

Reserves Strategy

Introduction

1. Reserves are an essential part of good financial management. They help the Council to cope with unpredictable financial pressures and plan for future spending commitments. The level, purpose and planned use of reserves are important factors for the Council as part of the Medium Term Financial Strategy (MTFS).
2. The Council may choose to fund some of its spending from its reserves, or set aside some of its income to increase reserves for future spending.
3. Lancaster City Council, in common with most local authorities, face significant financial challenges. The unprecedented reduction in government funding from 2010/11 to 2019/20 and continuing uncertainties with respect to funding as well as, rising costs and growing demand for many services are all testing the Councils' financial management and resilience.
4. The introduction of local business rates retention in particular has created additional risks to all Councils' finances and particularly for Lancaster as it is one of a handful of authorities which has a nuclear power station within its area. The Council, therefore, bears a significant risk of a temporary or permanent shut down at the power station which would immediately and significantly reduce funding from business rates. The magnitude of such a financial shock is sufficient that the Council must hold a reserve to provide resilience in the event that this happens.
5. Current and future financial challenges pose significant risks for the Council. The Council will continue to use reserves to balance competing pressures for example:
 - Using reserves to offset funding reductions and protect services – although this can only be a short-term strategy as reserves are a one-off funding resource.
 - Using reserves to provide 'one-off' expenditure to meet corporate priorities.
 - Investing in making changes that reduce the cost of providing services in the longer-term.
 - Increasing reserves to strengthen resilience against future, uncertain cost pressures.

The approach to setting the Reserves Strategy.

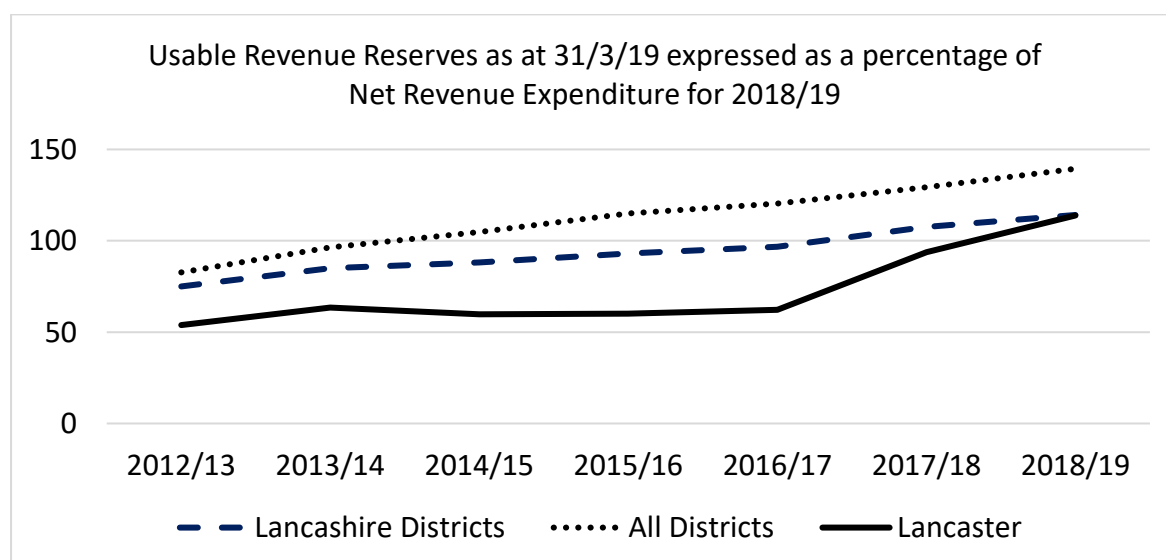
6. The Reserves Strategy covers the following aspects:
 - Information showing the current level of reserves, individually and in aggregate and an assessment of the adequacy of reserve levels.
 - A summary of the financial risks facing the Council, how it will mitigate these risks, and the minimum and maximum level of residual risk for which the council may need to hold funds in its reserves, particularly its General Fund and HRA reserves.
 - Consideration of the forward strategy for reserves needed to support the Medium Term Financial Strategy.
 - Summary of each individual reserve covering its purpose and governance arrangements for its use.
7. Reserves will be monitored throughout the year as part of the quarterly financial monitoring and the level of reserves reported as part of the year-end accounting processes.

