

RESERVES POLICY

FOR

2019/20 TO 2020/21

RESERVES POLICY

1 Background

- 1.1 It is important to have a strategic approach to the creation and maintenance of reserves. Having established a reserves policy for the closure of the accounts for 2014/15 and the financial year 2015/16, this updated policy addresses key issues arising from the 2019/20 accounts closure and 2020/21 financial year.

2 Policy

- 2.1 As financial resources have become more scarce, it is essential to ensure that any funds set aside in reserves are considered appropriately so that they have maximum effect. Following established practice, the process of identifying reserves continues to have regard to the addressing of corporate priorities.
- 2.2 Corporate Reserves have in the past been created at the discretion of the Director of Finance. Whilst it is essential that some flexibility is maintained, this policy sets out agreed priority reserves. This will enable any identified additional resources to be directed to the priority areas.
- 2.3 It is also essential to determine by means of a risk based review on a case by case basis, the appropriate level of reserve to be held in each priority area. Clearly there will be the opportunity for the recommended level of required reserve to change, but it is proposed that once each reserve has reached the maximum recommended level, then resources will be directed to the next priority reserve. Once all these reserves have reached the proposed maximum, then any other available resources can be made available for individual budget holder business case requests.
- 2.4 As the COVID-19 pandemic has changed the financial landscape of Local Government and the Council, it is even more important to ensure that reserves are available to support financial resilience.

3 Establishing the Priorities

- 3.1 The closure of the 2019/20 accounts has enabled a detailed review of the Council's reserves and categorisation of these reserves into 15 major areas as in previous years. There are in most instances, a number of reserves within these major areas including the priority reserves.

For clarity, the **15 major reserves** and the reserves created to support **corporate priorities** within them are set out and explained in this policy as follows.

1) Integrated working – £3.986m at 2019/20 accounts closure

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.

The priority reserves within this category are:

a) Adult Social Care - Better Care Fund (BCF)

A reserve of £2.500m is available created from Improved Better Care Fund grant resources. This reserve is in the first instance to be held pending the potential

cessation or reduction of Improved Better Care Funding at the end of the current funding cycle but with potential to also address pressures within Adult Social Care and to assist with integration.

b) BCF Non Recurrent funding

This reserve holds the balance remaining of funds that were passported to the Council from the CCG in previous financial years. This money has been retained for jointly agreed projects/ priority areas of spend in relation to Adult Social Care over future years.

c) Devolution Reserve

It is considered appropriate to have a reserve to support the devolution agenda. A sum of £0.140m is held in reserve to facilitate expenditure in this area going forward.

d) GMSF/Local Plan

A reserve has been created to fund any external advice, commissions, reviews and consultations that are necessary to complete the evidence base for the Local Plan and GM Spatial Framework in order to deliver the Local Plan and ensure that Oldham feeds into GM Spatial Planning.

2) Transformation Reserve - £7.809m at 2019/20 accounts closure

This reserve holds resources set aside to provide for any costs of implementing the Council's budget requirements for 2020/21 and earlier years and also the on-going programme of change as the Council moves to address funding reductions in future years by the continued transformation of its services.

The priority reserves within this category are:

a) Transformation/Invest to Save Reserve

In order to facilitate transformational change across the Council, some funding is needed for pump priming items such as dual running of systems and project management. During 2019/20, £0.890m was used to support transformational projects in year, £1.420m was committed for future projects and £0.662m was left uncommitted for future developments. At the end of the financial year, £0.339m was transferred to reserve to enable the organisation to continue with its transformation agenda. The total held within the reserve at 31 March 2020 was £2.421m.

b) Redundancy/Efficiency Reserve

As part of the agreed budget strategy for 2015/16, the corporate redundancy base budget was reduced by £2.000m. As a consequence, funding for redundancy costs will be provided by utilising a reserve. The reserve balance at the end of the 2019/20 financial year was £3.000m. If the reserve is utilised then it will be replenished the following the year.

c) Resident First Reserve

As part of the Council's Customer Service Transformation Programme, the Resident First Programme has been developed and split into specific phases. This Programme was designed to help the Council achieve its ambition of

moving to a 'Self-serve, Self-help' service delivery model and the way it interacts with residents. This will require transformation of the delivery of the Council's services to enable residents to serve themselves and ultimately improve their 'customer experience'.

The programme has moved from implementing single service solutions to identifying strategic and sustainable solutions that provide the digital capabilities identified as necessary to enable a full end to end re-designed customer journey together with efficient automated business processes. At the end of 2019/20 there was £0.050m of resources available to support the programme.

d) Public Health Reserve

A reserve was set aside at the year-end 2015/16 of £0.809m to mitigate future issues arising from a reduction in the Public Health Grant received by the Council. As part of the 2017/18 budget process, £0.373m of this reserve was identified for use to support an agreed public health budget reduction and was transferred to the balancing budget reserve. The balance held within this reserve is to be used to support the Public Health offer for future years.

e) Social Care Budget Reserve

As social care services face unprecedented demand it has been deemed appropriate to hold a reserve to support the social care service area. During 2019/20 £0.257m was utilised to support revenue expenditure. The balance remaining at the end of the financial year was £0.455m. This will be used for initiatives in support of the integration agenda. Such initiatives will require a full evidence based business case.

f) Dedicated Schools Grant (DSG) Recovery Plan

A reserve, which has a balance of £1.000m, was set aside to smooth the implications arising from the realignment of General Fund and DSG resources, in part resulting from changes in Government policy around the costs that can be charged to the DSG.

