

## **Report to Audit Committee**

# **Reserves Policy for 2019/20 to 2020/21**

**Portfolio Holder:** Cllr A Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Green

**Officer Contact:** Anne Ryans - Director of Finance

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**Ext.** 3306

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### **Reason for Decision**

The purpose of this report is to present to Members of this Committee on the proposed Reserves Policy of the Council for the financial years 2019/20 to 2020/21 and incorporate any views into the final policy.

### **Executive Summary**

From the financial year 2014/15, the Council developed a strategic approach to the creation and maintenance of reserves through the development of a Reserves Policy. The presentation of the Policy to the Audit Committee introduced improved transparency into this process which had previously been managed at the discretion of the Chief Financial Officer when the closure of the Final Accounts was undertaken.

There have been several reports issued on Local Government Financial Resilience over the last couple of years with the Chartered Institute of Public Finance and Accountancy releasing its Financial Resilience Index in December 2019. This Index placed an increased focus on the level of reserves held by Local Authorities and therefore its ability to be financially resilient.

Furthermore, the global pandemic has had a significant impact on Local Government and the financial challenges faced by the Council means a greater reliance will be placed on reserves.

The Policy is presented to the Audit Committee for it to review but also provide assurance that the Council manages its reserves effectively.

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The Reserves Policy is attached at Appendix 1 and presents the Council's strategic approach to the creation and maintenance of reserves.

### **Recommendations**

That Members of the Audit Committee review the Reserves Policy for 2019/20 to 2020/21 and advise the Council on its suitability from a governance perspective.

**Reserves Policy for 2019/20 to 2020/21****1 Background**

- 1.1 There is a need to have a strategic approach to the creation and maintenance of the Earmarked Reserves by the Authority. This is because resources are becoming even more scarce and any money set aside needs to both support the priorities of the Council and prevent unforeseen expenditure/events impacting on year on year budgets wherever possible.
- 1.2 The level of reserves maintained by Local Authorities collectively has in the past attracted comment from the former Secretary of State for the Department of Communities and Local Government (now Ministry for Housing, Communities and Local Government) indicating they are excessive.
- 1.3 In 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 address challenging savings targets and provide the time for transformation to deliver permanent financial savings.
- 1.4 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.
  - Having 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.
- 1.5 Members can be assured that the Council already meets the criteria detailed above through the regular review of reserves, the Revenue Budget Monitoring reports presented to Cabinet, the Statement of the Chief Financial Officer on Reserves, Robustness of Estimates and Affordability and Prudence of Capital Investments Report presented alongside the Revenue Budget Report to Council and the production of an annual Reserves Policy.
- 1.6 Members of Audit Committee will recall that during 2019/20, the Chartered Institute of Public Finance and Accountancy (CIPFA) published its Financial Resilience Index. The level of reserves and balances are a key element in the CIPFA Financial Resilience Index which was published for the first time in December 2019.
- 1.7 None of the Oldham indicators were considered to be extremely high risk or a cause for immediate concern. However, reserves sustainability and change in reserves when compared to other Authorities were around the midpoint on the risk scale. The Index did

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provide some useful information and confirmed the position that, leading into 2019/20 the Council was financially resilient. The Index will be issued again during 2020/21 to reflect the position at the end of 2019/20. Given the COVID-19 pandemic and the consequent financial challenges facing most Authorities including Oldham, the result of the Index is likely to be out of date by the time it is published.

- 1.8 Members will also recall that a report on Local Government Financial Resilience was presented to this Committee on 12 September 2019. As highlighted within the report, a number of Authorities had been identified as having sustainability issues within the media at that time. Since this report, the global pandemic has further impacted Local Authorities with a number identifying short and longer term resilience issues as a result of COVID-19. It is important to note that a number of those Authorities highlighting issues do not have the level of reserves available to support them through this unforeseen event.
- 1.9 As shown above, the level of Local Authority reserves is a key issue when discussing the funding of Council services and it is therefore considered appropriate to present this Reserves Policy for scrutiny by the Audit Committee.