Level of reserves and principles to assess adequacy

8. Within the existing statutory and regulatory framework, it is the responsibility of the Chief Financial Officer (at Lancaster this is the Financial Services Manager who is the Section 151 Officer) to advise the Council about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use.
9. For clarity, within the legislation the minimum level of any reserve is not quantified. It is not considered appropriate or practical for the Chartered Institute of Public Finance and Accountancy (CIPFA), or other external agencies, to give prescriptive guidance on the minimum, or maximum, level of reserves required either as an absolute amount or a percentage of the budget. This is an assessment which the Council should make with advice from the Section 151 Officer.
10. At the end of the 2018/19 financial year, Lancaster City Council had levels of usable reserves as set out in the table below.

	2017/18 £000s	2018/19 £000s	Change £000
General Fund Reserve	5,067	5,714	647
Earmarked Revenue Reserves	11,869	14,843	2,974
Usable Capital Receipts	0	0	0
Capital Grants Unapplied	103	103	0
Total General Fund Reserves	17,039	20,566	3,527
HRA balance	2,017	2,235	218
Earmarked HRA Reserves	10,561	10,537	(24)
Total HRA Reserves	12,578	12,772	194

11. The table shows that reserves increased during 2018/19. This was mainly due to an increase in the business rates reserve from the Council's share of retained rates associated with business rates growth in the district. The increase in reserves is a significant boost to the Council's financial resilience.
12. Media focus on reserves has tended to focus on General Fund revenue reserves as it is these which provide the financial resilience to guard against unanticipated increases in expenditure or reductions in income.
13. The graph below shows the level of reserves at Lancaster City Council expressed as a percentage of net revenue expenditure compared with all other district councils.



14. Lancaster City Council has the equivalent of about one year's net revenue expenditure held in usable revenue reserves. In general terms, reserve levels should be adequate to meet any short term unanticipated financial shock.
15. In specific terms, it is important to assess the adequacy of reserves taking account of the financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements. These include:

Budget Assumptions

- Levels of Government funding, council tax and business rates.
- The treatment of inflation and interest rates.
- Estimates of the level and timing of capital receipts.
- The treatment of demand led pressures.
- The treatment of planned efficiency savings/gains.
- The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments.
- The availability of other funds to deal with major contingencies and the adequacy of provisions.

Financial Standing and Management

- The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates, etc.).
- The authority's track record in budget and financial management including the robustness of the medium term financial plans.
- The authority's capacity to manage in-year budget pressures.
- The strength of the financial information and reporting arrangements.
- The adequacy of the authority's insurance arrangements to cover major unforeseen risks.

General Fund Balance

16. The general fund balance is an unearmarked revenue reserve and as such should be sufficient to cover all unanticipated expenditures or reductions in income that may arise so that the authority has sufficient balances to meet these in the medium term.
17. 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 the table below. The analysis shows that in the unlikely event of a 'perfect storm' of risks happening all within the next year then there are sufficient balances to meet all these risks. This would give the Council time to adapt to such risks in the medium term.

APPENDIX D

Risk	Symptom of risk	Balance required £000
Increased demand for services	3% increase in net revenue expenditure	530
Recession results in reduced fees and charges income	10% reduction in major fees and charges income	1,300
Recession results in reduced council tax collection rates	3% reduction in collection rate	300
New Homes Bonus Scrapped	Significant reduction in funding income	1,300
Next year's budget savings not achieved	50% under achievement	250
Next year's commercial income target not achieved	30% under achievement	120
Natural disaster such as flood	Additional unanticipated expenditure	500
Uncertainty with respect to Brexit	Additional unanticipated expenditure	500
Aggregate overspend if all above risks were to happen		4,800
General Fund Balance as at 31/03/20		5,392

HRA Balance

18. The HRA balance and earmarked reserves are considered each year in conjunction with the annual budget at update of the 30 year business plan.

Earmarked Reserves

19. The Council holds a number of earmarked reserves, which it has chosen to set aside for one of the following purposes:

- To manage fluctuations in income or funding.
- To provide for some future anticipated expenditure for identified projects, particularly in respect of corporate priorities.
- To provide up-front costs which specifically result in future efficiencies, cost savings or increased income.
- To hold funding from other bodies, mainly Government, for specified purposes.

20. A schedule of earmarked reserves is included at the end of this document with details, for each reserve, showing its purpose. Specific issues arising from a review of earmarked reserves (see para. 21) are detailed in a reserves action plan shown below (para. 22).

