

EARMARKED AND UNEARMARKED RESERVES

1.1 The Council's Net Budget is £8.98 million in 2018/19. It is still recommended to retain the same policy of maintaining a minimum level of Unearmarked Reserves of £1.5 million.

1.2 Our financial strategy recognises the need to maintain un-earmarked revenue reserves to provide stability for both medium and longer term planning and to provide a contingency against unforeseen events. In setting the minimum level at £1.5 million, the following have been taken into account:

- The size of the authority
- The volatility of some income and expenditure budgets due to a dependency on the weather, tourism and state of the economy
- The risks faced by the Council with regard to funding unforeseen events
- Uncertainty over future Government funding and Business Rates
- Uncertainty over future New Homes Bonus allocations

1.3 The Unearmarked Reserves (General Fund) balance of £1.8 million stands above the minimum balance of £1.5 million and acts as a safeguard against unforeseen financial pressures.

1.4 **Specific Earmarked Reserves** - The level and commitments for each reserve are kept under review each year to make sure the committed balance is adequate for its purpose (in accordance with LLAP Bulletin 99, a guide on 'Reserves' from the Chartered Institute of Public Finance).

1.5 The purpose of some of the more significant earmarked reserves are shown below:

Community Housing Fund – This reserve was set up to hold the Community Housing Fund Grant. We are working on developing a community housing initiative, which is designed to help local residents to determine and deliver appropriate and affordable housing for their communities.

Business Rates Retention Scheme - The business rates reserve covers any possible funding issues from the new accounting arrangements and smoothes volatility of business rates income due to appeals. At Council on 22nd February 2018, Members agreed to ring-fence £3.5 million from the Business Rates Retention Earmarked Reserve for employment for the creation of local jobs and to better support the local economy.

New Homes Bonus – This reserve was established to show how New Homes Bonus funding has been used on an annual basis.

Affordable Housing – This reserve helps to support the funding of affordable housing.

Vehicles and Plant Renewals - This reserve is used to purchase vehicles and heavy plant to maintain a modern and efficient Council fleet, and to ensure Contract conditions are met.

Planning, Policy and Major Developments - This was set up to help smooth out annual expenditure on review and preparation of the local plan. It has developed to help deal with costs associated with the Sherford development, planning policies and planning related activities.

Capital Programme – This reserve helps to support the funding of the Capital Programme.

1.6 A schedule of Earmarked Reserves for 17/18 is shown below.

2017/18 EARMARKED RESERVES	Balance at 31 March 2017 £000	Transfers Out £000	Transfers In £000	Balance at 31 March 2018 £000
General Fund				
Affordable Housing	770	(2)	230	998
Community Parks and Open Spaces	97	(3)	17	111
Pension Fund Strain	-	(99)	99	-
Repairs and Maintenance	403	(309)	155	249
Members Sustainable Community	41	-	12	53
Marine Infrastructure Reserve	94	-	58	152
Land and Development	205	(255)	117	67
Ferry Repairs and Renewals	400	(28)	87	459
Economic Initiatives	77	(28)	-	49
Vehicles and Plant Renewals	489	-	534	1,023
Pay and Display Equipment	81	-	21	102
On-Street Parking	44	-	-	44
ICT Development	122	(32)	50	140
Sustainable Waste Management	3	(24)	25	4
District Elections	58	-	10	68
Beach Safety	14	-	-	14
Planning Policy & Major Developments	147	(44)	125	228
Building Control	436	(436)	-	-
Section106 Agreements (no conditions)	38	-	-	38
Revenue Grants	316	(125)	181	372
Capital Programme	1,116	(507)	182	791
New Homes Bonus	474	(1,053)	1,448	869
Renovation Grant Reserve	7	-	-	7
Business Rates Retention	4,527	(13,168)	-	(8,641)
Homelessness Prevention Reserve	25	-	57	82
Strategic Change	-	(285)	285	-
16/17 Budget Surplus Contingency	559	(534)	-	25
Innovation Fund (Invest to Earn)	279	(254)	-	25
Community Housing Fund	1,881	(210)	-	1,671
Leisure Services Reserve	-	-	87	87
Support Services Trading Reserve	-	-	20	20
Environmental Health Initiatives Reserve	-	-	20	20
S106 Monitoring Reserve	-	-	137	137
Sub Total	12,703	(17,396)	3,957	(736)
Specific Reserves – Salcombe Harbour				
Pontoons	130	(30)	62	162
Harbour Renewals	85	(8)	34	111
General Reserve	156	(47)	34	143
Sub Total	371	(85)	130	416
TOTAL EARMARKED REVENUE RESERVES	13,074	(17,481)	4,087	(320)

1.7 The Earmarked Reserves position as at 31 March 2018 needs to be looked at in conjunction with the Council's share of the Business Rates Collection Fund surplus as shown in the table below:

The Impact of the Business Rates position on the Earmarked Revenue Reserves	Balance at 31 March 2017 £000	Balance at 31 March 2018 £000
Total Earmarked Revenue Reserves	13,074	(320)
The Council's share of the Business Rates Collection Fund surplus	232	13,477
Aggregated Earmarked Revenue Reserves incorporating the Council's share of the Business Rates Collection Fund surplus	13,306	13,157

In 2015/16 there was a £26.7 million increase in the provision for business rates appeals within the Collection Fund for some significant business rates appeals. In 2016/17 a large part of these outstanding appeals were settled and the significant appeals risk did not materialise.

The Local Government Accounting Regulations for Business Rates and the operation of the Collection Fund are set by the Government. These national regulations mean there is a two year timing delay between a business rates appeals provision being released back into the Collection Fund and in turn into the General Fund.

The Business Rates Retention Earmarked Reserve in 2017/18 shows a deficit position of £8.641 million at 31 March 2018. However, in order to assess the overall financial position of the Council at 31 March 2018, the funds held in the Business Rates Collection Fund of £13.477 million also need to be taken into account (as shown in the table above). The aggregated Earmarked Revenue Reserves position, incorporating the Council's share of the Business Rates Collection Fund surplus is £13.157 million at 31 March 2018.

The £13 million of funds held in the Business Rates Collection Fund are being released back into the General Fund of the Council during 2018/19. Therefore this is a short term timing issue which has occurred due to the way that the Local Government Accounting Regulations for Business Rates operate. In 2018/19, the Business Rates Retention Earmarked Reserve will be back to a positive balance in excess of £4 million. This reserve, alongside the appeals provisions created in 2017/18, are in place to protect the Council's financial position against business rates volatility and has placed the Council in a better position in future years.

South Hams District Council's share of the Business Rates Collection Fund has increased from a surplus of £232,000 in 2016/17, to a surplus of £13.477 million in 2017/18. This reflects the additional business rate income that is held in the Collection Fund in 2017/18 due to the unwinding of the business rates appeals provision made in previous years. This income will be released to the Council's General Fund in 2018/19.