

Reserves Strategy

The requirement for financial reserves is acknowledged in statute. The Local Government Finance Act requires billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. Local authorities may also set aside parts of the General Fund reserve for specific purposes; these are referred to as Earmarked Reserves.

There are a range of safeguards in place that help to prevent local authorities over-committing themselves financially. These include:

- the balanced budget requirement: sections 31A, 42A of the Local Government Finance Act 1992, as amended;
- The Section 151 Officers' duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget requirement;
- the legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the proper officer (Director of Finance) has responsibility for the administration of those affairs section 151 of the Local Government Act 1972; and
- the requirements of the Prudential Code.

These requirements are reinforced by section 114 of the Local Government Finance Act 1988 which requires the Director of Finance in England and Wales to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

Operating reserves and provisions are a vital element of prudent financial management arrangements for all councils, and may be held for a number of different purposes. They can be broadly categorised as three main types:

- A working balance which helps smooth cash flow operation and avoids the need to borrow temporarily (General Fund balances).
- A contingency to cushion the impact of future unexpected events and emergencies (an element within the base revenue budget or general reserves).
- A means of building up funds to meet expected future requirements or liabilities (earmarked reserves).

In addition, the Council maintains a number of technical accounting reserves (unusable reserves) which are required for the interaction of legislation and proper accounting practice. These reserves, which are generally not resource backed, cannot be used by the Council and are held for accounting purposes only.

Review of reserves

Recent changes to local authority funding have significantly increased the level of risk being managed by the Council. The Council is facing a number of significant budget pressures, risks and uncertainties, which combined with future funding uncertainty and general economic and political risk, means that the potential financial exposure of the Council continues to increase.

The Director of Finance has a fiduciary duty to local taxpayers, and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds. The level and utilisation of reserves will be determined formally by the Council, informed by the advice and judgement of the Director of Finance. To enable the Council to reach its decision, the Director of Finance should report the factors that influenced their judgement, and ensure that the advice given is recorded formally.

Section 26 of the Local Government Act 2003, places a duty on the Section 151 Officer to ensure the Council has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget. The Director of Finance will therefore:

- include in annual the budget report to Council, a statement setting out the proposed minimum level of General Fund Balances to be maintained for the coming financial year; and
- undertake an annual review of the reserves alongside the preparation of the annual financial statements. This annual review will provide a statement on the purpose and levels of reserves held, and make recommendations for any changes to the level or allocation of reserves.

Use of reserves

Revenue balances can be used to meet the cost of emergencies, unexpected events or un-budgeted statutory items. The Director of Finance can authorise this type of expenditure but must report it to Executive Cabinet at the earliest opportunity.

Revenue balances may also be used to supplement un-budgeted but necessary expenditure that could impact on service delivery if not incurred. The Director of Finance can authorise this expenditure after consultation with the Chief Executive/Executive Leader. The Director of Finance must also ensure that such expenditure would not have a detrimental effect on the overall finances of the Council, and must report it to Executive Cabinet at the earliest opportunity.

Minimum level of general fund balances

Over time the risks facing an organisation can change and as such a more proactive risk based approach is required when setting a minimum level of reserves. In the context of the increasing pressures and risks facing the Council and Local Government in general, an analysis of financial risks is now undertaken as part of the budget setting process, to establish the required minimum level of general fund balances that should be set aside for the coming financial year.

The risk assessment for the minimum level of general fund balances has been reviewed and updated as part of the budget setting process for 2022/23. This assessment is set out on the following page. The proposed minimum level of general fund balances from 1 April 2022 is recommended at £26.094m, which is slightly less than in 2021 reflecting the stabilized position in Children's Social Care and reduced size of the Council's current Capital programme.

