



Uttlesford District Council

Reserves Strategy



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January 2017



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 2017/18 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 2017/18 Budget identifies a surplus of £564,000 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 2017/18 this is calculated as;

$£35,423,000 + £23,973,000 + £1,861,000 + £65,000 + £1,507,000 + £293,000 = £63,122,000 \times 2\% = £1,262,000$ (this calculation uses rounded figures, the actual working balance is £1,266,000)

For the HRA the same principal of 2% of total expenditure and 2% of total income is applied. For 2017/18 this is calculated as;

$£4,246,000 + £15,222,000 + £2,449,000 + £17,000 + £1,507,000 + £293,000 = £23,734,000 \times 2\% = £473,000$.

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 intention is that the Council will take on 100% retention and it is anticipated this is likely to be from 2020. Central Government have stated that this will be fiscally neutral to the council, but this will come with additional responsibilities and the associated financial risks.
- The Council has also taken responsibility for the settlement of any outstanding Business Rates appeals.
- New Homes Bonus reforms, has seen reductions in the allocations for 2017/18 and changes to the scheme, with further reforms expected in 2018/19.
- The loss of Revenue Support Grant with 2017/18 being the final year the council will receive this funding.
- 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 funding 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 2017/18 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 Useable Reserves as at 31 March 2017 is £9.94 million reducing to £8.89 million by 31 March 2018.
- 5.2 The table below summarises the General Fund Reserves at the end of the last financial year and the forecast end position for the next two years.

£' 000	1.4.2016	2016/17		31.3.2017	2017/18		31.3.2018
	Actual	additions	deductions	Forecast	additions	deductions	Forecast
USABLE RESERVES							
<u>Financial management Reserves</u>							
MTFS Reserve	1,000		0	1,000			1,000
Transformation Reserve	960		-66	894	1,000	-100	1,794
<u>Contingency Reserves</u>							
Emergency Response	40			40			40
<u>Service Reserves</u>							
New waste depot site	1,488		-1,488	0	2,000		2,000
Planning*	982		-385	597		-275	322
Waste Management	130	70		200			200
Homelessness	40			40		-40	0
Economic Development	194			194			194
Elections	25	25		50	25		75
Strategic Initiatives Fund	4,506	2,376	-80	6,802	564	-4,220	3,146
New Homes Bonus Ward Members	39			39			39
Voluntary Sector Grants	41		-41	0			0
Private Finance Initiative	0	85		85			85
TOTAL USABLE RESERVES	9,445	2,556	-2,060	9,941	3,589	-4,635	8,895

- 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.

General Fund Ring-fenced Reserves

- 5.4 These reserves are held for specific purposes and cannot be used for anything other than the stated purpose.

£' 000	1.4.2016	2016/17	31.3.2017	2017/18	31.3.2018
	Actual	net movement	Forecast	net movement	Forecast
RING-FENCED RESERVES					
Working Balance	1,246	34	1,280	(14)	1,266
Pension Reserve*	0		0	0	0
Business Rates Reserve	500	(20)	480		480
Licensing Reserve	16	(16)	0		0
DWP Reserve	136	50	186		186
TOTAL RING-FENCED RESERVES	1,898	48	1,946	(14)	1,932

*the pension reserve shows a zero balance as the transfer for the triannual payment goes in and out in the same year

Housing Revenue Account (HRA)

- 5.5 The table below summarises the HRA Useable Reserves at the start of the 2016/17 financial year and the forecast end position for the next two year.

£000	01.04.2016 Actual	31.03.2017 Forecast	31.03.2018 Forecast
Usable Reserves			
Transformation	180	180	180
Capital Projects	3,538	0	516
Potential Development Projects	2,998	723	723
Revenue Projects	60	60	60
Sheltered Housing Reserve	318	318	0
Major Repairs Reserve	190	269	477
Total Usable Reserves	7,284	1,550	1,956

HRA Ring-fenced Reserve

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

£000	Purpose	01.04.2016	31.03.2017	31.03.2018
HRA Working Balance	Maintained to protect the Council's budget from unexpected risks (calculation as set out in 4.2)	463	473	473
Total		463	473	473

Capital Receipts

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

£000	01.04.2016	31.03.2017	31.03.2018
Capital Receipts	2,242	3,680	2,000

- 5.8 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. The Council can only use a 30% contribution of the capital receipts to fund a housing project. If the Council fails to replenish housing within 13 quarters then the capital receipts have to be repaid to Central Government.

