



# Uttlesford District Council

## Reserves Strategy



Prepared by:  
Finance Section  
Uttlesford District Council  
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## Reserves Strategy

### 1 Background

- 1.1 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 to consider in developing the Medium Term Financial Strategy (MTFS) and setting the annual budget.
- 1.2 In setting the budget, the Council decides what it will spend and how much income it needs from fees, charges and council tax to supplement government funding. 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.
- 1.3 Having the right level of reserves is important. If reserves are very low, there may be little resilience to financial shocks and sustained financial challenges.
- 1.4 There is no available guidance on the minimum level of un-earmarked reserves that should be maintained. In 2003 CIPFA stated that each authority should determine what a prudent level of reserves is based upon their own circumstances, risks and uncertainties.
- 1.5 Councils are therefore free to determine the level of reserves they hold, although Audit will report/give an opinion on what in their opinion is reasonable. Members are responsible for ensuring that the Council's reserves are part of the MTFS and need to be appropriate for our circumstances. The Section 151 Officer has a duty to provide members with advice on the level of reserves.
- 1.6 Councils face significant financial challenges. The unprecedented reduction in government funding from 2010/11 to 2016/17 and the inevitable continuation of that trend, a decline in other income, rising costs and growing demand for many services are all testing the Councils' financial management and resilience.
- 1.7 The introduction of local business rates retention and new arrangements for providing council tax support in 2013/14 have created additional risks to the Council's finances.
- 1.8 Current and future financial challenges pose significant, and increasing, risks for the Council. The Council can consider using 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 – or invest in making changes that reduce the cost of providing services in the longer-term.
  - Increasing reserves to strengthen resilience against future, uncertain cost pressures.

### 2 The approach to setting the Reserves Strategy.

- 2.1 The Reserves Strategy is integral to the MTFS and the annual budget setting process. Therefore the MTFS will include:
- Information showing the current level of reserves.
  - Consideration of the forward strategy for reserves needed to support the Council's MTFS.
  - 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.
- 2.2 Reserves will be monitored throughout the year as part of the routine financial monitoring and the level of reserves reported as part of the year-end accounting processes.

### 3 Why the Council holds reserves

- 3.1 We use different terms to refer to the reserves depending on why they are held. Terms we use in this report have the following meanings:
- Available earmarked reserves – funds we choose to set aside to meet known or predicted future spending or ring-fenced by previous Council decisions.
  - Working balances (unallocated reserves) to manage cash flows, funds to protect annual budgets against multiple, less predictable, costs and uncommitted accumulated surpluses.
  - Other reserves the Council holds but which are not available to fund their general spending: some reserves with statutory restrictions on how they can be spent, such as capital receipts or Housing Revenue Account reserves;
  - Total reserves – the sum of earmarked and ring-fenced reserves.
- 3.2 Available earmarked reserves include funds for contingent spending that is hard to predict (risk-based reserves) – for example, Transformation Reserve to cover the cost of implementing changes in working practices including new ways of working and the costs associated with a reduction in staffing levels.
- 3.3 Reserves are distinct from provisions. Provisions are funds set aside for probable future liabilities where the timing and amounts are uncertain.

#### Ring-fenced income

- 3.4 The Council must spend some of its income on specific purposes, for example, some ring-fenced grants, or property developers' contributions for local environmental improvements. Spending ring-fenced income before the end of a financial year is not always possible or desirable. The Council will carry forward unspent ring-fenced income from one financial year to the next in its reserves.

### Delivering a balanced budget

- 3.5 The Council, in common with other organisations, needs financial reserves to help manage unforeseen circumstances and to smooth the impact of known spending requirements over time. The Council will use reserves for such purposes to enable it to manage variations between its planned and actual budgets that result from unpredictable spending and income. Reserves will also be used by the Council to plan its finances strategically to support activities over the medium and long term.
- 3.6 The Local Government Finance Act 1992 requires the Council to calculate its expected outgoings and income for the year – including any additions to or use of reserves. Where expected outgoings exceed expected income, the difference is the authority's council tax requirement for that year.
- 3.7 If unplanned costs are incurred during the year that are not funded externally – for example, by a grant from government or an insurance policy – or the Council experiences a shortfall in expected income, there will be few options if it is to deliver to budget. Raising extra income or making in-year savings may have an unacceptable impact on service users. Therefore the Council may want to consider using reserves to balance spending and income.
- 3.8 The 2016/17 Budget identifies a surplus which will be allocated to the Strategic Initiatives Fund.

