

Appendix K: Projected reserves position

In considering reserves it is important to distinguish between earmarked reserves which are planned to be used for a particular purpose but could be used for a variety of other purposes and those that are committed to a particular project or programme, even if not actually spent yet.

Comparing reserves is difficult, because it is not immediately obvious how another council's reserves should be classified. Brent has total reserves of £398m, (31 March 2020). On the face of it this would be a high figure, but the analysis below shows that in practice the figure for all practical purposes is substantially lower.

The Council manages its reserves in a way that supports effective budget planning, the delivery of services and the smooth running of the Council's finances whilst taking the opportunities when they arise to build up funds that will grow over time, so as to protect services in the future and to cushion the impact of unexpected events or emergencies. These are listed in Part A of the Schedule of Earmarked Reserves and Provisions, and officers may make transfers from these reserves and provisions up to the amounts in them for the specified purposes.

The table and explanations below illustrate how those reserves are split, managed and utilised.

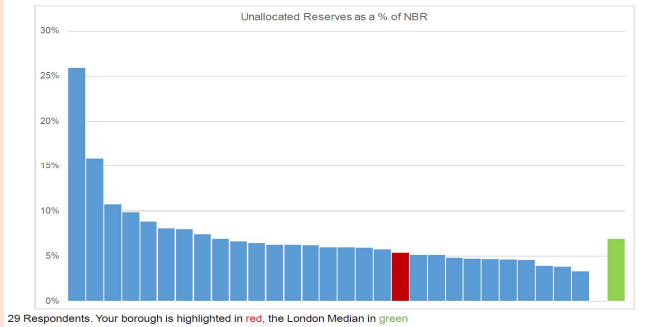
Overall Summary			Forecast		
Summary		Balance 31/03/2020 £m	Transfer in 2020/21 £m	Transfer out 2020/21 £m	Balance 31/03/2021 £m
Capital Receipts and Capital Grants	Reserves that are prohibited from being utilised to fund revenue expenditure	88.4	0.0	(35.0)	53.4
Capital and other statutorily ring-fenced reserves	Reserves that cannot be re-allocated (unless other items of expenditure are cancelled)	205.0	0.1	(23.4)	181.7
Uncommitted/General Reserves	Reserves that it would be imprudent to re-allocate	15.0	0.0	0.0	15.0
General and committed reserves	Reserves that have been committed for a specific purpose	58.4	4.9	(3.3)	60.0
Affordable housing investment reserve	Reserves where there is scope to reallocate their designation, but from which consequences would flow	10.1	0.0	(0.6)	9.5
Funding risk reserves	Reserves that are earmarked to manage the future funding risks	21.0	0.0	(2.0)	19.0
Total		398.0	5.0	(64.3)	338.7

Capital Receipts and Capital Grants: Reserves that are prohibited from being utilised to fund revenue expenditure			Forecast		
Reserve	Description	Balance 31/03/2020 £m	Transfer in 2020/21 £m	Transfer out 2020/21 £m	Balance 31/03/2021 £m
Capital Receipts	The proceeds from the disposal of land or other assets. Capital receipts can only be used to finance new capital expenditure, to provide loans or grants or to repay debt. It cannot be used to fund revenue expenditure.	13.0	0.0	(7.6)	5.4
Capital Grants Unapplied	Capital grants received from central government agencies unapplied as not yet applied for capital projects. Major elements include Basic Needs Grant for additional primary school places, School Condition Grants, DFG – Disabled Facilities Grant etc.	75.4	0.0	(27.4)	48.0
Sub-total		88.4	0.0	(35.0)	53.4