21. The Financial Resilience Advisory Group (FRAG) has undertaken a review of usable reserves which has looked at each of the following areas:

- The reasons for holding reserves, ensuring that each reserve has a clear and unambiguous purpose which relates to the Council's operations and priorities.
- The appropriate level of reserves, both collectively and individually, ensuring that there is sufficient to cover future commitments and priorities whilst maintaining good levels of financial resilience.
- Authorisation processes for the use of reserves including the adequacy of reserve bid documents, Cabinet and Portfolio Holder as well as Officer accountabilities and the timing of reserve bids.
- Reporting on the levels of reserves in terms of financial reporting and performance reporting in respect of the effectiveness of reserves use.

22. The following actions are now proposed.

Budget Support Reserve

It is proposed that the reserve be named the Corporate Priorities reserve and its purpose be expanded to provide resources to help finance capacity or development and feasibility work in support of the Council's priorities as adopted by Council in January 2020.

Furthermore, it is proposed to transfer the year end balances (and any future allocations) of the Canal Quarter, Capital Support, Economic Growth, Welfare Reforms, Morecambe Bay Area Action Plan, Amenity Improvements and Museums Acquisitions into the Corporate Priorities reserve. The rationale behind this is to ensure that all reserve bids are considered equally through the lens of the corporate priorities and are subjected to consistent rigour in the consideration and approval process.

Business Rates Reserve

The business rates reserve has collected all the gains from business rate growth which have accrued since the commencement of the localised business rates scheme. Its balance as at 31/3/19, at nearly £6.3m, now exceeds the amount required to support the budget over the medium term should business rates income fall to safety net levels. The calculation below shows the level of reserves that should be held to protect business rates income over the next four years.

	2020/21	2021/22	2022/23	2023/24
Difference between Safety Net and Baseline	430,556	409,227	417,412	425,760
Business Rates Growth	1,067,743	195,850	271,610	350,689
Total	1,498,300	605,077	689,022	776,449
Total over four-year period	3,568,848			

The difference between the existing balance on the Business Rates Reserve and the amount calculated above is £2,714,505. It is proposed to transfer this to the Corporate Priorities reserve. An annual review of the balance on the business rates reserve will take place at year end to determine adequacy of balances in the context of expected business rates incomes and calculated risks.

Invest to Save Reserve

It is proposed that 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. The bid document (covered in paragraph 23 and appendix two) requires a financial yield/return calculation to be appended to the bid document.

Reserves Bid Document

23. All future bids for reserves use will 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.

Reserves Bid Authorisation

24. Reserve bids decision limits will 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.

The pre-approval concept, which should apply to all financial bids is explained overleaf.

Reserves Expenditure Monitoring

25. The monitoring of reserves will be incorporated into the quarterly performance and financial monitoring reporting process.

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.

It is important to note that the pre-approval process is not an approval to spend but rather an approval to bring forward a reserves bid which is subject to the process set out within paragraphs 23 and 24 above.

Schedule of Earmarked Reserves

Reserve	Purpose of the Reserve
Business Rates Retention	To support the budget in the event that Business Rates Income does not reach budgeted levels or falls to Safety Net, due to fluctuations in appeals or other reductions in net income, and to hold any unbudgeted (surplus) rating income prior to use.
Planning Income	To hold surplus income generated as a result of the Government's 20% increase in planning fee income. To be used to fund additional costs/growth relating to Planning functions (in line with any regulatory guidance).
Canal Quarter	To cover commissioning costs relating to external support and advice for the CCN development.
Capital Support	To cover contractual liabilities on West End properties and to provide cover for any revenue costs arising through shortfalls in capital financing (i.e. from capital receipts).
Economic Growth	To support economic growth activities in the district.
Elections	To even out the cost of holding City Council elections every four years.
Local Plan	To support the adoption of the Local Plan.
Morecambe Area Action Plan	To support implementation of the MAAP (Cabinet report 11 February 2014).
Renewals	To provide for the renewal (replacement or upgrade) of existing facilities and infrastructure needed for service delivery, such as vehicles, plant and equipment.
Welfare Reforms	To help manage the cost and administration pressures of any welfare reforms (in particular, localisation of council tax support and Universal Credit).
Amenity Improvements	To provide public realm amenity improvements.
Corporate Priorities (previously Budget Support)	To provide resources to help finance capacity / feasibility / review and other development work in support of the Council's corporate priorities as adopted by Council in January 2020.
Corporate Property	To provide for feasibility studies, surveys and repair works to municipal buildings and facilities (in particular, for those that cannot be capitalised as part of the current works programme or are not otherwise budgeted for). In addition, to provide cover for any in-year rental shortfalls.
Invest to Save	To help finance any Invest to Save initiatives.
Restructure	To fund the costs associated with early termination of staff (in the interests of efficiency / redundancy) / Pay and Grading Review.
Revenue Grants Unapplied	Grants, usually for Government, which are provided for an expressed purpose.
Homelessness Support	To hold related government grants or other specific external funding until needed for homelessness prevention measures.

