

Report to: **Audit and Governance Committee**
Date: **22 November 2022**
Title: **Revenue Reserves**
Portfolio Area: **Performance & Resources – Cllr C Edmonds**
Wards Affected: **All**
Urgent Decision: **N** Approval and clearance obtained: **Y**
Date next steps can be taken: **N/A**

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Recommendations:

That the Audit Committee notes the Reserves position as at 31 March 2022 and the projected balances as at 31 March 2023 (£7.92million as set out in Appendix A).

1. Executive summary

- 1.1 At the Audit Committee meeting on 6 September 2022, Members requested that the Section 151 Officer bring a report to the next Audit Committee on the Council's Reserves. These are reported to the Hub Committee on a quarterly basis.
- 1.2 This report provides a summary of the Revenue Reserves position of the Borough Council as at 31 March 2022. In addition, a forecast is provided for each Earmarked Reserve balance as at 31 March 2023 including all the relevant commitments and budgeted contributions to the Reserves in 2022/23.

2. Background

- 2.1 The Council maintains both Capital and Revenue Reserves. The provision of an appropriate level of balances is a fundamental part of prudent financial management, enabling the Council to build up funds to meet known and potential financial commitments.
- 2.2 In line with the Council's financial procedure rules, budget monitoring reports are presented to the Hub Committee on a quarterly basis as part of the Council's arrangements for budget management. This includes the latest projected balances on each Earmarked Reserve for the year.
- 2.3 In addition, the Council annually undertakes a review of the level of its Earmarked Reserves as part of the budget setting process to ensure the balances are at an appropriate level for potential future commitments.

3. Outcomes/Outputs

- 3.1 Unearmarked Reserves have increased by £196,000 in 2021/22 and total £1.490 million at 31 March 2022. There was an underspend of £196,000 on the outturn position for 2021/22 (2.7% of the net budget of £7.3m). In accordance with normal accounting practice, this underspend has gone into Unearmarked Reserves, with a view to it being reinvested in our core services and 'The Plan for West Devon'.
- 3.2 At Council on 15th February 2022, Members set a minimum balance for Unearmarked Reserves of £900,000, with an operating level of a minimum of £1.25million. This was based on a risk assessment basis and a sensitivity analysis. Therefore the current level of £1.490m is still above these levels previously set.
- 3.3 Legislation does not prescribe how much the minimum level of Reserves should be. The Section 151 Officer is tasked with recommending the minimum level of Reserves required as part of the budget setting process having regard to elements of risk in the Council's finances (this was recommended at £900,000 being the minimum level in February 2022, with an operating level of £1.25million). Section 25 of the Local Government Act 2003 requires the Section 151 officer to report on the adequacy of the Council's financial resources on an annual basis.
- 3.4 Earmarked Reserves increased by £248,000 in 2021/22 and stand at £9.189 million at 31 March 2022. Appendix A shows the opening balance on each Earmarked Reserve as at 1 April 2022 and the projected balance as at 31 March 2023 taking into account the commitments and budgeted contributions for 2022/23.
- 3.5 In addition Appendix A shows that Unearmarked Reserves are projected to reduce by £70,000 in 2022/23. This reflects the projected deficit for 2022/23 of £70,000 as set out in the Month 5 Revenue Budget Monitoring report to Hub on 1 November 2022. This small projected deficit would be funded from Unearmarked Reserves, in accordance with normal accounting practice.

3.6 Earmarked Reserves includes £1.631m held in the Business Rates s31 Compensation Grant Reserve. This is due to a technical accounting adjustment where Councils were compensated for the business rates holidays that were announced by the Government for the retail, hospitality and leisure sectors in 2020/21 and 2021/22 (this funding is in the S31 Compensation Grant Reserve). This temporary increase in Reserves will reverse back out again in the 2022/23 Accounts, to fund the deficit on the Collection Fund. Therefore this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.

4. Proposed Way Forward

4.1 The Earmarked Reserve contributions proposed for 2023/24 were included in the Medium Term Financial Strategy report presented to Hub in September 2022. The table below shows the Reserve contributions for 2022/23 and the proposed contributions for 2023/24:

WEST DEVON BOROUGH COUNCIL		
	2022/23	2023/24
	£	£
Contribution to Earmarked Reserves		
Contribution to IT Development Reserve (£50K per annum)	50,000	50,000
Contribution to Planning Reserve (£25K per annum)	25,000	25,000
Contribution to Elections Reserve (20K per annum)	20,000	20,000
Contribution from the Planning Reserve for the cost of the restructure within the planning service - Hub Committee 7 June 2022 - to be funded for the first three years from the additional planning income held in the planning earmarked reserve		(33,000)
Contribution from Business Rates Retention Reserve to smooth the volatility in business rates income from the baseline reset	(75,000)	(150,000)
Contribution from the Flexible Homeless Government Grant for three housing posts (wdbc share of costs) and the rough sleeper outreach post	(48,500)	0
Contribution to Vehicles Replacement Reserve (£50K per annum) - Minute CM42	50,000	50,000
Contribution to Joint Local Plan Earmarked Reserve	25,000	25,000
Contribution to Financial Stability Earmarked Reserve (one-off in 2022-23)	162,850	
Total Contribution to Earmarked Reserves	209,350	(13,000)

- 4.2 Reserve levels will be kept under constant review and will be reviewed throughout the budget setting process to consider commitments against Earmarked Reserves, their unallocated balance and the contributions to/from Earmarked Reserves for 2023/24 and future years also. This will form part of the December 2022 Budget report to the Hub Committee.

5. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Council is required to make arrangements for the proper administration of its financial affairs. As part of those arrangements, the Council is under a duty to monitor its budgets throughout the financial year and review the level of reserves on a regular basis through regular revenue budget monitoring reports to the Hub Committee.
Financial implications to include reference to value for money	Y	<p>There are no direct financial implications from this report.</p> <p>Reserve levels will be kept under constant review and will be reviewed throughout the budget setting process to consider commitments against Earmarked Reserves, their unallocated balance and the contributions to/from Earmarked Reserves.</p> <p>The level of the Council's Reserves are reported to the Hub Committee on a quarterly basis.</p> <p>It is recommended that the Audit Committee notes the Reserves position as at 31 March 2022 and the projected balances as at 31 March 2023 (£7.92million as set out in Appendix A).</p>
Risk	Y	Legislation does not prescribe how much the minimum level of Reserves should be. The Section 151 Officer is tasked with recommending the minimum level of Reserves required as part of the budget setting process having regard to elements of risk in the Council's finances (this was recommended at £900,000 being the minimum level in February 2022, with an operating level of £1.25million). Section 25 of the Local Government Act 2003 requires the Section 151 officer to report on the adequacy of the Council's financial resources on an annual basis.
Supporting Corporate Strategy		Management of the Council's Revenue Reserves supports all of the Thematic Delivery Plans within the Council's strategic vision, 'A Plan for West Devon'.

Consultation and Engagement Strategy		External consultation and engagement has not been undertaken with regard to this report.
Climate Change – Carbon / Biodiversity Impact		<p>A report was presented to Council on 8th December 2020 'Climate Change and Biodiversity Strategy and Action Plan update'.</p> <p>In March 2021, Council approved to set up an Earmarked Reserve for £200,000 for the Recovery Plan and Corporate Strategy.</p> <p>Further detail is set out in the Council's 'A Plan for West Devon' strategic vision.</p>
<i>Comprehensive Impact Assessment Implications</i>		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

Supporting Information

Appendix A – Schedule of Reserves (Earmarked Reserves and Unearmarked Reserves).

Background Papers:

None