6. Total Reserves

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

	01.04.2016	31.03.2017	31.03.2018	31.03.2019	31.03.2020	31.03.2021	31.03.2022
General Fund Earmarked Reserves	9,445	9,941	8,895	8,720	8,645	7,840	7,865
General Fund Ring-Fenced Reserves	1,898	1,946	1,932	1,852	1,752	1,666	1,666
Total General Fund Reserves	11,343	11,887	10,827	10,572	10,397	9,506	9,531
Capital Receipts	2,242	3,680	2,000	0	0	0	0
HRA Usable Reserves	7,284	1,550	1,956	1,498	555	349	240
HRA Ring-Fenced Reserves	463	473	473	473	473	473	473
Total Housing Revenue Reserves	9,989	5,703	4,429	1,971	1,028	822	713
Total Reserves	21,332	17,590	15,256	12,543	11,425	10,328	10,244

7. General Fund Reserves 5 year plan

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

£' 000	1.4.2016	2016/17 net movement	31.3.2017 Forecast	2017/18 net movement	31.3.2018 Forecast	2018/19 net movement	31.3.2019 Forecast	2019/20 net movement	31.3.2020 Forecast	2020/21 net movement	31.3.2021 Forecast	31.3.2022 Forecast
	Actual											
USABLE RESERVES												
<u>Financial management Reserves</u>												
MTFS Reserve	1,000		1,000		1,000		1,000		1,000		1,000	1,000
Transformation Reserve	960	(66)	894	900	1,794		1,794		1,794		1,794	1,794
<u>Contingency Reserves</u>												
Emergency Response	40		40		40		40		40		40	40
<u>Service Reserves</u>					0		0		0		0	0
New waste depot site	1,488	(1,488)	0	2,000	2,000		2,000		2,000		2,000	2,000
Planning	982	(385)	597	(275)	322	(200)	122		122		122	122
Waste Management	130	70	200		200		200		200		200	200
Homelessness	40		40	(40)	0		0		0		0	0
Economic Development	194		194		194		194		194		194	194
Elections	25	25	50	25	75	25	100	(75)	25	25	50	75
Strategic Initiatives Fund *	4,506	2,296	6,802	(3,656)	3,146		3,146		3,146	(830)	2,316	2,316
New Homes Bonus Ward Members	39		39		39		39		39		39	39
Voluntary Sector Grants	41	(41)	0		0		0		0		0	0
Private Finance Initiative	0	85	85		85		85		85		85	85
TOTAL USABLE RESERVES	9,445	496	9,941	(1,046)	8,895	(175)	8,720	(75)	8,645	(805)	7,840	7,865
RING-FENCED RESERVES												
Working Balance	1,246	34	1,280	(14)	1,266	(80)	1,186	(100)	1,086	(86)	1,000	1,000
Pension Reserve**	0		0	0	0		0		0	0	0	0
Business Rates Reserve	500	(20)	480		480		480		480		480	480
Licensing Reserve	16	(16)	0		0		0		0		0	0
DWP Reserve	136	50	186		186		186		186		186	186
TOTAL RING-FENCED RESERVES	1,898	48	1,946	(14)	1,932	(80)	1,852	(100)	1,752	(86)	1,666	1,666
TOTAL RESERVES	11,343	544	11,887	(1,060)	10,827	(255)	10,572	(175)	10,397	(891)	9,506	9,531

* The surplus of £564,000 for 2017/18 is included in the Strategic Initiatives Reserves; however the identified surplus/deficits for future years are not included in the 5 year reserves plan

** This reserve is for the triannual payment on the pension fund deficit and is drawdown in 2017/18 and 2020/21. This is then credited to the pension reserve and paid out in the same year and thus shows a zero balance.

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	01.04.2016 Balance	31.03.2017 Forecast	31.03.2018 Forecast	31.03.2019 Forecast	31.03.2020 Forecast	31.03.2021 Forecast	31.03.2022 Forecast
<u>RINGFENCED RESERVES</u>							
Working Balance	463	473	473	473	473	473	473
	463	473	473	473	473	473	473
<u>USABLE RESERVES</u>							
<u>Revenue Reserves</u>							
Revenue Projects	60	60	60	60	60	60	60
Transformation Reserve	180	180	180	180	180	180	180
Major Repairs Reserve	190	269	477	644	163	0	0
	430	509	717	884	403	240	240
<u>Capital Reserves</u>							
Capital Projects	3,538	0	516	600	138	95	0
Potential Projects Reserve	2,998	723	723	14	14	14	0
Sheltered Housing Projects Reserve	318	318	0	0	0	0	0
	6,854	1,041	1,239	614	152	109	0
TOTAL USABLE RESERVES	7,284	1,550	1,956	1,498	555	349	240
TOTAL RESERVES	7,747	2,023	2,429	1,971	1,028	822	713