APPENDIX D

Reserve	Purpose of the Reserve
S106 Commuted Sums	Three separate reserves to receive all sums paid to the Council from third parties for the maintenance of (1) open spaces adopted by the City Council (2) affordable housing schemes (3) other amenities such as cycle paths.
<i>Museums Acquisitions</i>	<i>To acquire exhibition pieces for the City's museums.</i>
Held in Perpetuity	Two small reserves that have a specific purpose which are administered by the Council. These are Graves Maintenance and Marsh Capital

It is proposed (see para 22) to transfer the year end balances (and any future allocations) of those reserves in bold italics into the Corporate Priorities reserve

Appendix Two – Reserves Bid Document (project is for illustrative purposes)

Description of Project	<p>Pilot project for ‘proof of concept’ to test agile working.</p> <p>To set up the old telephony room in Lancaster Town Hall as an agile working space.</p> <p>Project will deliver new ICT, furniture, decoration, electrics, lighting in order to test prior to larger whole building project. It will also allow for new policies, procedures and cultural factors to be tested. These include managing by results (as opposed to presence) which allow for working from home.</p>
Amount of Reserve Bid Reserve	<p>Circa £36k</p> <p>Budget Support – project will support key corporate project which will address the A Smart and Forward Thinking and Climate Change Emergency priorities</p>
Strategy Link Corporate Project Link	<p>Smart and Forward Thinking Council</p> <p>CS14 – Agile Project</p>

Type of Expenditure (and budget code)	Amount	Details
Furniture Costs	£19,500	Quote from Senator
ICT costs	£7,989	8 x Dell Latitude 5290 with travel keyboard and active pen
Redecoration Costs	£5,000 (est)	To make good after lighting and electrical works, including new flooring
Electrical Works	£2,880 + £2,500 (est)	Additional network cabling and power sockets added to pilot room
Lighting Costs	£12,000	New lighting in pilot room, as proposed for many areas of LTH
Total	£49,869	
Income	(£14,000)	Funding From Existing Budgets
Net Expenditure	£35,869	

Action Plan

What	Who	When
Detailed Agile action plan has been produced as part of the project including HR agile policies and intranet page and staff engagement		
Electrics completed	Sarah	September 2019
Lighting completed	Sarah	September 2019
Furniture procurement exercise completed	Sarah	September 2019
Additional agile ICT for pilot users	Joe	September 2019
Decoration completed	Sarah	October 2019
Furniture delivered and installed	Sarah	October 2019
Pilot space opens for use	Claire / Sarah	November 2019
Business Case for whole of LTH completed based on pilot findings	Claire / Sarah / Elaine	February 2020

Outcomes and Impacts arising from Project

Measure	Baseline	Target
Reduced travel from home to office (time spent for each individual)	Survey of those involved to find out their current travel time (to be carried out in Sept/Oct 2019)	20% reduction
Reduced travel from home to office (CO2 reduction)	Calculation based on km travelled to work currently (where using motor vehicle)	20% reduction
Reduced amount of printing and paper	TBD	20% reduction in printing and reduced paper storage (TBC)
Energy Savings	Calculated from average cost per square meter in LTH	Reduced heating and electricity (assuming 2 offices are merged into 1)
Contentment with technology set up	Determined by individuals using sliding scale	More contented
Productivity increased	Determined by individuals using sliding scale	More productive
Staff Wellbeing – reduced stress (through more empowerment)	Determined by individuals using sliding scale	Reduced stress
Contentment with working environment	Determined by individuals using sliding scale	More contented

Has Social Value matrix been completed (attach to bid form)? YES / NO

For Invest to Save projects has the financial yield return schedule been completed (attach to bid form) YES / NO

Project Officer Sign Off:

Director Sign Off:

Portfolio Holder Sign Off:
Finance Portfolio Sign Off: