



## **Report to Council**

# **Statement of the Chief Financial Officer on Reserves, Robustness of Estimates and Affordability and Prudence of Capital Investments**

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## **Reason for Decision**

To recommend that Council agrees the level of balances necessary to support the 2020/21 budget underpinned by the agreed policy on Earmarked Reserves, setting a properly balanced revenue budget which includes the financing of capital investments within the present investment proposals.

## **Executive Summary**

In order to comply with Section 25 of the Local Government Act 2003; the Authority's Chief Financial Officer (the Director of Finance) is required to report on the robustness of the estimates made for the purposes of the revenue budget calculations and the adequacy of the proposed reserves. This information enables a longer-term view of the overall financial resilience of the Council to be taken. It also reports on the Director of Finance's consideration of the affordability and prudence of capital investment proposals. The level of general balances to support the budget and an appropriate level of Earmarked Reserves maintained by the Council in accordance with the agreed Council Policy on Earmarked Reserves, are an integral part of its continued financial resilience supporting the stability of the Council.

There have been several reports issued on the subject of the financial resilience of Local Authorities alongside the publication by the Chartered Institute of Public Finance & Accountancy (CIPFA) of a Local Authority Financial Resilience Index and the implementation of a Financial Management Code. These issues are highlighted in Sections

5 and 6 of the report but have largely been prompted by the financial failure at Northamptonshire County Council during 2018 and the raising of significant concerns about the financial stability of other Local Authorities.

Whilst the Council has prepared a detailed revenue budget within a five year Medium Term Financial Strategy (MTFS), a five year Capital Programme and continues the closure of accounts within an appropriate timeframe allowing early focus on the upcoming challenges and a robust financial transformation programme, there continues to be a reliance on the use of reserves to balance the revenue budget.

Since 2016/17, reserves of £22.937m have been used to underpin the Council's revenue budget. For 2020/21, there is another proposed use of reserves of £10.008m combined with a number of one-off measures totaling £5.150m. The continued use of reserves and one-off measures has had the impact of deferring the changes that are required to balance the revenue budget by on-going sustainable means. The implementation of the next phase of the transformation programme in 2020/21 is expected to begin to address this challenge. However, the expected benefits of the transformation programme will be phased over several financial years. It is anticipated that there will continue to be a need to utilise reserves until the programme is complete.

As detailed within the Council's Audit Completion Report, presented alongside the Statement of Accounts, the External Auditors concluded that for 2018/19 the Council had made proper arrangements to deliver financial sustainability in the medium term. However, it was also pointed out that "the use of reserves to support revenue budgets in the longer term is not sustainable, and the Council will need to ensure that its longer term financial sustainability does not deplete its reserves to unsustainably low levels".

Financial resilience does depend in part on the Council maintaining an adequate level of reserves which are set out in this report. In order to scrutinise the level of reserves held by the Council the policy on Earmarked Reserves was considered by the Audit Committee in June 2019 and it is proposed to action the same review again in 2020/21 after the closure of the accounts for 2019/20.

Whilst the Council is utilising a number of reserves to support the 2020/21 revenue budget, Members can be assured that Oldham Council currently remains financially resilient and is working hard to address the pressures that have arisen over a number of years and therefore still continues to be well placed to meet the difficult financial challenges that it faces.

In conclusion, the Chief Finance Officer is able to advise Members of the robustness of the estimates and the affordability and prudence of capital estimates for 2020/21. Despite the use of reserves over recent years the level of reserves is adequate to support the 2020/21 financial position and demonstrates financial resilience. However, this is only the case provided that action is taken to ensure that the balances are set at the level of £14.991m for 2020/21 as calculated in this report and that all budget options, or in year alternatives, are delivered as planned and monitored.

The Statement of the Chief Financial Officer was presented for scrutiny to the Overview and Scrutiny Performance and Value for Money Select Committee on 23 January 2020. The Select Committee was content to commend the report to Cabinet. Cabinet duly considered

and approved the report at its meeting on 10 February 2020 and commended the report to Council.

## **Recommendations**

It is recommended that Council:

- Approves the proposed General Fund Balance currently calculated for 2020/21 at £14.991m.
- Notes that the initial estimate of General Fund Balances to support the Medium Term Financial Strategy is as follows:
  - £15.187m for 2021/22 and
  - £15.241m for the years 2022/23, 2023/24 and 2024/25.
- Notes the intended report to be presented to the Audit Committee on Earmarked Reserves to ensure this area is subject to appropriate scrutiny.
- Agrees the actions necessary to secure a properly balanced budget as presented in paragraph 3.6.
- Agrees the actions necessary to ensure the prudence of the capital investments as noted in Section 4.

**Statement of the Chief Financial Officer on Reserves, Robustness of Estimates and Affordability and Prudence of Capital Investments****1. Background on Calculating the Recommended Level of General Balances to support the 2020/21 Budget**

1.1. There are two approaches for deciding the optimum level of the general contingency reserve required for the Council to support its annual budget process. This is either a percentage of expenditure, which at one stage was recommended by the external auditors to be at a minimum 5% of net expenditure, or an approach based on an assessment of risk.

1.2. The agreed Council approach adopted for a number of years is to use a risk based approach based upon 11 areas of assessed risk:

- Inflation is underestimated in the original estimates
- Interest rates are underestimated
- Changes to grant funding regimes
- Some budgets are only indicative at the time the budget is agreed
- Volatility in some budget headings between years
- Efficiency gains expected in the agreed budget are not achieved
- Unforeseen insurance costs
- Emergencies which cannot be foreseen which occur on an ad hoc basis
- Changes to budgets where targets are not met
- Financial and Partnership guarantees given by the Council including Health Devolution
- Unforeseen events

1.3. The calculation to support the 2020/21 revenue budget is detailed at Appendix 1. It also calculates an indicative recommended level of balances to support the 2021/22, 2022/23, 2023/24 and 2024/25 budgets. These allow for the current pressured state of the Council's finances which, by way of example, include the continued unbudgeted expenditure in certain services, especially children with Special Educational Needs and Disabilities.

1.4. The recommended level of general balances to support the 2020/21 budget is £14.991m. Although the Council is currently reporting a forecast adverse position it is anticipated that management actions will ensure that there will be no requirement to supplement the revenue budget from balances in 2019/20 and that this General Fund balance will be achieved.

1.5. The detailed assumptions supporting the assessment of risk within the detailed general balances calculation are set out in Appendix 2.

1.6. The indicative level of balances for the Medium Term are £15.187m for 2021/22 and £15.241m for the years 2022/23, 2023/24 and 2024/25. These are in line with the level of risk included in the 2020/21 calculation and reflect the need to keep an appropriate level of general balances to manage known challenges.