Appendix One

Reserve	Purpose and lifespan	Risks	Mitigation and Calculation
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 £280,000 over the remaining life of the plan.</p> <p>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>

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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 possible that a number of services will need to change in the way they are delivered or cease to be provided. This will inevitably lead to statutory redundancy being paid</p>	<p>This is to support and enable customer service improvements to enhance customer interactions with the council.</p> <p>£100k has been allocated in 2017/18 to support the above programme.</p>
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Reserve	Purpose and lifespan	Risks	Mitigation and Calculation
Emergency Response	To enable the council to undertake an emergency response such as that encountered with the Lebanese evacuation.	<p>1. No such emergency arises</p> <p>2. The reserve is insufficient</p>	<p>1. The likelihood of such an emergency is relatively low however as the council moves forward and budget pressures become significant a small reserve is appropriate.</p> <p>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</p>

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			the reserve should be sufficient.
New waste depot site	It is proposed to purchase land and provide the necessary buildings and utilities in the south of the district.	<ol style="list-style-type: none"> 1. No such piece of land is identified. 2. The reserve is insufficient to meet the total costs 	<ol style="list-style-type: none"> 1. The process has advanced and there is now a preferred option and a reserve site. 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. The reserve has been increased to enable a single depot site to be established. This would replace the existing three depots.

Reserve	Purpose and lifespan	Risks	Mitigation and Calculation
Planning	<p>For four primary purposes</p> <ol style="list-style-type: none"> 1. Stansted Airport studies 2. Planning Appeals 3. Local Plan 4. Neighbourhood Plans 	<ol style="list-style-type: none"> 1. The reserve is insufficient to meet the total costs 	<p>The reserve has two elements Planning as per points 1 to 3 in the column Purpose and Lifespan. There is also a second element of specific funding included for Neighbourhood Plans and these are accounted for separately.</p> <p>Current indications are that the amount allocated for Planning will be significantly depleted by the end of the financial year 2018/19; there will be a minor balance of £23,000 remaining at 31.3.2019. The majority of reserve will be used to support consultancy relating to the Local Plan.</p> <p>A balance of £99,000 remains for Neighbourhood Plans.</p>

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Reserve	Purpose and lifespan	Risks	Mitigation and Calculation
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.	1. Disposal costs increase	1. With a significant drop in the sale price of oil the cost of dry recycling disposal has increased. The 2017/18 budget is based on current cost with any increase in disposal costs being met from this reserve.
Homelessness	To assist with the fluctuating demand for homeless support. To be reviewed in March 2017.	1. The reserve remains unused	The reserve has been unused since 2014/15 and the monies held in this reserve will be released back into the General Fund in 2017/18.
Economic Development	To assist with the promotion of economic development.	1. The reserve is inadequate to cover projects identified	<ol style="list-style-type: none"> 1. Help for local people to start and stay in business. 2. Access to superfast broadband and mobile communications. 3. Help for business to expand in or locate in Uttlesford. 4. Help for town centres with their viability and vitality.

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Reserve	Purpose and lifespan	Risks	Mitigation and Calculation
Elections	Each year £25,000 is allocated to the reserve to fund future election costs. The reserve is used in UDC 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
Strategic Initiatives Fund	<p>The stated purposes of the Strategic Initiatives Fund are</p> <ul style="list-style-type: none"> a. Support for the local economy b. Partnership working with voluntary sector organisations c. Community initiatives and services in rural locations d. “Spend to save” projects to make the Council more efficient and more resilient to funding changes in future years e. Putting some Council services onto a more commercial footing. 	1. Insufficient projects that meet the criteria are identified	<p>There are four key criteria that each initiative must meet to be considered for funding from the Strategic Initiatives Fund. The four criteria are</p> <ul style="list-style-type: none"> 1. The initiative demonstrably supports the Council’s corporate priorities, as set out in the Corporate Plan 2. The initiative fulfils at least one of the five suggested uses for the Fund, as set out above 3. The initiative results in tangible financial benefit to the Council, either by reducing future cost pressures, efficiency savings, or income generation 4. The initiative does not give the Council any additional ongoing revenue budget commitments beyond the 2018/19 financial year

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Reserve	Purpose and lifespan	Risks	Mitigation and Calculation
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
Working Balance	Maintained to protect the Council's budget from unexpected risks,	Calculation as set out in 4.2	
Business Rates Retention	This is to manage the Collection Fund deficit, which is mainly due to the large appeals both lodged and anticipated.	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.
Licensing	A ring-fenced reserve that can only be spent on the taxi licensing service.		Due to new legislation relating to Taxi Licensing, where they are renewed every 3 or 5 years there is not a requirement to maintain an annual reserve.
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