### 4 Reserves and the management of risks

- 4.1 With regard to the Council's financial stability reserves are used to manage risks. There are certain earmarked reserves that have been set aside for specific risks, for example: Business Rates Retention. These reserves and the potential pressures that need to be managed are reviewed as part of the budget setting process.
- 4.2 The Council also manages unforeseen financial shocks by maintaining a Working Balance. For the General Fund the Council's agreed policy is to maintain working balances in line with the following formula;

(Total gross service expenditure + total gross service income + capital financing costs + investment income + recharge to HRA + HRA share of corporate costs) x 2%

For 2016/17 this is calculated as

$£33,695,000 + £23,800,000 + £2,497,000 + £119,000 + £1,331,000 + £335,000 = £61,777,000 \times 2\% = £1,235,540$  (this calculation uses rounded figures the actual requirement is £1,234,000)

For the HRA the same principal of 2% of total expenditure and 2% of total income is applied. For 2016/17 this is calculated as

$£4,240,000 + £15,455,000 + £6,042,000 + £17,000 + £1,331,000 + £335,000 = £27,420,000 \times 2\% = £548,950$ . (this calculation uses rounded figures the actual requirement is £546,000)

## Increasing Financial Risks

4.3 The risk environment for local government funding has significantly increased. This strategy identifies the following issues which have increased risk over recent years:

- The partial retention of locally collected business rates to replace some government funding – this means that future changes in funding will be linked to changes in the local business rates base, rather than to government assessment of need.
- The new system of business rate retention passes the risk of non-collection from Central Government to the Council.
- The Council has also taken responsibility for the settlement of any outstanding Business Rates appeals.
- The transfer of responsibility for council tax support to the Council.
- The necessity to pass on a proportion of the reduction in Council Tax Support to working age claimants may increase Council tax non-recovery risk.
- Welfare reforms including the benefits cap and the impact on Housing Benefit as part of the introduction of Universal Credit which could impact on rent collection and potentially increase the level of homeless people seeking accommodation in the district.
- The continued problems that the Government is experiencing managing the deficit and the likelihood of further spending reductions.
- Unexpected changes in grant regimes.

### On-going risks in the current strategy.

4.4 In addition to the risks identified in 4.3 above there are still the risks that are normally managed within the MTFS:

- Service budgetary control.
- Service spending pressures, e.g. unavoidable demand.
- Exceptional inflation beyond that provided for within the annual budget.

4.5 The prospect of further grant reductions beyond 2016/17 means that it is prudent to retain sufficient reserves so that any future spending reductions can be implemented in a planned and efficient fashion.

## 5 Budgeted Reserves

5.1 The forecast value of General Fund Earmarked Reserves as at 31 March 2016 is £8million.

5.2 The table on the following page summarises the General Fund Reserves at the end of the last financial year and the forecast end position for the current year.

## Reserves Strategy

	£000	1.4.2015 Actual	31.3.2016 Forecast
	<b>USABLE RESERVES</b>		
	<u>Financial management Reserves</u>		
C1	MTFS Reserve	1,000	1,000
C2	Transformation Reserve	1,000	960
	<u>Contingency Reserves</u>		
C3	Emergency Response	40	40
	<u>Service Reserves</u>		
C4	New waste depot site	1,500	600
C5	Planning	1,141	1,063
C6	Waste Management	379	130
C7	Homelessness	40	40
C8	Economic Development	244	194
C9	Elections	95	25
C10	Strategic Initiatives Fund/SPV	600	3,987
C11	Access Fund	200	0
	<b>TOTAL USABLE RESERVES</b>	<b>6,239</b>	<b>8,039</b>

5.3 It is also important to set out the criteria for the purpose, lifespan and risks associated with each reserve. This is attached as Appendix One.