## **2 Reserves Policy for 2019/20 to 2020/21**

- 2.1 The 2019/20 to 2020/21 reserves policy has been prepared, following the finalisation of the financial position at the end of 2019/20 and after a risk-based review by the Director of Finance having regard to Corporate Priorities. There are 15 major Earmarked Reserves included in the Policy (to align to the presentation of reserves at Note 14 in the Statement of Accounts which is elsewhere on the agenda). As can be seen from the Statement of Accounts, Revenue Account Earmarked Reserves at the end of 2019/20 were £79.360m, Revenue Grant Reserves were held at a value of £7.933m and Schools Balances were held at £0.571m, therefore the total reserves held at the end of the financial year was £87.865m.
- 2.2 The level of reserves held at the end of 2019/20 which are detailed within the reserves policy are deemed sufficient to ensure the Council's financial resilience for 2020/21. The Council's financial position has changed since the revenue budget report was approved by Council on 26 February 2020 and as such, the Council will have to rely on reserves in a way that could not have been anticipated and requires some flexibility in the use of reserves.
- 2.3 The COVID-19 pandemic has resulted in increased expenditure and income losses that are likely to be only partly compensated by Government grant. At the time of preparing this report the details of the most recent Government funding package (2 July 2020) have yet to be announced. The reserves of the Authority are therefore important in providing support for the financial position providing time for any required budgetary adjustments to be made. The Reserves Policy has therefore been amended so that it is clear that the final decision in relation to any of the reserves lies with the Director of Finance (S151 Officer) having regard to the overall financial position of the Council.
- 2.4 This policy document also sets out the rationale for the creation of the reserves, the arrangements for their management and the approval process for use. The Policy is detailed at Appendix 1.

## **3 Conclusions**

- 3.1 An appropriate Reserves Policy subject to scrutiny is considered good governance for a Local Authority.

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## 4 Options

- 4.1 Option 1 - That Members approve the approach to the creation and maintenance of reserves as set out in Appendix 1.
- 4.2 Option 2 – That Members suggest an alternative approach to the creation and maintenance of reserves.

## 5 Preferred Option

- 5.1 Option 1 is the preferred option.

## 6 Consultation

- 6.1 To demonstrate the appropriateness of the earmarked reserves maintained by the Council this Reserves Policy is subject to a detailed review by the Audit Committee.

## 7 Financial Implications

- 7.1 In order to increase the transparency on the Earmarked Reserves held by the Council, a specific reserves policy has been developed which is now subject to annual review. This has enabled the Council to align its Earmarked Reserves to the Corporate and Strategic Objectives of the Council.
- 7.2 As shown in the Statement of Accounts which is presented to this Committee elsewhere on the agenda, the Council was able to deliver a financial outturn in accordance with its agreed budget for 2019/20. As such, with the proposed Reserves Policy as detailed in Appendix 1, it is in a robust financial position to meet the challenges for this financial year. However, the COVID-19 has changed the financial outlook. In order to manage its medium-term financial position effectively, the Council will have regard to the Government funding packages, any required revisions to budgeted expenditure and income and very careful management of reserves. Appropriate action will be taken to support the financial sustainability of the Council. The Reserves Policy has therefore been amended so that it is clear that the final decision in relation to any of the reserves lies with the Director of Finance (S151 Officer) having regard to the overall financial position of the Council. (Anne Ryans)

## 8. Legal Services Comments

- 8.1 N/A

## 9. Cooperative Agenda

- 9.1 N/A

## 10 Human Resources Comments

- 10.1 N/A

## 11 Risk Assessments

- 11.1 It is important in managing its finances that an Authority achieves a balance of both setting aside earmarked reserves which are appropriate supporting Corporate Priorities and Objectives whilst retaining financial resilience to secure its medium and long term financial stability. (Mark Stenson)

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12	<b>IT Implications</b>						
12.1	N/A						
13	<b>Property Implications</b>						
13.1	N/A						
14	<b>Procurement Implications</b>						
14.1	N/A						
15	<b>Environmental and Health &amp; Safety Implications</b>						
15.1	N/A						
16	<b>Equality, community cohesion and crime implications</b>						
16.1	None						
17	<b>Equality Impact Assessment Completed?</b>						
17.1	No						
18	<b>Key Decision</b>						
18.1	No						
19	<b>Key Decision Reference</b>						
19.1	N/A						
20	<b>Background Papers</b>						
20.1	<p>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:</p> <table><tr><td>File Ref:</td><td>Background papers are included at Appendix 1</td></tr><tr><td>Officer Name:</td><td>Vickie Crewe</td></tr><tr><td>Contact No:</td><td>0161 770 3306</td></tr></table>	File Ref:	Background papers are included at Appendix 1	Officer Name:	Vickie Crewe	Contact No:	0161 770 3306
File Ref:	Background papers are included at Appendix 1						
Officer Name:	Vickie Crewe						
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21	<b>Appendices</b>						
21.1	Appendix 1 - Reserves Policy for 2019/20 to 2020/21.						

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