POLICY FRAMEWORK</b> The Reserves Strategy is part of the budget framework.	
<b>CONCLUSION OF IMPACT ASSESSMENT</b> (including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing): None identified.	
<b>LEGAL IMPLICATIONS</b> No specific legal implications.	
<b>FINANCIAL IMPLICATIONS</b> The Reserves Strategy aims to ensure that the Council retains sufficient reserves to provide financial resilience whilst providing that reserves are used to deliver corporate priority projects.	
<b>OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces:</b> None identified.	
<b>SECTION 151 OFFICER'S COMMENTS</b> The Section 151 Officer has been consulted when preparing this report.	
<b>DEPUTY MONITORING OFFICER'S COMMENTS</b> The Deputy Monitoring Officer has been consulted when preparing this report.	
<b>BACKGROUND PAPERS</b>	<b>Contact Officer:</b> Dan Bates <b>Telephone:</b> 01524 582138 <b>E-mail:</b> dbates@lancaster.gov.uk <b>Ref:</b>