5.4 It is anticipated that in 2016/17 there will be three new reserves established

- New Homes Bonus Contingency Reserve – depending upon the outcome of the consultation, it may be necessary to establish a reserve to offset risks around the loss of NHB following planning permission granted on appeal.
- Special Purpose Vehicle Reserve – to enable the formation and funding of the wholly owned company. The reserve will be established once the Articles of Association are agreed at Cabinet. The reserve will be funded from the Strategic Initiatives Fund.
- Pension Deficit Reserve – to enable the council to make a three year advance payment to the pension fund at a discounted rate.

### General Fund Ring-fenced Reserves

5.5 These reserves are held for specific purposes and cannot be used for any other.

	£000	Purpose	1.4.2015 Actual	31.3.2016 Forecast
C12	General Fund Working Balance	Maintained to protect the Council's budget from unexpected risks, Calculation as set out in 4.2 above	1,282	1,200
C13	Business Rates Reserve	This is to manage the Collection Fund deficit, which is in part due to the appeals both lodged and anticipated	3,670	520
C14	Licensing	A reserve that can only be used within the taxi licensing service	31	16
C15	DWP Reserve	Amount of benefit subsidy currently being reviewed in light of the External Audit grant claim process	259	100
	<b>TOTAL</b>		<b>5,242</b>	<b>1,836</b>

### Housing Revenue Account (HRA)

5.6 The table below summarises the HRA Reserves at the start of the 2015/16 financial year and the forecast end position for that year which forms the basis for the starting position for 2016/17.

£000		1.4.2015 Actual	31.3.2016 Forecast
	<b>USABLE RESERVES</b>		
H1	Transformation	180	200
H2	Capital Projects	3,537	3,426
H3	Potential Development Projects	800	800
H4	Revenue Projects	60	60
H5	Sheltered Housing Reserve	318	318
H6	Major Repairs Reserve	131	137
H7	Additional Resource Reserve	0	0
	<b>TOTAL USABLE RESERVES</b>	<b>5,026</b>	<b>4,941</b>

### HRA Ring-fenced Reserve

5.7 This reserve is held for specific purposes and cannot be used for any other.

£000		Purpose	1.4.2015 Actual	31.3.2016 Forecast
H8	HRA Working Balance	Maintained to protect the Council's budget from unexpected risks, Calculation as set out in 4.2	463	536
	<b>TOTAL</b>		<b>463</b>	<b>536</b>

### Capital Receipts

5.8 This reserve identifies capital receipts which are available to finance capital expenditure in future years.

	£000	01.04.2015 Actual	31.03.2016 Forecast
CR1	Capital Receipts	1,862	1,898

5.9 Under the Right to Buy 1-4-1 agreement, for each sale of council dwellings the local authority must replenish housing stock using the retained receipt held in the capital receipts reserve; this is to ensure the government's plan to provide further social housing is continued whilst increasing home ownership is fulfilled.

## 6. Total Reserves

6.1 The table below sets out the total of reserves in each element of the council finances.

£000	1.4.2015 Actual	31.3.2016 Forecast
General Fund Earmarked Reserves	6,239	8,039
General Fund Ring-fenced Reserves	5,242	1,836
Capital receipts	1,862	1,898
HRA Usable Reserves	5,026	4,941
HRA Ring-fenced Reserves	463	536
<b>TOTAL</b>	<b>18,832</b>	<b>17,250</b>