Capital and other statutorily ring-fenced reserves: Reserves that cannot be re-allocated (unless other items of expenditure are cancelled)			Forecast		
Reserve	Description	Balance 31/03/2020 £m	Transfer in 2020/21 £m	Transfer out 2020/21 £m	Balance 31/03/2021 £m
Capital financing	Funding previously allocated to support the capital programme (rather than borrowing). As they have already been allocated to finance the existing capital programme then they cannot be used to finance new expenditure, unless existing capital expenditure was permanently cancelled.	46.9	0.0	(6.0)	40.9
S106/CIL	<p>The reserve balance includes Borough CIL and S106 planning contributions that are contained within legally binding agreements. Brent has collected around £100m of Borough CIL (BCIL) since the introduction in 2013 and around £70m S106 since 1998. The accumulated S106/CIL receipts that are not yet spent either have or will be committed to finance planned capital expenditure.</p> <p>The S106 reserve balance is £16m out of which £9m is committed to be used to finance capital expenditure (some very specific exceptions may apply for some older s106 agreements, but these will invariably be very restrictive in any event). There will be some limits to our discretion as to what they can subsequently be allocated to finance, but as the test essentially requires that it offsets the impact of development then this is unlikely to be a major barrier.</p> <p>£104m total CIL receipts is split between a local CIL (NCIL) £14m and strategic CIL (SCIL) £90m. A Cabinet decision will be required to allocate strategic CIL to finance new capital expenditure before it can be added to the Brent capital programme. The remaining balance of around £9.3m includes £1.6m Mayoral CIL and £7.7m used to cover admin costs.</p>	128.5	0.0	(16.4)	112.1

Ring-fenced	Schools, HRA, Public Health, and similar accounts, where the use of the funds is closely restricted. A further, more detailed, analysis is provided below.	29.7	0.1	(1.0)	28.8
Sub-total		205.0	0.1	(23.4)	181.7

Breakdown of Ring-fenced reserves	Description	Balance 31/03/2020 £m	Transfer in 2020/21 £m	Transfer out 2020/21 £m	Balance 31/03/2021 £m
HMO Licensing	Income is received on a five yearly cycle and released annually to meet expenditure. The service does not have a mainstream budget for this activity, and the reserve is ring-fenced by law and operationally required to match the different cycles of income and expenditure.	3.7	0.0	(0.3)	3.4
HRA	Held as a buffer for contingent liabilities such as insurance claims and water commission.	4.4	0.0	0.0	4.4
Public Health	Reflects carry forward of ring fenced funds for Public Health.	3.0	0.0	0.0	3.0
Schools and other DSG	Forecast to decline in response to school funding pressures and not directly in the control of the council.	8.5	0.0	0.0	8.5
Other CYP ring fenced grants	Of this the significant items are 1 £0.3m for additional two year old funding. This is linked to a previous government grant so can't be reallocated for other policy purposes 2 £0.2m SEN reform grant. This is linked to a previous government grant so can't be reallocated for other policy purposes, and is required to meet demand for Education Health Care Plans. 3 £0.8m, linked to a mixture of previous and current government grants, including the troubled families program and MOPAC grants, so the same policy restrictions apply.	1.1	0.1	(0.7)	0.5
Proceed of Crime	£0.3m Proceeds of Crime, which is ring-fenced by statute. All recoveries under the POCA Act are paid into this reserve, which then funds enforcement initiatives.	0.3	0.0	0.0	0.3
Homelessness Grant	Flexible Homelessness Support Grant, expected to be utilised in coming years due to lower grant levels, the loss of some low cost TA schemes and Covid/economic pressures causing increased demand.	8.5	0.0	0.0	8.5
Sub-total		29.7	0.1	(1.0)	28.8

Uncommitted/General Reserves: Reserves that it would be imprudent to re-allocate to other purposes					
Reserve	Description	Balance 31/03/2020 £m	Forecast		
			Transfer in 2020/21 £m	Transfer out 2020/21 £m	Balance 31/03/2021 £m
General reserve	<p>This is held against unexpected overspends or failure to identify sufficient savings to balance the budget in year and similar events. On a net budget of c£290m, even a 2% variance would rapidly erode this, and on the more realistic figure of c£400m (gross expenditure excluding HB and DSG) then even a 1% overspend for two consecutive years would leave the Council dangerously exposed.</p> <p>Latest London Councils MTFS analysis found the median figure is c£14.5m, the lower quartile is c£12.5m and the upper quartile is c£18m. However, the chart below compares the general reserve balance as a proportion of the net budget against other London Boroughs. This shows that the reserve is slightly on the low side so a balance of £15m is a reasonable minimum requirement.</p>  <p>29 Respondents. Your borough is highlighted in red, the London Median in green</p>	15.0	0.0	0.0	15.0
Sub-total		15	0	0	15