Total Minimum General Fund Balance recommended from 1 April 2022	£26,094k
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Risk assessed minimum level of general fund balances from 1 April 2022

Risk	£000s	Basis of Assessment
<u>Inflation</u>		
General Pay Awards exceed assumed increase by 2.5%	1,100	1% of Employee Costs
General price inflation exceeds current forecasts by 2.5%	975	1% of Budget for non-staffing costs
<u>Savings and Pressures</u>		
Non-delivery of savings identified for coming year	766	10% of savings target for 2022/23
Service specific pressures/investments exceed cost estimates	1,547	10% of Pressures identified for 2022/23
<u>Service Demand / Demographics</u>		
Forecast Demand and Demographics exceed current forecasts:		
Children's Services	2,840	5% of Children's Services net budget
Adult's Services	4,373	10% of Adult's net budget
<u>Income</u>		
Income forecasts fall short of current forecasts by 5%	2,775	5% of Budgeted Income
Unexpected reductions to Government Grant Income	3,003	2% of Government Grant Income
Unexpected decline in Business Rates Income	305	5% of Gap between forecast rates and safety net
<u>Reactive / responsive scenarios</u>		
Impact of major disaster or emergency	3,000	Director of Finance Assessment
<u>Capital</u>		
Capital Receipts not realised or delayed	771	5% of current forecast capital receipts
Capital Financing Costs exceed current estimates	226	5% of Capital Financing Budget
Capital Project delivery / Supply Chain Risk / costs exceed contingencies	4,413	5% of Total Capital Programme
Total Minimum General Fund Balance Required	26,094	

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Categories of Reserve

Reserves can only be used for the purpose for which they were created. The Executive Cabinet can change the use of the earmarked reserve if it so wishes or move funds between reserves, providing this is not contrary to proper accounting practice. The Director of Finance will make recommendations to Executive Cabinet as part of the annual review of reserves. Reserves are categorised into one of the following, to aid understanding and decision making for reserves:

Category	Description	Approval Required to spend
Accounting reserves	This will include two sub categories: 1) Unusable reserves - those reserves required by proper accounting practice that are not resource backed. 2) General Accounting Reserves - reserves established as good accounting practice for specific accounting purposes (such as the PFI smoothing reserves and Leasing reserves)	Director of Finance
Grants and Contributions	Reserves to hold unspent grants and contributions received from external sources.	1) For the purposes intended by the original contribution - Director of Finance 2) For an alternative purpose - Executive Cabinet
Liabilities and Risk	Reserves held to mitigate against known and anticipated liabilities and risks. This will include for example self insurance reserves.	Director of Finance
Capital Reserves	Capital Receipts, Capital Grants and Reserves earmarked for capital purposes. These reserves are used to finance the capital programme.	Director of Finance
Schools Reserves	Reserves for Schools and Education expenditure, including the ring fenced schools balances.	Director of Finance
Budget Resilience Reserves	Reserves held for planned revenue investment in services, for example reserves set aside for planned investment in Children's Services, and to provide resilience for specific services not covered by general fund balances such as the waste levy reserve.	Executive Cabinet
Strategic Priorities Reserves	Reserves held for planned or intended investment in Strategic Priorities. This will include reserves such as the Care Together Reserve.	Executive Cabinet

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Categories of Reserve

Existing reserves are categorised in accordance with the reserves strategy which was approved by Council in February 2019. The categories and value of reserves at 31 March 2021 are summarised in the table on the right.

Whilst the overall level of reserves held by the Council remains strong, most of these reserves are committed, with only £15m not committed outside of the general fund balance of £27m.

- Many balances reflect timing issues and are required to meet future liabilities (eg. Self insurance and collection fund deficit funding).
- Existing commitments included in MTFP for future investment (Such as levelling up match funding) or to fund COVID related costs during 2021/22 and beyond
- Just over £15m currently earmarked for corporate priorities but no existing commitments. Significant reserve funding has been used in prior years for unexpected cost and demand pressure in Children's Social Care.
- Future budget gaps may require reserves in the absence of additional savings or funding.

Reserve Categories	£m	%
Accounting Reserves - cannot be spent	14.0	8%
<i>Restricted/Ring fenced balances</i> Includes capital receipts (£7m), ring fenced grants & contributions (£8m), self insurance (£8m) and Schools related balances	22.5	13%
<i>Committed Reserves - will be spent in future years</i> Includes COVID grants (£13m), Collection Fund statutory commitments (£48m), existing MTFP reserves and funding commitments (£23m), smoothing reserves for Fleet and IT (£5m), other investments and match funding (£8m)	96.9	55%
<i>Earmarked but no existing commitments</i> Budget resilience reserves - previously used to support unexpected cost and demand pressures eg. Children's Social Care	15.4	9%
General Fund - Minimum balance for Emergency use	27.2	15%
	176.0	