## 7. General Fund Reserves 5 year plan

7.1 The table below sets out the 5 year plan for the General Fund

	£000	1.4.2015 Actual	Year end 2015/16 Forecast	Year end 2016/17 Forecast	Year end 2017/18 Forecast	Year end 2018/19 Forecast	Year end 2019/20 Forecast
	<b>USABLE RESERVES</b>						
	<u>Financial management Reserves</u>						
C1	MTFS Reserve	1,000	1,000	1,000	1,000	1,000	1,000
C2	Transformation Reserve	1,000	960	960	960	960	960
	<u>Contingency Reserves</u>						
C3	Emergency Response	40	40	40	40	40	40
	<u>Service Reserves</u>						
C4	New waste depot site	1,500	600	0	0	0	0
C5	Planning	1,141	1,063	1,063	1,063	1,063	1,063
C6	Waste Management	379	130	200	200	200	200
C7	Homelessness	40	40	40	40	40	40
C8	Economic Development	244	194	194	194	194	194
C9	Elections	95	25	50	75	100	25
C10	Strategic Initiatives Fund/SPV	600	3,987	6,455	6,455	6,455	6,455
C11	Access Fund	200	0	0	0	0	0
	<b>TOTAL USABLE RESERVES</b>	<b>6,239</b>	<b>8,039</b>	<b>10,002</b>	<b>10,027</b>	<b>10,052</b>	<b>9,977</b>
	<b>RING-FENCED RESERVES</b>						
C12	Working Balance	1,282	1,200	1,234	1,167	1,098	890
C13	Business Rates Reserve	3,670	520	500	500	0	500
C14	Licensing Reserve	31	16	0	0	0	0
C15	DWP Reserve	259	100	50	0	0	0
	<b>TOTAL RING-FENCED RESERVES</b>	<b>5,242</b>	<b>1,836</b>	<b>1,784</b>	<b>1,667</b>	<b>1,098</b>	<b>1,390</b>
	<b>TOTAL RESERVES</b>	<b>11,481</b>	<b>9,875</b>	<b>11,786</b>	<b>11,694</b>	<b>11,150</b>	<b>11,367</b>

\* The forecast underspend for 2017/18 is not shown in the 5 year Reserves Strategy above nor however are the identified shortfalls in the following years

\*\* There is a £100,000 transfer from the DWP reserve to the SIF because the actual DWP repayment was less than the allocated reserve.



## 8. HRA Reserves 5 year plan

8.1 The table below sets out the 5 year plan for the HRA. The logic behind the reserves is contained within the HRA Business Plan.

£'000		31.3.2016 Forecast	2016/17 additions	2016/17 deductions	31.3.2017 Forecast	31.3.2018 Forecast	31.3.2019 Forecast	31.3.2020 Forecast	31.3.2021 Forecast
H1	Transformation	200	0	0	200	200	200	200	200
H2	Capital Projects	3,426	33	-3,426	33	1,058	1,087	375	904
H3	Potential Development Projects	800	20	-332	488	0	0	0	0
H4	Revenue Projects	60	0	0	60	60	60	60	60
H5	Sheltered Housing Reserve	318		-318	0	0	0	0	0
H6	Major Repairs Reserve	137	3,411	-3,436	112	116	120	124	128
H7	Additional Resource Reserve	0	0	0	0	0	0	0	0
H8	HRA Working Balance	536	10	0	546	547	548	550	556
	<b>HRA RESERVES TOTAL</b>	<b>5,477</b>	<b>3,441</b>	<b>-7,512</b>	<b>1,439</b>	<b>1,981</b>	<b>2,015</b>	<b>1,309</b>	<b>1,848</b>

## Appendix One

No.	Reserve	Purpose and lifespan	Risks	Mitigation and Calculation
C1	MTFS Reserve	To offset the predicted shortfall in budgets the council is expected to encounter in the life of the plan whilst enabling the council to transform.	<p>1. New Homes Bonus – To minimise the impact of New Homes Bonus reduction whilst adjusting the budget to match the income.</p> <p>2. Universal Credit – The working balance assumes Universal Credit will be implemented on time. This reserve will assist should it not be implemented on time and therefore the working balance has to be reinstated at the current level</p> <p>3. Business Rates – Due to timing issues the BR reserve may be insufficient to meet demand</p>	<p>1. The NHB figures presented as part of the MTFS identified the deficit by the end of the plan to be £1m</p> <p>2. The Working Balance reduces by £390,000 over the remaining life of the plan</p> <p>Together this gives £1,390,000. It is reasonable to expect service efficiencies/additional income to play a part in addressing the shortfall during the plan however the quick win easy savings are gone, we will be looking at significant changes in the way in which the council operates and this takes time to achieve.</p>
C2	Transformation Reserve	To enable the council to change the way it operates in order to meet the financial challenges ahead.	<p>1. Universal Credit – The Department for Work and Pensions have announced that TUPE does not apply to those staff working in the Benefits Section. However it is possible that DWP will fund any related redundancy costs</p> <p>2. Resistance to change – it is essential the council adapts to new ways of working such as more automation of outgoing mail and better functionality and use of the council website. Failure to adopt new ways of working will seriously affect the future functioning of the council.</p> <p>3. As the council transforms it is likely that a number of services will cease to be provided. This will inevitably lead to statutory redundancy being paid</p>	The software alone for a single area is likely to cost in the region of £75,000 therefore the calculation allows for four large areas to be transformed and for necessary other costs to be included