**2. Earmarked Reserves**

2.1. The Council has 15 Earmarked Reserves as summarised in Appendix 3 and has estimated Earmarked Reserves at the 2019/20 year-end totalling £69.867m. This total is after the anticipated call down of £20.677m in year offset by Business Rates settlement payments received from Central Government, a waste levy refund from the Greater Manchester

Combined Authority (GMCA) and Oldham's share of the proceeds from the Greater Manchester 100% Business Rates Retention pilot. Management of these reserves takes place via the monthly monitoring reports during the financial year and at year-end as part of the closure of accounts.

- 2.2. Further detail of the estimated Earmarked Reserves held by the Council which are supported by the Reserves Policy are detailed in Appendix 3.
- 2.3. The Earmarked Reserves to meet known or expected liabilities where it is challenging to be specific about the exact financial amount of liability are:
  - Council Initiatives
  - Insurance Reserve
  - Levy Reserve
  - Adverse Weather Reserve
  - Demand Changes Reserve
  - Transformation Reserve
  - Lifecycle Costs Reserve
  - Fiscal Mitigation Reserve
  - Taxation/Treasury Reserve
  - Emergency and External Events
- 2.4. The Earmarked Reserves required for other more specific, including invest to save purposes are:
  - Balancing Budget Reserve
  - Regeneration Reserve
  - Integrated Working Reserve
  - Directorate Reserves
  - District Executive Reserve
- 2.5. In addition there are two other reserves, the School Balances reserve (which is not available for the Council to utilise) and the Revenue Grants reserve which is for specific grant related initiatives.
- 2.6. Since 2016/17, reserves of £22.937m have been used to underpin the Council's revenue budget. For 2020/21, there is another proposed use of reserves of £10.008m combined with a number of one-off measures totalling £5.150m. The continued use of reserves and one-off measures has had the impact of deferring the changes that are required to balance the budget by on-going sustainable means. The implementation of a transformation programme for 2020/21 is expected to begin to address this challenge. However, the expected benefits of the transformation programme will be phased over several financial years. It is anticipated that there will continue to be a need to utilise reserves until the programme is complete.
- 2.7. As detailed within the Council's Audit Completion Report, presented alongside the Statement of Accounts, the External Auditors concluded that for 2018/19 the Council had made proper arrangements to deliver financial sustainability in the medium term. However, it was also pointed out that "the use of reserves to support revenue budgets in the longer term is not sustainable, and the Council will need to ensure that its longer term financial sustainability does not deplete its reserves to unsustainably low levels".
- 2.8. Whilst the level of reserves expected to be available to support the Council in 2020/21 ensures it remains financially resilient, it is evident that continued use of the reserves to underpin the budget over time will reduce future levels of resilience.

### **3. Robustness of the Estimates**

- 3.1. Key factors in ensuring the robustness of estimates include the initial challenge process to establish budget reduction proposals, essential project management to ensure the delivery of the proposals, monitoring and reporting arrangements and the utilisation of key, skilled finance staff in drawing up detailed estimates and monitoring proposals going forward. Cross cutting and sound key assumptions are also vital in ensuring proper estimates.
- 3.2. There are a large number of factors which make the management of the Authority's budget much more challenging than it has been in the past. These include:
- Councils such as Oldham in areas where deprivation is causing pressures on services, face significant continued financial challenges. Unprecedented reductions in Government funding for a sustained period, constrained Council Tax increases to fund Adult Social Care, a decline in other income, rising costs and growing demand for many services are all challenging Councils' financial management and resilience.
  - Considerable uncertainty surrounding the national political landscape, Brexit and the lack of certainty about the future funding of Local Authorities has had an impact. On 12 December 2019, a General Election was held which resulted in a majority Conservative Government. This majority has enabled the Government to push forward on national issues such as leaving the European Union which took place on 31 January 2020 and also the planned reform of funding of Local Authorities particularly with regard to Business Rates.
  - Whilst the publication of the Final Local Government Finance Settlement on 6 February 2020 provided funding information for 2020/21 to assist with financial planning over the next financial year, it gave no financial foresight over the longer term. However, with the start of a new five-year political mandate in December 2019 and the date of the next budget announced as 11 March 2020 it is anticipated that financial forecasts will become more certain. Members should be aware that the Final LGFS was awaiting Parliamentary approval at the time of report publication.
  - There continues to be potential changes in Council funding particularly around the movement of Business Rates Retention to a 75% model. It was expected that this would be in place for 2020/21 however, this will be delayed until at least 2021/22. The Council has now received confirmation that the Greater Manchester 100% business rates retention pilot scheme, of which Oldham has been a part since 2017/18, will continue for 2020/21.
  - Major changes to the Local Government Finance System are planned to coincide with a multi-year Spending Review now due to take place in 2020 (having been deferred from 2019/20). As well as reviews and changes to the operation of the Business Rates Retention system, the Government will undertake a 'Fair Funding' review that will examine how resources are distributed among Local Authorities taking account of spending needs and the ability to raise tax revenues and potentially other income locally. These reviews, coupled with the lack of information regarding Government Departmental spending totals for 2021/22 and beyond, means preparing robust forecasts for all of the Council's Government provided/controlled funding sources is extremely challenging, and is based on informed estimates.
  - As detailed within the Council's Month 8 financial monitoring report approved by Cabinet on 10 February 2020, Education and Early Years is a challenging area for the Council. There has been a consistent rise in the numbers of children requiring Home to School Transport which has continued from previous years. Despite

investment of resources as part of the budget setting process over the last three financial years, there continues to be a structural overspend. For 2019/20 there is a projected overspend of £0.742m for this service.

- There is a continued pressure for the Council with regard to its Dedicated Schools Grant (DSG) and in particular the High Needs Block. Despite the support from the Schools block in 2019/20, the DSG in Oldham is still expected to have an overall deficit of £6.033m at the year end. It is an important element of the financial management of the Authority that the DSG is not in a deficit position. There has been action to try to address this, however, this has been more than offset by the increasing numbers of children with special needs entering the schools system. This remains a challenging issue for the Council. Oldham is one of 32 Local Authorities who provided a Recovery Plan to the Department for Education (DfE) to outline how it will bring the DSG into balance over the 3 year period 2019/20 to 2021/22.

3.3. As shown above, the impact of these changes and the level of further funding available in future years is not fully known, but the financial climate is more volatile with the Council carrying more financial risk than has ever been the case. MTFS forecasts suggest funding has stabilised.

3.4. These current and future financial challenges pose significant and increasing risks and require robust financial management along with sufficient reserves to strengthen resilience against future uncertainty.

