

CABINET

Revision to Reserves Strategy 2022/23

25 October 2022

Report of Chief Finance Officer

PURPOSE OF REPORT				
To consider and approve the transfer from allocated reserves, the updated Reserves Strategy and note the s151 Officers assessment of the minimum level of reserves				
Key Decision	<input type="checkbox"/>	Non-Key Decision	<input checked="" type="checkbox"/>	Referral from Cabinet Member
Date of notice of forthcoming key decision				

RECOMMENDATIONS OF COUNCILLOR ANNE WHITEHEAD

- (1) That Cabinet approve the transfer of £5.913M from the Councils allocated reserves to the General Fund unallocated reserve.
- (2) To recommend that Full Council amend the Budget & Policy Framework to incorporate the amendment to the Reserves Strategy.
- (3) To recommend that Full Council notes the s151 Officer revised minimum level of unallocated reserves

1.0 INTRODUCTION

1.1 At its meeting on 23rd February 2022 Council approved its Budget and Policy Framework General Fund Revenue Budget 2022-23 incorporating the s151 Officer annual assessment of the Council's minimum level of reserves, the planned use of reserves throughout the financial year and the underpinning governance arrangements.

1.2 Recent Member briefings to the Council's Budget & Performance Panel (B&PP) and Financial Resilience Group (FRG), as well as Delivering our Priorities Q1 financial reporting outlined the current financial pressure the Council faces in regard to the ongoing cost of living crisis around energy costs, together with other factors including general and pay inflation. It also reaffirmed the known structural budget issues as documented within the Council's Medium Term Financial Strategy (MTFS).

2.0 Current Position

2.1 In order to address these significant issues Cabinet and the Council's Senior Leadership Team are currently undertaking a number of initiatives including:

- Engaging in an Outcomes Based Resourcing programme
- Review of Capital Programme and associated financing arrangements

- Review of Council's General Fund asset portfolio
- Review of the current level of reserves

- 2.2 Given the current financial climate, it is important that the Council retains an adequate level of reserves to provide an increased degree of financial resilience and that it deploys these reserves carefully to enable the Outcomes Based Resourcing programme to deliver the necessary changes to service provision.
- 2.3 Currently the Council holds a number of allocated reserves totalling £5.913M to support revenue expenditure and assist in the delivery of a variety of outcomes. It is requested that these amounts be transferred into the General Fund unallocated reserve to enable the Council to better manage the current financial pressures.
- 2.4 The transfer excludes expenditure incurred to date and proposes a revised Governance process for accessing remaining funds. This is outlined below along with the s151 Officer reassessment of the minimum level of reserves

3.0 RESERVES & BALANCES

- 3.1 Under current legislation the Section 151 Officer is required to give explicit advice to Council on the minimum level of reserves and balances. Ordinarily this assessment is undertaken annually and noted by Full Council as part of the budget setting process. However, given the extraordinary financial pressures faced by the Council, the s151 Officer has undertaken a revised assessment as noted in paragraph 3.4 below
- 3.2 As noted previously, reserve levels and their usage are an important part of the budget framework. It is important that the Council maintains a healthy level of reserves in order to maintain financial resilience but, at the same time, balances this with the prudent use of those reserves, usually on 'one-off' items in order to support key outcomes. Currently the Council has unallocated General Fund balance of £6.032M and holds allocated reserves totalling £5.913M. These allocated reserves are held for a variety of purposes to assist the Council in delivering a range of priorities.
- 3.3 It is requested that these amounts be transferred into the Council's General Fund unallocated reserve to boost financial resilience and to facilitate rationalisation of the application of these resources. Table 1 below provides summary details to the transfers and the forecast balance on the General Fund

Table 1: General Fund Balance

	£M
2022/23 Opening Balance	(6.032)
Forecast Budgeted Contribution 2022/23	(0.034)
Transfers from	
Covid 19 Support Reserve	(1.647)
Corporate Property Reserve	(0.025)
MAAP Reserve	(0.027)
Car Parks Renewals Reserve	(0.012)
Business Rates Retention Reserve	(2.019)
Economic Growth Reserve	(0.248)
Restructure Reserve	(0.251)
Corporate Priorities Reserve	(1.356)
Invest to Save Reserve	(0.328)
Total Proposed Transfer	(5.913)
2022/23 Forecast Balance:	(11.979)

Revised Assessment of Reserves Levels

- 3.4 The Section 151 Officer's annual review of the adequacy of reserve balances is a statutory requirement. Although usable revenue reserve levels have increased in the last two years, the Council faces significant inescapable inflationary pressures resulting from the cost of living crisis. Continuing uncertainties in respect of BREXIT, Local Government Funding levels and the results of the Council's OBR process also remain. **Taking all of these risks into account, the Section 151 Officer's advice is that the minimum level of balances held in the General Fund should be increased to £5M.**
- 3.5 The Section 151 Officer's latest advice on the adequacy of balances is based on the following observations:
- The General Fund Balance at 31/03/22 was £6.032M, Quarter 1 revenue budget monitoring forecasts an overspend of £3.181M in 2022/23. Preliminary indications from Quarter 2 monitoring suggest a further increase in the overspent position. This will need to be met from unallocated reserves.
 - The Council's current MTFS suggests a structural budget gap in 2023/24 onwards of approximately £2.165M raising to £3.997M. If this is not closed, then balances will be required to make up the difference.
 - There is continuing uncertainty in respect of levels of local government funding, the ongoing impact of Covid 19 & BREXIT and measures to address the Council's structural budget issues.
 - Although Business rates retention volatility remains a risk to the Council in particularly the timing of the decommissioning of the Heysham nuclear reactors. This is managed via the Business Rates Retention Reserve, therefore, should not impact directly on the General Fund balance.
- 3.6 In calculating the minimum level of General Fund balance, an assessment of the risks that give rise to unanticipated expenditure or loss of income has been made and these are shown in Table 2 below.