No.	Reserve	Purpose and lifespan	Risks	Mitigation and Calculation
C3	Emergency Response	To enable the council to undertake an emergency response such as that encountered with the Lebanese evacuation.	<ol style="list-style-type: none"> <li>1. No such emergency arises</li> <li>2. The reserve is insufficient</li> </ol>	<ol style="list-style-type: none"> <li>1. The likelihood of such an emergency is relatively low however as the council moves forward an budget pressures become significant a small reserve is appropriate.</li> <li>2. The council learnt a lot from the Lebanese emergency and now has a policy to assist any such evacuees on their onward journey not to provide on-going support therefore the reserve should be sufficient.</li> </ol>
C4	New waste depot site	The depot in the south of the district is in the centre of Great Dunmow. The council has had an aim to rent land to enable it to move however no such land has been found. It is now proposed to purchase land and provide the necessary buildings and utilities. The aim is to have identified and if possible purchased land during 2015/16	<ol style="list-style-type: none"> <li>1. No such piece of land is identified.</li> <li>2. The reserve is insufficient to meet the total costs</li> </ol>	<ol style="list-style-type: none"> <li>1. The process has advanced and there are now a preferred option and a reserve site.</li> <li>2. The land vacated would have residual value and whilst a proportion should be retained to provide additional income streams some could be sold to cover additional costs.</li> </ol> <p>The figure in the reserve is a best estimate from an initial look at the market.</p>

No.	Reserve	Purpose and lifespan	Risks	Mitigation and Calculation
C5	Planning	<p>For three primary purposes</p> <ol style="list-style-type: none"> <li>1. Stansted Airport studies</li> <li>2. Planning Appeals</li> <li>3. Local Plan</li> </ol> <p>The Council is expecting to receive an application from Stansted Airport to lift the cap on traveller movements. This will require careful consideration including the commissioning of specialist studies. Due to the buoyant housing market the Council is receiving large numbers of planning applications, some of which are taken to appeal. The development of the new Local Plan will require supporting studies to support its development. The reserve is expected to be used over the next few years.</p>	<ol style="list-style-type: none"> <li>1. The reserve is insufficient to meet the total costs</li> </ol>	<p>Current indications are that the amount allocated is sufficient to meet the needs of the service in respect of the three areas for which the reserve was established.</p>