3.5. The preparation of the estimates has been based on the following base assumptions:

- Pressures – As identified within the revenue budget monitoring throughout 2019/20, there are a number of pressures which cannot be absorbed by the Directorates. In these instances, the estimates reflect the additional resources required by these particular service areas. However, these assumptions are based on a prudent approach to budget setting and these services will be continually monitored throughout 2020/21 to determine if these additional resources are required or if they can be released to support the overall financial position.
- Interest and inflation assumptions - a prudent view of interest rates and inflation has been taken when constructing estimates for 2020/21. This approach takes account of the recent increase in the interest rate for the Public Works Loan Board (PWLB) to seemingly discourage higher risk investments. Whilst these estimates are considered to be adequate at this point in time the uncertainty within the economy may lead to further revision.
- Invest to save initiatives – The Council is continuing with its Transformation Agenda and the Medium Term Financial Strategy (MTFS) reflects the requirement to invest in transformational activities which will deliver savings in the longer term.
- Council Tax income assumptions - the estimates for Council Tax Tax Base setting rely on an overall collection rate of 97% reflecting the impact of the Council Tax Reduction Scheme. The position will be monitored during the year, but the tax yield could vary for matters outside the control of the Council.
- A best estimate of the amount of income to be collected from Non Domestic Rates with the most up to date information available with regard to the Greater Manchester pooling and pilot scheme arrangements.

- 3.6. In order to secure a balanced budget year on year, it is essential that the Council's financial arrangements ensure:
- That all budget changes agreed by the Council are actioned to deliver the estimated savings, or alternatives found to the same net value, by the relevant responsible officers.
  - Monthly monitoring of all budgets and reporting on an exception basis through the Director of Finance to senior officers and Cabinet.
  - Action is being taken to address future forecast budget shortfalls in advance of the forthcoming financial years. In respect of this the Council's recent and on-going preparation of a multi-year MTFS is an example of enhanced good practice.

#### **4. Affordability and Prudence**

- 4.1. The current prudential borrowing regime places a duty on the Chief Financial Officer to ensure that the financial impact of decisions to incur additional borrowing over and above that supported by direct Government resources are affordable both in the immediate and over the longer term.
- 4.2. However, given the changes in Local Government finance introduced in 2006/07, there is no longer any direct relationship between supported borrowing and the revenue support to finance it. Consideration of all new capital schemes and their revenue impact is therefore undertaken alongside other revenue issues to ensure that resources are allocated appropriately and are affordable.
- 4.3. In 2017 the Chartered Institute of Public Finance & Accountancy (CIPFA) issued revised Prudential and Treasury Management Codes which required that all Local Authorities must prepare a Capital Strategy report. The Council traditionally prepared a Capital Strategy, however under the new guidance additional disclosures have been added to ensure compliance. The Strategy is now presented so that it includes a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services. It also provides the implications for future financial sustainability.
- 4.4. The impact of the Council's current investment plans detailed in the Capital Strategy and Capital Programme 2020/21 to 2024/25, which is included elsewhere on the agenda, are planned to be financed as far as appropriate utilising capital grant and capital receipts, with the balance being funded through Prudential Borrowing. Related capital financing charges are included in the revenue budget for 2020/21, with future year's charges being estimated in the MTFS. Commercial investments are expected to generate sufficient resources to finance the costs of associated asset acquisitions.
- 4.5. Given the increased scope of the investment programme relating to the Creating a Better Place initiative, planned capital expenditure is expected to increase significantly from 2020/21 onwards. Despite the challenging financial position, the Council has ensured that there is sufficient revenue budget to meet the capital commitments and it is essential that this remains so going forward. Subject to that, the capital estimates are considered prudent and affordable while supporting the aspirations and ambition of the Council.

#### **5. Financial Resilience**

- 5.1. A key issue that must be considered by the Chief Finance Officer when forming an opinion on budget setting arrangements is the financial resilience of the Council of which the level of reserves and balances is a significant element. The issue of financial resilience and



sustainability across the Local Authority sector is highly relevant to the ongoing development of the Council's Medium Term Financial Strategy and associated budget proposals for 2020/21 and beyond. Much more attention has been focused on financial resilience over the past two years as highlighted within the Statement of the Chief Financial Officer on Reserves, Robustness of Estimates and Affordability and Prudence of Capital Investments report presented to Council on 27 February 2019, and in two reports that have been presented to the Overview and Scrutiny Performance and Value for Money Select Committee, firstly on 13 December 2018 with an update on 22 August 2019. The Audit Committee also considered a report on this matter at its meeting of 12 September 2019.

5.2. These reports highlighted the financial challenges being faced by a number of Local Authorities, some examples of which are presented below:

- In February 2018, the Chief Financial Officer of Northamptonshire County Council issued a notice under the powers of Section 114(3) of the Local Government Finance Act 1988 (see Appendix 4 for more detail), which was the first of its kind for over 20 years. This was followed by an unprecedented issue of a second Section 114 notice in July 2018 as the financial pressures for the Authority had not been adequately addressed.
- In March 2019, Birmingham City Council was issued with a third Section 24 notice (see Appendix 4 for more detail) in three years. The External Auditor, Grant Thornton UK LLP concluded that the Authority faced a "unique level of one-off risks", including funding for the 2022 Commonwealth Games, but required the Council to take action on a number of areas relating to governance and finance. In a letter, the Auditor warned the Council over its use of non-earmarked reserves, even though at the time reserves stood at a healthy £152m.
- In July 2019, Auditors issued an adverse audit report for Redditch Borough Council, telling the Council it needed to save £1.5m over the next three years and that it was at risk of breaching its statutory duty to set a balanced budget. The report by Grant Thornton UK LLP advised that it had issued a Section 24 Notice, recommending urgent action to prevent both the General Fund and Housing Revenue Account balances being exhausted by the end of 2020/21. The report, considered by the Council's Audit Committee, advised that the Auditors were not satisfied that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Auditors pointed out that they had previously identified financial issues in 2017/18 saying then that Redditch was "not in a financially sustainable long-term position and did not have sufficiently developed plans to address this". The escalation to a formal Section 24 Notice suggested that these previous concerns had not been addressed.

5.3. The reports previously presented to Council, the Select Committee and Audit Committee also provided a commentary on publications issued on the subject of financial resilience of Local Authorities as presented in paragraphs 5.4 to 6.8.

#### Audit Commission Publication

5.4. One important publication was issued on 6 December 2012. The Audit Commission produced a report into their research on the level of reserves held by Councils. The report, whilst produced a number of years ago, set out sound advice and recognised that there is no set formula for deciding the level of reserves that is appropriate. It stated that having the right level of reserves was important and where reserves were low there could be very little resilience to financial shocks and sustained financial challenges. It also stated that where reserves are high, there is a risk that some Councils may retain certain funding which could

otherwise be utilised as a one-off to support to the challenging savings targets required and give the time for transformation to deliver savings.