General and committed reserves: Reserves that have been committed for a specific purpose			Forecast		
Reserve	Description	Balance 31/03/2020 £m	Transfer in 2020/21 £m	Transfer out 2020/21 £m	Balance 31/03/2021 £m
Committed reserves	<p>These reserves arise as a result of differences in timing between the reserve being established and the expenditure being incurred and are therefore, in effect, committed reserves. Most of these are long term and spread costs over a number of years, such as the PFI sinking fund that equalises the costs of the annual unitary charge over the 25 years of the contract.</p> <p>This also includes the insurance fund, redundancy and pension costs and service reserves managed by departments. The reserve “smooths” expenditure that by its nature will vary considerably year to year, avoiding uncontrollable under and over spends. Any re-designation of reserves would lead to much greater volatility, and hence increase the requirement to hold a larger general reserve, as well as creating problems with in year financial reporting. A fuller analysis of these reserves is provided below.</p>	58.4	4.9	(3.3)	60.0
Sub-total		58.4	4.9	(3.3)	60.0

Breakdown of Committed reserves	Description	Balance 31/03/2020 £m	Transfer in 2020/21 £m	Transfer out 2020/21 £m	Balance 31/03/2021 £m
PFI	<p>The original financial models for the council’s PFIs do not match income and expenditure in any given year. This is normal for such arrangements, because the contractor is bearing the up-front cost of the capital required. As a result the reserve is for all practical purposes ring-fenced.</p> <p>To illustrate by way of a simplified example, if the contract value was £10m over 10 years, the council might have set up a budget of £1m p.a. at the start to pay for this. The actual payments in Year 1 might have been £0.4m, so the surplus £0.6m was added to the reserve. In later years payments might exceed £1m, and the excess payment over the budget would be taken from the reserve. The result is that the council can set a consistent budget for the contract rather than having to change it every year. If the reserve was used for another purpose then growth would be required to meet the excess of contract payments over the budget.</p>	5.3	0.0	0.0	5.3
UC staffing	A reserve was created c2011/12, to fund the budgets for staff who will transfer to the DWP when Universal Credit comes in. The estimated budget for the staff who will eventually transfer was taken as a saving at the same time, so the reserve is therefore fully committed to paying for those staff salaries.	2.1	0.0	(1.0)	1.1
Redundancy	The reserve is used to fund redundancy costs. Without it many planned savings would be delivered say one year late (assuming that the average redundancy cost works out at about one year’s salary).	3.2	0.0	(1.0)	2.2

Insurance	Rather like the PFI reserve, this deals with the problem of “lumpy” expenditure. Actual insurance settlements will vary considerably year to year, but it would be impossible to anticipate this each year in advance of setting the budget. So we have an annual budget and a reserve to ensure that the inevitable actual under and overspends each year don’t affect the bottom line. The amounts set aside are reviewed by an insurance actuary to make sure that we have enough to deal with the pipeline of known cases that are not yet settled.	4.9	0.0	0.0	4.9
Pensions	This relates to the residual costs of Middlesex County Council pension scheme which pre-dated the Brent Council Scheme. Brent has not been charged by the LPFA for the costs relating to this scheme since the last members of the scheme retired, despite liabilities emerging since 2001. It is expected this reserve will be used to pay the LPFA once costs have been agreed with all London Boroughs.	7.2	0.0	0.0	7.2
Business Rates Equalisation Reserve	The Business Rates Equalisation Reserve has been built up since 2018/19 through surpluses (amounts retained above estimated) within the London Business Rates Pool. Cabinet agreed in November 2019 to utilise £6m of this reserve to fund London Living Wage on the Homecare contract. The remainder is intended to manage volatility in the amounts retained in the business rates retention regime with respect to the performance of the London NNDR pool, section 31 grant reimbursements and backdated successful revaluation appeals. The latter is particularly volatile where c£16m has had to be paid out in the last two years alone. In addition, this reserve may be needed to manage the financial impact of COVID-19 on the level of retained business rates income in 2021/22.	18.4	4.2	0.0	22.6
Homecare London Living Wage	Cabinet agreed in November 2019 to fund London Living Wage on the Homecare contract. This reserve facilitates the early implementation of this commitment while the base budget is built up over time.	6.0	0.0	0.0	6.0