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No.	Reserve	Purpose and lifespan	Risks	Mitigation and Calculation
C6	Waste Management	This is a high profile service and by the nature of the work suffers from budget variances. To enable the council to smooth fluctuations in areas such as cost of disposal and agency staffing. The reserve will be reviewed in 12 months' time once the new cost for dry recyclables has been in place for a year.	<ol style="list-style-type: none"> <li>1. Agency staffing levels exceed the forecasted levels</li> <li>2. Disposal costs increase</li> </ol>	<ol style="list-style-type: none"> <li>1. The amount of agency staffing required is calculated using actual figures from the last few years.</li> <li>2. With a significant drop in the sale price of oil the cost of dry recycling disposal is increasing. The 2016/17 budget is based on current cost with any increase being met from this reserve.</li> </ol>
C7	Homelessness	To assist with the fluctuating demand for homeless support. To be reviewed in March 2017.	1. The reserve remains unused	It is likely the reserve will not be used in 2015/16. If this remains the case in 2016/17 then the reserve will be closed.
C8	Economic Development	To assist with the promotion of economic development. To be used in 2016/17 to fund the development of rentable units within the Saffron Walden Council Offices	1. The reserve is not used in 2016/17	<ol style="list-style-type: none"> <li>1) Support to Town Teams from High Street Innovation funding to support marketing activities within the Towns: £30,000 total split between Saffron Walden and Great Dunmow. £10,000 support to Stansted Mountfitchet Business Group.</li> <li>2) Development of Saffron Walden Business Improvement District proposal £30,000.</li> <li>3) Support for inward investment and proactive marketing and promotion of sites £20,000.</li> <li>4) Discretionary Rate relief support £60,000</li> <li>5) To be able to rent out the four identified units within the Council offices a new door entry system, significant networking changes and walls reinstating work will need to be undertaken. Precise cost at the moment is unknown but it is likely to be in the region of £44,000.</li> </ol>

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No.	Reserve	Purpose and lifespan	Risks	Mitigation and Calculation
C9	Elections	Each year £25,000 is allocated to the reserve to fund future election costs. The reserve is used in election years	1. The costs exceed the reserve amount	The reserve is to offset the impact of the cost of elections not to fully cover it. The amount is felt to be sufficient
C10	Strategic Initiatives Fund / SPV	<p>The stated purposes of the Strategic Initiatives Fund are</p> <ul style="list-style-type: none"> <li>a. Support for the local economy</li> <li>b. Partnership working with voluntary sector organisations</li> <li>c. Community initiatives and services in rural locations</li> <li>d. “Spend to save” projects to make the Council more efficient and more resilient to funding changes in future years</li> <li>e. Putting some Council services onto a more commercial footing.</li> </ul> <p>The principle of a SPV was agreed at Cabinet in December 2015. When the company is created a separate reserve will be established to fund the company.</p>	1. Insufficient projects that meet the criteria are identified	<p>There are four key criteria that each project must meet to be considered for funding from the Strategic Initiatives Fund. The four criteria are</p> <ul style="list-style-type: none"> <li>1. The project demonstrably supports the Council’s corporate priorities, as set out in the Corporate Plan</li> <li>2. The project fulfils at least one of the five suggested uses for the Fund, as set out above</li> <li>3. The project results in tangible financial benefit to the Council, either by reducing future cost pressures, efficiency savings, or income generation</li> <li>4. The project does not give the Council any additional ongoing revenue budget commitments beyond the 2016/17 financial year</li> </ul>

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No.	Reserve	Purpose and lifespan	Risks	Mitigation and Calculation
C11	Access Fund	This reserve was set up to pump prime the provision of cycle paths in the district. The intention is that the initial £200,000 would be replenished by appropriate S106 monies as they become available	1. No suitable S106 monies are available to continue the cycle path rollout	This is an Essex County Council responsibility which this council contributes to by way of S106 monies. If no such money is available the council will need to decide whether or not to invest more money from other reserves into this scheme
C12	Working Balance	Maintained to protect the Council's budget from unexpected risks, Calculation as set out in 4.2	1. Universal Credit does not have the forecasted impact on the Working Balance	There could be an adverse impact on the forecast of £390,000 by the end of the plan. Discussions are ongoing with DWP
C13	Business Rates Retention	This is to manage the Collection Fund deficit, which is mainly due to the large appeals both lodged and anticipated. Reserve should cease to be needed after 2016/17	1. Fund is insufficient to meet demand	This is based on central government calculations which make this unlikely to happen. However should it do so the MTFS reserve would be available to support the timing delay.
C14	Licensing	A ring-fenced reserve that can only be spent on the taxi licensing service.		The taxi licensing service must break even on a rolling basis. Accordingly any in-year surpluses are allocated to the reserve and drawn down in years of shortfall/reduced fees
C15	DWP	Amount of benefit subsidy currently being reviewed in light of the External Audit grant claim process.	1. DWP seek to recover more money than in the reserve	This is the amount identified by the auditors