Table 2: Risk Assessment

Risk	Symptom of Risk	Balance Required £M
Increased demand for services	3% increase in net revenue expenditure	0.600
Recession results in additional uncompensated reduction in fees and charges income than budget	5% reduction in major fees and charges income	0.850
Recession results in additional reduction in Council Tax collection rates than budget	3% reduction in collection rate	0.350
Budget savings not achieved	50% under achievement	0.200
Natural disaster such as flood etc	Additional unexpected expenditure	0.500
Additional uncertainty with respect to Cost of Living	Additional unexpected expenditure	2.500
Aggregate overspend if all of the above risks were to happen		5.000

- 3.7 The analysis shows that, in the event of a 'Perfect Storm' of risks happening all within the next year, there are sufficient balances to meet all these risks in the short term which would give the Council time to adapt in the longer term.

3.8 The minimum level of balances will be kept under review as part of the MTFs and reported to Cabinet on a regular basis.

Governance Arrangements on the Use of Reserves

3.9 Given the current financial pressures and the need for the prudent use of reserves revised arrangements for the approval of reserves expenditure is proposed:

- All applications will need to be supported by a bid document setting out how expenditure funded from Reserves will deliver corporate priorities with a clear costing statement schedule of specific outcome measures. Details of the bid proforma document is attached at appendix A
- Reserve bids should be agreed by Portfolio Holder in consultation with relevant Director.
- Once received bids will need to be formally agreed by the Leader of the Council, Chief Executive, Portfolio Holder for Finance and Resources, Monitoring Officer and the s151 Officer before expenditure is authorised and can be incurred.

3.10 These arrangements will be reviewed again as part of the annual revenue budget process

4.0 OPTIONS AND OPTIONS ANALYSIS

Option 1: Adopt the Revisions to the Strategy
<p>Advantages</p> <ul style="list-style-type: none"> • Improved clarity with respect to the use of reserves whilst enabling the Council to retain its financial resilience
<p>Disadvantages</p> <ul style="list-style-type: none"> • None
<p>Risks</p> <ul style="list-style-type: none"> • The agreement for the use of reserves reduces the risk that reserves expenditure is not adequately controlled which in turn might result in reduced financial resilience.
Option 2: Do not adopt the Revisions to the Strategy
<p>Advantages</p> <ul style="list-style-type: none"> • None
<p>Disadvantages</p> <ul style="list-style-type: none"> • Lack of clarity with respect to using reserves and processes for authorisation
<p>Risks</p> <ul style="list-style-type: none"> • That reserves expenditure is not adequately controlled and impact the Council's financial sustainability

5.0 OFFICER PREFERRED OPTION

5.1 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 in light of the current pressures.

6.0 CONCLUSION

6.1 This report and appendices provide an update to the Council's Reserves Strategy which is part of the budget framework.

6.2 Any decision to amend the budget framework is a function of full Council.

RELATIONSHIP TO POLICY FRAMEWORK	
The Reserves Strategy is part of the budget framework.	
CONCLUSION OF IMPACT ASSESSMENT (including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing):	
None identified.	
LEGAL IMPLICATIONS	
No specific legal implications.	
FINANCIAL IMPLICATIONS	
The Reserves Strategy aims to ensure that the Council retains sufficient reserves to provide financial resilience but, at the same time, balances this with the prudent use of those reserves in order to support key outcomes	
OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces:	
None identified.	
SECTION 151 OFFICER'S COMMENTS	
The Section 151 Officer has authored this report	
MONITORING OFFICER'S COMMENTS	
The Monitoring Officer has been consulted when preparing this report.	
BACKGROUND PAPERS	Contact Officer: Paul Thompson Telephone: 01524 582603 E-mail: pthompson@lancaster.gov.uk Ref:
Agenda for Council on Wednesday, February 2022, 6.00 p.m. - Lancaster Council	

Reserves Bid Document

Description of Expenditure/ Project		
Amount of Reserve Bid		
Reserve	General Fund Unallocated	
Essential or Previously Committed Expenditure	Yes	No
Strategy Link		
Corporate Project Link		
Council Outcomes		

Type of Expenditure (and budget code)	Amount	Details
Total		
Income		
Net Expenditure		

Action Plan

What	Who	When

Outcomes and Impacts arising from Request

Measure	Baseline	Target

Director Sign Off:

	Date
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Portfolio Holder Sign Off :

	Date
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REQUIRED Governance

Council Leader

Chief Executive

Finance Portfolio Holder

Monitoring Officer

S151 Officer

Approval	Date

Reserves Monitoring Updated

Deficit Monitoring Updated