Regeneration & Environment Reserve	<p>Of this the significant items are</p> <p>1 £2.2m R&E Transformation reserve – monies set aside to fund a contribution to investments in improving the condition of the roads and pavements and transformational project work to improve the department's ability to generate future income.</p> <p>2 £1.4m to fund specific regeneration schemes such as funding for the delivery of highway schemes, the Local Plan, the Wembley transport corridor, Telford Homes, Wembley Housing Zone etc.</p> <p>3 £0.8m for tackling rogue landlords, to enable enforcement and other action to be taken where the actual expenditure will vary considerably from year to year</p> <p>4 £1.7m total of other smaller reserves - this contains some small government grants to which there will be ring-fences on policy purposes, and more or less formal earmarking by the services in question. Otherwise, the reserves allow the services in question to operate with a degree of flexibility in responding to issues.</p> <p>5 £1m R&E reserve to fund the RLS project</p> <p>6 During 2020/21 it is proposed to establish a new Cemeteries Maintenance reserve to fund long-term maintenance of cemeteries. In the long term, once a cemetery is full, there will no longer be income from selling burial spaces to offset maintenance costs. It is therefore appropriate to set aside some of the fees & charges income in the years that burial plots are sold to fund a proportion of the maintenance in the future.</p>	8.7	0.6	(0.8)	8.5
Other corporate reserves	<p>Of this the significant items are:</p> <p>1 £1m Community Hubs - monies set aside to part fund Community Hubs while the base budget is built up over time.</p> <p>2 £0.3m Council Tax - monies set aside to fund improvement projects within council tax collection following the service coming back in house.</p> <p>3 £0.2m Children's and Adults safeguarding boards reserve.</p> <p>4 £0.3m Reserve to fund Local Elections that is topped up every year.</p> <p>5 £0.2m Reserve to fund remaining legal costs in relation to a legal matter.</p> <p>6 £0.2m Reserve to fund remaining Rapid Improvement Projects.</p> <p>7 £0.2m HR Reserve to support the training and development needs of staff.</p> <p>8 £0.2m Audit & Investigations - historical government grant to fund tenancy fraud work.</p>	2.7	0.1	(0.5)	2.3
Sub-total		58.4	4.9	(3.3)	60.0

Affordable housing investment reserve			Forecast		
Reserve	Description	Balance 31/03/2020 £m	Transfer in 2020/21 £m	Transfer out 2020/21 £m	Balance 31/03/2021 £m
Affordable housing investment reserve	Set aside on agreement of the investment strategy for the purposes of financing new capital expenditure, specifically for the build and acquisition of new affordable council housing. To date, it has not been allocated to any specific projects. However, as its purpose was to finance the capital programme it is intended to be taken into account in the planned financing of that programme.	10.1	0.0	(0.6)	9.5
Sub-total		10.1	0.0	(0.6)	9.5

Funding risk reserves: Reserves that are earmarked to manage the future funding risks			Forecast		
Reserve	Description	Balance 31/03/2020 £m	Transfer in 2020/21 £m	Transfer out 2020/21 £m	Balance 31/03/2021 £m
Service pressures	This is a general reserve that was previously set aside for any future service pressures. It is intended to repurpose this reserve to manage the impact of COVID-19 in 2020/21.	2.0	0.0	(2.0)	0.0
Future funding risks	This is a reserve that was previously set aside to manage the financial impact of the Fair Funding review, which is widely expected to move resources away from London. This is further compounded by the Governments 'levelling up' commitment, which is also expected to move resources away from London. However, the timing of the Fair Funding Review, alongside wider reforms to Local Government finance, is currently uncertain. A more immediate consideration is the potential financial impact of COVID-19 if this cannot be managed by the growth built into the budget. Overall, it is deemed reasonable to hold this reserve to smooth out the impact of financing the budget from year to year, which will remove the need for significant savings to be delivered at short notice and therefore maintain service delivery.	19.0	0.0	0.0	19.0
Sub-total		21.0	0.0	(2.0)	19.0