5.5. One conclusion from the Audit Commission report was that Councils needed to consider their present decision making around reserves in a number of areas:

- Undertaking an annual review to ensure reserves align with Medium Term Financial Plans.
- Clarity about what earmarked reserves are for.
- Ensuring earmarked reserves held to mitigate financial risk reflect an up to-date assessment of risk.
- Monitoring the level and use of reserves over recent years and comparing the Council's approach to other organisations facing similar circumstances.
- Budget monitoring and forecasting to give Elected Members greater awareness of likely year-end movements on reserves.
- Ensuring significant or unexpected variations to budget are dealt with.

5.6. In addition, the Audit Commission report also recommended that the advice of the Director of Finance to Members on the level of reserves to be held includes a summary of the issues to be considered. To progress this issue in more detail in Oldham, the reserves position is reported to the Audit Committee annually with the detailed Reserves Policy presented which aligns the Earmarked Reserves with the Corporate Objectives of the Council. Budget Monitoring reports considered at Cabinet also include the detailed usage of reserves.

#### National Audit Office Publication

5.7. In March 2018, the National Audit Office (NAO) published a report examining the financial sustainability of Local Authorities. Key messages from the report include:

- In real terms, Government funding for Local Authorities has reduced by 49.1% between 2010/11 and 2017/18. The reduction by 2019/20 was expected to reach 56.3%;
- In the three years to 2016/17, service reductions accounted for less than half of funding reductions. Use of reserves and reductions in other spend have become more important in terms of balancing budgets;
- In Councils that provide Social Care services, reserves have grown since 2010/11 but started to fall back in 2016/17; and
- Reserves - based on their rate of use in that year (10.6%), single tier and County areas had the equivalent of less than three years' worth of reserves left.

5.8. Within the report the NAO also recommended that:

- Ministry for Housing, Communities and Local Government (MHCLG) should work with the sector to develop a long-term plan that is genuinely able to address the current financial and demand pressures in the sector and to secure its financial sustainability;
- MHCLG should continue to strengthen its processes for assessing Local Authority funding requirements at future spending reviews especially in children's social care;
- MHCLG should continue to build on its improved oversight of the sector's financial sustainability;
- Government, led by MHCLG, should develop a clear understanding of the role and significance of Local Authorities as a whole in the context of the current funding climate; and
- Government should improve outcome data.

- 5.9. This report from the National Audit Office shows that the majority of Local Authorities have coped well with the continual reductions in central support, but an increasing proportion are experiencing financial stress which has been reported in the press.

#### Public Accounts Committee

- 5.10. On 12 March 2019, the Public Accounts Committee released a paper on the subject of Local Authority Financial Resilience. The briefing paper was issued due to the concerns around Local Authority Financial Resilience. Since 2010, and the uncertainty around future funding of Authorities, debates have been held on whether Local Authorities in England have enough access to sufficient funding to discharge their statutory duties. It also had regard to the media reports of financial difficulties of Local Authorities since the financial crisis of Northamptonshire County Council.
- 5.11. A key theme throughout the paper was the level of reserves and the unplanned use of these resources by Local Authorities particularly in recent years and the report made reference to the work completed by CIPFA on its Local Authority Financial Resilience Index.
- 5.12. The paper makes it clear that the funding of Local Authorities is a key concern across the sector and that the outcome of national funding changes as detailed in paragraph 3.2 will be fundamental in ensuring that Authorities are sustainable in the long term.

#### CIPFA's Local Authority Financial Resilience Index

- 5.13. In July 2018, CIPFA launched a consultation on its proposal to publish an annual index of financial resilience for English Councils based on six indicators. The decision to develop an index was driven by CIPFA's desire to support the Local Government sector as it faces continued financial challenges. It was proposed that the index would be based on publicly available information and provide an assessment on the financial health of each English Council. On 4 December 2018, CIPFA issued the response to this consultation and the indicators were expanded. On 16 December 2019, CIPFA published its Local Authority Financial Resilience Index and further detail of this is presented in Section 6.

#### CIPFA's Financial Management Code

- 5.14. On 15 March 2019, CIPFA also published a consultation on its proposed Financial Management Code that would support its Financial Resilience Index. This consultation concluded on 30 April 2019 with the formal Financial Management Code being published in October 2019. The objectives of this code are "to support good practice in financial management and to assist Local Authorities in demonstrating their financial sustainability".
- 5.15. The code is based upon a series of principles which will be supported by specific standards of practice which CIPFA consider necessary for a strong foundation. The foundation being the ability to:
- Financially manage the short, medium and long-term finances of a Local Authority
  - Manage financial resilience to meet foreseen demands on services
  - Financially manage unexpected shocks in their financial circumstances
- 5.16. The Financial Management code builds on the success of the CIPFA Prudential Code which requires Local Authorities to demonstrate the long-term financial sustainability of their capital expenditure. The Code is also consistent in that it is based upon principles rather than prescriptions and each Local Authority must demonstrate that they meet the requirements of this code.

- 5.17. Local Authorities are expected to apply the requirements of the Financial Management Code by 1 April 2020 and therefore provides Local Authorities with a platform for good financial management throughout 2020/21. It however, is noted by CIPFA that Authorities will need to ensure that their governance and management styles fit the requirements of this Code and as such, have indicated that the implementation date of 1 April 2020 is for the commencement of a shadow year. It is therefore expected that by 1 April 2021, Local Authorities are fully compliant with this Code.
- 5.18. The Finance Service is undertaking work to ensure its compliance with this Code and can already evidence it meets many of the requirements. The detailed guidance notes to inform the headline requirements have not yet been issued and once received a full assessment of any changes can be made. The Guidance notes were initially due to be published in January 2020, however this has now been delayed until April 2020. The Finance Service expects to be fully compliant by 2021/22. Changes required in the wider organisation will also be subject to review.

## 6. More recent information not previously reported to Members

### Grant Thornton / CIPFA “Financial Foresight” report

- 6.1. On 9 July 2019, Grant Thornton in partnership with CIPFA released “Financial Foresight” which is a new model created to align with CIPFA’s Financial Resilience Index. Using Local Authority data from 2009/10 to 2017/18, it provides insights and future financial forecasts over a 20-year period and focuses on the financial sustainability of Councils.
- 6.2. This model is supported by a briefing which details current insights on Local Government financial resilience and potential future strategies. The report, highlights that “up to 100 Councils face reserves depletion within five years”. Details on the specific Authorities noted within the Financial Foresight report have not been shared however, as indicated by CIPFA’s Financial Resilience Index, Oldham’s reserves are not an area for immediate concern. The report has also identified four key areas where Authorities should be focusing their efforts to ensure future financial sustainability. These are:
- **Implement targeted financial recovery** – deploying an approach which allows Councils to control expenditure and have a “mature approach” to the use of reserves.
  - **Establish a good growth model** – to enable Councils to create a joined-up model for income generation that “predicts, projects and maximises” growth across a range of areas such as taxation, population, commercial activities and capital programmes.
  - **Trace service line trajectories** – recognising that financial resilience can only be achieved if services have a clear and reliable cost and demand forecast.
  - **Reshape transformation plans** – rationalising transformation plans, by having fewer, more strategic programmes and projects.
- 6.3. It should be noted that the Council is currently focusing efforts in the key areas highlighted within the report. For example, the Council:
- Operates expenditure and recruitment review panels to control expenditure.
  - Has a robust approach to the review and management of reserves.
  - Has an Income Strategy and Commercial Property Investment Strategy to maximise income generation.
  - Has financial planning arrangements in place to assess demand and cost pressures.
  - Is implementing the next phase of its ambitious transformation programme from 2020/21.

However, there is still much work to do to ensure the Council’s future financial sustainability.

## CIPFA Financial Resilience Index December 2019

- 6.4. As highlighted in paragraph 5.13, on 16 December 2019, CIPFA published its Local Authority Financial Resilience Index. This index included nine primary and seven secondary indicators which are as follows:

### *Primary Indices*

- Reserves sustainability
- Level of Reserves
- Change in the use of reserves
- Ratio of interest payable to net revenue expenditure
- Gross external debt held by the Council
- Ratio of children's and adults social care spend to net revenue expenditure
- Proportion of fees and charges to total service expenditure
- Ratio of Council Tax as a proportion of net revenue expenditure
- Difference between baseline funding level and retained income over baseline funding level

### *Secondary Indices*

- Unallocated reserves to net revenue expenditure
- Earmarked reserves (total usable excluding public health and schools) to net revenue expenditure
- Average % of change in unallocated reserve
- Average % of change in earmarked reserves over past 3 years
- Ratio of HRA reserves divided by net revenue expenditure
- Ratio of children's social care expenditure to net revenue expenditure
- Ratio of adult's social care expenditure to net revenue expenditure

- 6.5. There are no Oldham indicators where risk is extremely high or a cause for immediate concern. However, reserves sustainability and change in reserves when compared to other Authorities are around the mid-point on the risk scale. The change in Unallocated and Earmarked reserves is high relative to nearest neighbour Authorities.
- 6.6. The Index does provide some useful information and confirms the position that, the Council at the end of 2018/19 was financially resilient. It also serves to reinforce the message that the continued use of reserves to support spending will impact on the financial position and the future financial resilience rating of the Council.

### Audit Strategy Memorandum 2019/20

- 6.7. At its meeting of 20 January 2020, the Audit Committee was presented with the Audit Strategy Memorandum 2019/20 from the Council's External Auditors, Mazars LLP. Detailed within this report were areas of significant risk in relation to Value for Money that the External Auditor will be focusing on as part of the audit programme for 2019/20 Final Accounts. One significant risk identified was the Financial Sustainability of the Council and the significant financial gap that the Council faces over the MTFS period, alongside the Council's use of reserves to balance the budget in previous years.
- 6.8. The External Auditor has indicated that there will be a focus on the arrangements the Council has for ensuring financial resilience and that specific factors are included within the Council's MTFS. There will also be a review into the arrangements in place to monitor progress in delivering budget reduction plans.

## **7. Budget Recommendations**

- 7.1. In conclusion, the Chief Finance Officer is able to advise Members of the robustness of the estimates and the affordability and prudence of capital estimates for 2020/21. Despite the use of reserves over recent years the level of reserves is adequate to support the 2020/21 financial position and demonstrates financial resilience. However, this is only the case provided that action is taken to ensure that the balances are set at the level of £14.991m for 2020/21 as calculated in this report and that all budget options, or in year alternatives, are delivered as planned and monitored.

## **8. Consultation**

- 8.1. The professional opinion of the Director of Finance on the overall adequacy of the total level of reserves is integral to the sign off of the overall agreed budget. It is seen as a key factor in why Local Authorities have been able to manage significant on-going year on year reductions in budget whilst remaining financially resilient.
- 8.2. The Earmarked Reserves as set aside by the Council at each financial year-end have been independently verified by the external auditor.
- 8.3. For the future it is important that the organisation undertakes an appropriate independent scrutiny of its reserves and reduces its reliance on reserves to support the budget setting process. It is proposed that the Audit Committee continues to consider reports from the Director of Finance on the matter.
- 8.4. The Statement of the Chief Financial Officer on Reserves, Robustness of Estimates and Affordability and Prudence of Capital Investments was considered by the Overview and Scrutiny Performance and Value for Money Select Committee on 23 January 2020. The Select Committee was content to commend the report to Cabinet. Cabinet duly considered and approved the report at its meeting on 10 February 2020 and commended the report to Council.

## **9. Financial Implications**

- 9.1. The review of reserves and provisions has identified that the Council will be required to maintain the recommended level of general balances to support the 2020/21 budget, in line with good practice and the duties of the Director of Finance.

## **10. Legal Services Comments**

- 10.1. Under section 25 of the Local Government Act 2003, the Chief Finance Officer must report on the robustness of the estimates made for the purposes of budget calculations and the adequacy of the proposed financial reserves. (Paul Entwistle)

## **11. Co-operative Agenda**

- 11.1. The adequacy of reserves and balances to underpin its agreed budget enables the Council to have long term security to support its aims and objectives and takes forward the co-operative ethos of the Council.

## **12. Human Resources Comments**

- 12.1. Not Required.

### **13. Risk Assessments**

- 13.1. There is a statutory requirement for the Director of Finance to calculate the balances required by the Council to support the production of the annual budget. The methodology utilised as detailed in Appendix 1 and 2 of this report is to assess the required level on the basis of risk. (Mark Stenson)

### **14. IT Implications**

- 14.1. Not Required.

### **15. Property Implications**

- 15.1. Not Required.

### **16. Procurement Implications**

- 16.1. Not Required.

### **17. Environmental and Health & Safety Implications**

- 17.1. Not Required.

### **18. Equality, community cohesion and crime implications**

- 18.1. Not Required.

### **19. Equality Impact Assessment Completed?**

- 19.1. Not Required.

### **20. Key Decision**

- 20.1. Yes.

### **21. Key Decision Reference**

- 21.1. FCS-10-19

### **22. Background Papers**

- 22.1. The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: Background papers are provided in Appendices 1-4  
Officer Name: Mark Stenson  
Contact No: 0161 770 4783

### **23. Appendices**

- 23.1. Appendix 1 General Balances Calculation  
Appendix 2 Eleven Areas of Risk for Oldham Council  
Appendix 3 Anticipated Earmarked Reserves as at 31/03/2020  
Appendix 4 Definition of a Section 114 and Section 24 Notice

General Balances Calculation

Appendix 1

Area of Risk	2020/21 Budget £000	Risk Factor	Value £000	2021/22 Budget £000	Risk Factor	Value £000	2022/23 to 2024/25 Budget £000	Risk Factor	Value £000
<b>Inflation</b>									
Salaries including pensions	93,571	0.50%	468	95,910	0.50%	480	98,308	0.50%	492
Premises	11,199	0.25%	28	11,199	0.50%	56	11,199	0.50%	56
Transport	5,483	0.25%	14	5,483	0.50%	27	5,483	0.50%	27
Supplies	95,469	0.25%	239	93,969	0.25%	235	92,969	0.25%	232
PFI	21,558	0.00%	0	21,774	0.25%	54	21,991	0.25%	55
Other	Quantum		150	Quantum		150	Quantum		150
			<b>899</b>			<b>1,002</b>			<b>1,012</b>
<b>Interest Rates</b>									
Changes in rates	Quantum		250	Quantum		250	Quantum		500
			<b>250</b>			<b>250</b>			<b>500</b>
<b>Grants</b>									
H. Benefit/ Council Tax Support	1,138	0.00%	0	1,138	1.00%	11	1,138	1.00%	11



New Homes Bonus	598	0.00%	0	0	0.00%	0	0	0.00%	0
Business Rates Top Up	41,048	0.00%	0	39,819	0.50%	199	40,615	0.75%	305
Retained Business Rates	50,424	1.00%	504	39,227	1.50%	588	40,033	3.00%	1,201
Grants in Lieu of Business Rates	11,230	1.00%	112	8,561	1.00%	86	8,734	1.00%	87
Improved Better Care Fund	10,858	2.53%	275	10,858	1.00%	109	10,858	1.00%	109
Independent Living Fund Grant	2,580	0.00%	0	2,500	1.00%	25	2,420	1.00%	24
Homelessness Support Grant	358	0.00%	0	358	0.00%	0	358	0.00%	0
Rough Sleeping Initiative Grant	37	0.00%	0	0	0.00%	0	0	0.00%	0
Lead Local Flood Authority	12	0.00%	0	12	0.00%	0	12	0.00%	0
Social Care Support Grant	6,954	0.00%	0	6,954	0.00%	0	6,954	0.00%	0
Public Health Grant	0	0.00%	0	16,445	1.00%	164	16,445	1.00%	164
Department for Work and Pensions (DWP) New Burdens Grant	122	0.00%	0	0	0.00%	0	0	0.00%	0
Discretionary Housing Payments Grant	638	0.00%	0	638	0.00%	0	638	0.00%	0
PFI Credits	13,262	1.00%	132	13,262	1.00%	132	13,262	1.00%	132
Dedicated Schools Grant	Quantum		1,000	Quantum		500	Quantum		500
			<b>2,023</b>			<b>1,814</b>			<b>2,533</b>
<b>Estimated Budgets</b>									
Academies Loss	Quantum		250	Quantum		250	Quantum		250

Carbon Emissions	Quantum		25	Quantum		25	Quantum		25
			<b>275</b>			<b>275</b>			<b>275</b>
<b>Volume Changes</b>									
Council Tax including Adult Social Care	96,466	1.00%	965	101,158	0.25%	253	106,072	0.25%	265
Collection Fund Surplus	1,400	1.00%	14	0	0.00%	0	0	0.00%	0
Unity Partnership Ltd	Quantum		250	Quantum		300	Quantum		200
			<b>1,229</b>			<b>553</b>			<b>465</b>
<b>Budget Savings</b>									
2020/21	4,787	25.00%	1,197	4,787	2.00%	96	4,787	1.00%	48
2021/22	0	0.00%	0	23,251	18.00%	4,185	23,251	2.00%	465
2022/23	0	0.00%	0	0	0.00%	0	13,018	19.00%	2,473
			<b>1,197</b>			<b>4,281</b>			<b>2,986</b>
<b>Insurance</b>									
Medical Malpractice linked to Health Devolution	Quantum		500	Quantum		100	Quantum		100
			<b>500</b>			<b>100</b>			<b>100</b>
<b>Emergency Planning</b>									
ICT disaster	Quantum		500	Quantum		500	Quantum		500
Flooding	Quantum		250	Quantum		250	Quantum		250
Offices	Quantum		250	Quantum		100	Quantum		100
Emergency Planning	Quantum		500	Quantum		500	Quantum		500
Contractor Failure	Quantum		750	Quantum		500	Quantum		500
Environmental Incident	Quantum		750	Quantum		500	Quantum		500

Unforeseen disaster	Quantum		500	Quantum		500	Quantum		500
			<b>3,500</b>			<b>2,850</b>			<b>2,850</b>
<b>Changes</b>									
Debt Collection	Quantum		100	Quantum		100	Quantum		100
			<b>100</b>			<b>100</b>			<b>100</b>
<b>Financial Guarantees</b>									
Contractual Disputes	Quantum		500	Quantum		500	Quantum		500
Levying Bodies	Quantum		250	Quantum		250	Quantum		500
Pensions	Quantum		500	Quantum		500	Quantum		500
Devolution	Quantum		1,250	Quantum		750	Quantum		750
Investments	Quantum		1,000	Quantum		750	Quantum		500
Grant Claw back	Quantum		250	Quantum		350	Quantum		500
			<b>3,750</b>			<b>3,100</b>			<b>3,250</b>
<b>Other</b>									
Flexible Use of Capital Receipts	Quantum		400	Quantum		0	Quantum		0
Transformation Agenda	Quantum		250	Quantum		250	Quantum		500
General	Quantum		618	Quantum		612	Quantum		670
			<b>1,268</b>			<b>862</b>			<b>1,170</b>
<b>TOTAL</b>			<b>14,991</b>			<b>15,187</b>			<b>15,241</b>

## Eleven Areas of Risk for Oldham Council

Number	Area of Risk	Analysis of Risk
1	Inflation is underestimated in the original agreed estimates	<p>There are two issues. Firstly, there may be some items of expenditure - those where prices are linked into exchange rate for example - where any estimate of inflation is a “best guess” and the future market rate is difficult to predict given price volatility and the longer-term impact of Brexit. The risk assessment puts a figure to the higher level of inflation that would seem to be unreasonable to include in a budget but might come to pass. Secondly, information is less accurate for years 2 and 3.</p> <p>At the present time the level of inflation for the past financial years has been certain for areas such as salaries with minimal wage increases. Certain other costs have increased at a higher rate than estimated. Going forward given the fluctuations in exchange rates into the next three financial years the inflationary pressures are very difficult to estimate, and the dynamics may change with increased pressure on wage costs due to a recognition the levels set in the pay cap need review against commodities such as fuel. The calculation of a recommended balance reflects this.</p>
2	Interest rates are underestimated	<p>This is similar to 1 above, but for a specific area of risk.</p> <p>Interest rates at the present levels for borrowing money are at a very low level. The general prediction is that there is no imminent increase to interest rates due, however there may be a cut to rates early in 2020. Allowing for borrowing profiles, the 2020/21 budgets have been prepared on the present levels of interest paid by the Council linked to the present estimate of borrowing required. A small change in the interest rates could have a significant impact on the Council’s budget in respect of the amount paid. Predictions of when accurate interest rate rises will occur have proved to be challenging for a number of years and continue to be volatile.</p> <p>In respect of the return achieved by the Council on money it has placed on the money market then the return as budgeted for is at a historically low level. There is also an added pressure that safe havens for the Council to invest surplus cash have reduced in past years.</p> <p>There is the specific risk to consider here of the continued volatile banking market and the consequential risk to Councils of the security of their investments.</p>

3	Changes to grant funding regimes	<p>The Government system for allocating grants can appear short-term and a “best guess” has to be offered in lieu of hard facts. Currently there are a number of issues with the general regime.</p> <p>The Government’s one-year spending review only guaranteed funding for 2020/21 with no indication of future funding sources. This has been confirmed by the Final Local Government Finance Settlement.</p> <p>Changes to the present business rates regime linked into the full retention pilot being managed by the Greater Manchester family.</p> <p>Major changes to the Local Government Finance System are planned to coincide with the beginning of the next Spending Review period in 2021/22 (delayed from 2020/21). As well as changes to the operation of the Business Rates Retention system, the Government is undertaking a ‘Fair Funding’ review that is examining how resources are distributed among Local Authorities taking account of spending needs and the ability to raise tax revenues and potentially other income locally.</p> <p>The continuing transformation of functions linked into devolution such as those provided by the health service.</p> <p>Potential changes to specific grant funding will be included as part of the proposed Business Rates Retention scheme which is still under review.</p> <p>Changes to the types of expenditure than can be funded by a particular grant is also a potential issue i.e. Dedicated Schools Grant.</p>
4	Some budgets are only indicative at the time the budget is agreed	<p>There are some initiatives that are known will happen but are not sufficiently advanced to accurately cost.</p> <p>The impact of the current trend where a number of schools currently administered by the Council who may wish to become an independent Academy is unknown and the corresponding impact this has on previously notified grant funding.</p>

5	Volatility in some budget headings between years	<p>There are long standing areas of risk where the Council budget for the middle of the range but might find the outturn for a year at the higher end.</p> <p>In respect of Council Tax there is a risk that the Collection Rate falls reducing the future amount which can be drawn down in future years.</p>
6	Efficiency gains expected in the agreed budget are not achieved	<p>The budget includes an assumption that the Council will deliver savings; the risk is that they may be delivered at a slower rate than is currently expected.</p> <p>Based upon 2009/10 to 2019/20 experience, the achievement of the budget reduction programme in monetary terms has shown significant achievement, although this is becoming increasingly difficult for services to maintain. In the next four financial years from 2020/21 there are further challenging budget savings required. These savings requirements mean it is prudent to retain some balances should these targets not be achieved.</p>
7	Unforeseen Insurance Costs	<p>Acts of God can result in higher insurance traffic than had been anticipated.</p> <p>Oldham Council would seem to be appropriately covered on this aspect re the general assessment in that it has been based on a detailed yearly Actuarial Review. It also has included a reserve to meet the costs of MMI claims should the Scheme of Arrangement be activated. The assessment of the Council that the scheme would be activated proved to be accurate and sensible prudent accounting has negated any financial impact from the initial levy. The matter will now be subject to continual review.</p> <p>The uncertainty going forward is associated with the current economic climate and adverse weather conditions, which it is anticipated, will increase the number of claims made against the Council. On the present Insurance arrangements however the value of claims is individually capped at £250,000 for liability claims and £100,000 for premises.</p> <p>With the transfer of Public Health functions and the devolution agenda on health a new risk now exists to the Council around whether insurance cover can be obtained from the present insurance arrangements in respect of medical malpractice.</p>

8	Emergencies which cannot be foreseen which can occur on an ad hoc basis	<p>Were disasters to occur, the Council needs to have balances in place to pick up costs that will fall to the Local Authority. A disaster such as one involving ICT could occur on a one-off basis.</p> <p>The Council area does also cover higher grounds including Saddleworth, which if weather conditions are extreme can lead to additional unbudgeted costs such as snow clearance or flooding in winter.</p> <p>There is an emerging risk to the Council around the environmental impact from items outside of its control such as the illegal dumping of waste which requires remediation.</p>
9	Changes to budgets where targets are not met	<p>Change necessarily means doing things in a way for which we have no evidence. The assumptions made maybe wrong.</p> <p>This is the most difficult area to predict but there will be unforeseen costs which are not envisaged when the budget is prepared.</p> <p>It is also anticipated that a change in the general environment caused by an economic shock outside the control of the Council could cause a reduction in the debt collected.</p>
10	Financial and Partnership guarantees given by the Council including health devolution	<p>There are a number of obligations and risks to the Council around its financial guarantees which have been given to a wide variety of organisations and projects:</p> <ul style="list-style-type: none"> <li>• In a complex organisation there are contractual disputes for claims against the Council.</li> <li>• There is a desire from contributing Districts to keep levy increases as low as possible. This will increase the financial stress on these organisations and ultimately it is the Districts who would assist if there is a shortfall.</li> <li>• In respect of staff previously employed by the Council but transferred to other organisations the Council has agreed to underwrite the pension costs. This risk has increased in recent times due to changes in national standards re recognising cost risk.</li> <li>• Grant clawback could occur whereby the Council is the accountable body for a grant.</li> <li>• Investments of the Council where market value can fluctuate.</li> <li>• There is a risk around Health Devolution and associated financing agreements between the Council and Oldham CCG.</li> </ul>
11	Unforeseen Events	<p>This covers matters not considered in 1-10 but where it is considered prudent to hold an amount in the General Balances.</p>

## Anticipated Earmarked Reserves as at 31/03/2020

Earmarked Reserve	Balance £000	Assessment of Current Risk
Council Initiatives Reserve	(3,289)	<p>There are a number of projects and programmes of work which the Council considers to be priority initiatives. This includes:</p> <ol style="list-style-type: none"> <li>1) There is a Corporate Priority to support the learning and attainment agenda to promote the improvement of results in schools.</li> <li>2) Costs associated with the development of the Northern Roots project.</li> </ol>
Insurance Reserve	(12,165)	<p>This includes:</p> <ol style="list-style-type: none"> <li>i) Any claims made prior to 1974 when the external insurance arrangements of the Council are not clear and the assumption is that the Council will bear the full cost of any claim made.</li> <li>ii) Claims relating to asbestos related matters which are not covered by external insurance premiums. These claims are expected to reach their peak in the next ten years.</li> <li>iii) Derelict buildings classed as heritage buildings where the Council's Insurers will only provide insurance cover on a debris only basis. Should there be a fire then it is possible the Council will have to replace at full cost without insurance cover in place.</li> <li>iv) Other claims against the Council not covered by the terms and conditions of the Insurance Policy. A recent trend has been for insurance companies to be more challenging around whether coverage is in place for high value claims.</li> </ol> <p>The amount to include in the Insurance Reserve at the year-end is calculated via an Actuarial report which is currently being produced for the end of the financial year 2019/20. The amount could increase or decrease at the year-end as reported dependent upon the output of this Actuarial Review.</p>



Levy Reserve	(403)	This reserve has been set aside to smooth the impact of future levy increases on the Council budget.
Adverse Weather Reserve	(1,500)	This reserve is set aside to support unplanned expenditure as a result of an unforeseen weather event such as flooding or severe winter weather when the base budget provision is not adequate to meet the costs incurred within the financial year. As seen in recent events within the North West area the damage caused by severe weather cannot be foreseen at budget setting and can be considerable in terms of damage caused.
Demand Changes Reserve	(2,000)	The Council has set funds aside to allow for the unbudgeted increase in demand, especially costs associated with Looked After Children or children with Special Educational Needs and Disabilities which are difficult to predict and because of circumstances outside the control of the Council which can fluctuate from year to year.
Transformation Reserve	(7,736)	This reserve has agreed resources set aside to provide for any costs of implementing the Council's budgets requirements as set out in the Medium Term Financial Strategy to fund investment required to enable the continued transformation of services to achieve efficiency savings.
Lifecycle Costs Reserve	(6,581)	This reserve is required to equalise out between years the costs estimated to be incurred by the Council on both Building Schools for the Future (BSF) and the non BSF PFI and LIFT contracts already let. It is anticipated that over the next few years the money set aside in this Reserve will remain at the same level to offset the increases in the Unitary Charge on the project to the revenue account in the later financial years of the PFI contract. The grant to support the PFI remains static throughout the period of the scheme whilst costs increase but are felt to be at risk of potential reduction from future Government austerity measures.

Fiscal Mitigation Reserve	(13,140)	The financial environment in which the Council operates has changed from 1st April 2013. Instead of having certainty around the amount of income it will receive in relation to Business Rates, there is a risk of underperformance and business rate appeals. Should there be less income collected than previously estimated, then a proportion of the loss falls on the Council and will impact on the overall amount of resources available for future budgets. It is also the case that the cost of change will be considerable given the budget reductions required from the Council in the next five years. This reserve reduces the risk to the Council of reducing resources due to external matters outside its control such as a reduction in economic output and will finance some of the future costs of change the Council is likely to face.
Taxation/Treasury Reserve	(625)	There is from time to time unforeseen tax liabilities to the Council imposed from the audits undertaken by HMRC. This reserve has been set aside to meet these unforeseen costs.
Emergency and External Events Reserve	(2,681)	This reserve has been established to ensure that the Council has sufficient resources to address costs arising from events such as flooding including the requirement to undertake emergency repairs.
Balancing Budget Reserve	(10,008)	This reserve provides the resources required to underpin the 2020/21 budget.
Regeneration Reserve	(4,156)	The Council has an extensive and ambitious regeneration agenda and resources have been set aside to support projects such as the Heritage and Arts Centre and Town Centre vision which span more than one financial year.
Integrated Working Reserve	(2,989)	This reserve represents resources that have been set aside to support initiatives arising from the Greater Manchester devolution agenda including joint working with the Oldham Clinical Commissioning Group (CCG) around Adult Social Care, other Greater Manchester Councils and the Greater Manchester Combined Authority.

Directorate Reserves	(2,085)	This is a reserve created following discussions within the Council whereby requests from services to finance future expenditure on key Council priorities have been agreed.
District Executive Reserve	(509)	This is a reserve which has funds set aside to support existing commitments of the District Executives across the Borough.
<b>Total Estimated Earmarked Reserves 31/03/2020</b>	<b>(69,867)</b>	

#### Schools/Grant Related Reserves

Individual School Balances	(1,935)	This earmarked reserve consists of the estimated individual school balances as at 31/03/2020 held by schools under their delegated budgets. These funds are not available for Council use. The gross estimate for school balances is £7.968m, however the overall DSG deficit of £6.033m will reduce this forecast closing position to £1.935m.
Revenue Grants Reserve	(8,055)	This is a technical reserve created under the accounting requirements of International Financial Reporting Standards. It relates to grants received often in relation to education services which are paid over to the Council in the financial year but with grant conditions giving the flexibility for the expenditure to be incurred by the end of the Academic Year. Previously these grants would have been classed as receipts in advance in the final accounts. The money must be spent in accordance with the specific grant conditions.

### Definition of a Section 114 Notice

#### What is a S114 Notice?

Within the Local Government Finance Act 1988, Section 114 (3) dictates that:

“The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure”.

In general terms this means that for Local Government, it is the Chief Finance Officer or Section 151 officer who has the role under law of being the most senior financial advisor to the wider Council's leadership on its financial plans. Uniquely across the public sector however, the CFO also has the power and responsibility to legally suspend spending for a period of time if they judge the Council does not have a balanced budget or the imminent prospect of one.

#### What Happens when a S114 Notice is Issued?

It means that no new expenditure is permitted, with the exception of that funding statutory services, including safeguarding vulnerable people, however existing commitments and contracts will continue to be honoured.

Council officers must therefore carry out their duties in line with contractual obligations and to acceptable standards, while being aware of the financial situation. Any spending that is not essential or which can be postponed should not take place and essential spend will be monitored.

The only allowable expenditure permitted under an emergency protocol would include the following categories:

- existing staff payroll and pension costs
- expenditure on goods and services which have already been received
- expenditure required to deliver the council's provision of statutory services at a minimum possible level
- urgent expenditure required to safeguard vulnerable citizens
- expenditure required through existing legal agreements and contracts
- expenditure funded through ring-fenced grants
- expenditure necessary to achieve value for money and / or mitigate additional in year costs

Councillors have 21 days from the issue of a Section 114 notice to discuss the implications at a Full Council meeting.

### Definition of a Section 24 Notice

#### What is a S24 Notice?

Under the Local Audit and Accountability Act 2014, External Auditors can issue Councils with a Section 24 Notice. This is a statutory recommendation and is a strong warning to a Council of the Auditor's concerns but stops short of a public interest report. A Section 24 Notice requires Full Council to agree its response to the points included within the recommendations within 1 month of issue and to publish how it proposes to address the issues raised. Whilst such a notice may relate to a range of financial issues, it can act as a warning in relation to financial resilience. Although rare, there have been two recent instances of Local Authorities receiving such notices.