3) Adverse Weather Reserve - £1.000m at 2019/20 accounts closure

The 2015/16 budget setting process approved the reduction in the Winter Maintenance base budget by £0.100m and an increase of the already established adverse weather reserve to compensate. A reserve of £1.000m is considered sufficient to fund the costs of several severe winters and the reserve was held at this value at the closure of the 2019/20 accounts.

4) Regeneration Reserve - £4.661m at 2019/20 accounts closure

The Council has an extensive and ambitious regeneration agenda and resources have been set aside to support a number of regeneration projects which span more than one financial year. The priority reserves within this category are:

a) General Capital Reserve

There is a significant Capital Programme arising from the Council's Corporate Plan and the recently approved 'Creating a Better Place' strategy. The Council's Capital Strategy approved on 26 February 2020 was prepared to take account of the ambition for the borough including major regeneration developments

within the Town Centre and borough-wide, to ensure that new school buildings and extensions can be delivered as well as ensuring that the highways network and the corporate estate are adequately maintained. Due to the complexities around a number of the schemes, it is possible that there could be variations from the planned level of expenditure which will need to be supported. It has been deemed prudent to set a reserve aside to support such initiatives.

b) Property Strategy

At the Council meeting of 18 December 2017, Members approved the creation of a reserve at a value of £0.250m to provide for up front / abortive costs with regard to the Commercial Property Investment Strategy.

c) Town Centre Development

A report was presented to Cabinet on 28 March 2018 approving revenue resources of £2.879m to support the Town Centre Masterplan. A subsequent report increased this requirement to £3.147m. These funds have been aligned to take forward initiatives within the Creating a Better Place strategy which was approved during 2019/20 and revised the regeneration agenda.

d) Alexandra Park Depot Site

In 2018/19, Cabinet approved the establishment of a specific reserve in relation to the Alexandra Park Depot Site project at value of £0.300m. During the 2019/20 financial year draw down from this reserve totalled £0.181m leaving £0.119m within the reserve to support the scheme in 2020/21.

5) Demand Changes Reserve - £2.000m at 2019/20 accounts closure

The Council has set funds aside to allow for the unbudgeted increase in demand, including costs associated with looked after children which are difficult to predict and can fluctuate from year to year.

In anticipation that there will be demand pressures in future years, a £2.000m reserve has been setup to deal with unexpected demand rises. Of this, in accordance with the budget report approved on 26 February 2020, £1.660m is specifically held to support Children's Social Care if the agreed budget reduction for Children's Efficiencies is not delivered to the initially agreed timeline. The use of the reserves will enable the service to move towards delivery of the saving for 2021/22.

6) Emergency and External Events Reserve - £2.251m at 2019/20 accounts closure

This reserve was established in 2015/16 to ensure that the Council has sufficient resources to address costs arising from events such as flooding including the requirement to undertake emergency repairs. The priority reserves in this category are:

a) Commissioning and Legal Challenges Reserve

In recent years, the Council has changed from being a deliverer in many service areas to becoming a commissioner of services including Private Finance Initiative (PFI) schemes, Adult Social Care and Public Health. Whilst this aims to drive efficiencies and removes the Council from the day to day direct delivery of services, it introduces a range of contract management challenges which require close monitoring. There are instances where this process has led to

disputes and the Council has had to seek expert advice to support and defend its position. A reserve has therefore been created to address such one off costs.

b) Equipment Replacement/Building Maintenance Costs Reserve

To fund requests for the emergency replacement of equipment or the undertaking of immediate building maintenance work a reserve was set-up in 2014/15. This ensures a source of funds is readily available to support such costs in an emergency.

c) Flood Protection Reserve

Following the floods of December 2015 and the impact on neighbouring Authorities, a reserve of £0.250m was set aside to fund required flood protection measures in the Borough.

d) Emergency Incident, Threat or Hazard Reserve

In order to discharge its Statutory Responsibility for Emergency Planning, the Council prepared a financial procedure to facilitate the incurring of expenditure in the case of an emergency or incident in the Borough which may result in hardship to a group of residents or the Council having to incur expenditure in the interests of public safety. This procedure required the creation of a reserve of £0.250m and this was established in 2015/16 and has been retained for 2019/20. It will be necessary to ensure that a fund of £0.250m is permanently available in order to comply with the financial procedure rule.

e) Water Courses and Culverts

This reserve has been set aside for unforeseen/emergency works on Water courses and culverts that would otherwise be unfunded.

7) Levy Reserve - £0.402m at 2019/20 accounts closure

This reserve is held to address unbudgeted variances in the levies charged by the Greater Manchester Combined Authority (GMCA). Initially set up specifically for the waste levy, this reserve with a balance at a value of £0.402m at the year end will be used to support any variances arising from the GMCA waste and transport levies.

8) Council Initiatives Reserve - £3.531m at 2019/20 accounts closure

There are a number of projects and programmes of work which the Council considers to be priority initiatives. Reserves have been set aside to ensure that these can be undertaken during future years. The major priority reserves are:

a) Learning and Attainment Reserve

There is a political priority to support the learning and attainment agenda to promote the improvement of results in schools. A reserve of £1.000m was created in 2014/15 to be used over future years. At the end of 2019/20, £0.605m remained in the reserve.

b) Career Advancement Service

This reserve was established to fund the Career Advancement Service Pilot scheme during the period 2016/17 to 2019/20. The strategy seeks to improve

population skills and outcomes to support Oldham's strategic goals. Due to the success of this scheme during the pilot years, the service has now been extended for a further two years.

c) Flytipping

This fund was established to address the issues around flytipping within the Borough and will help to deliver a co-operative approach.

d) Northern Roots

On 28 January 2019 Cabinet approved a report with regard to Northern Roots which required revenue resources over a two year period. External funding will partly support the scheme with resource of £0.475m held in reserve at the end of the financial year to support this project in 2020/21.

9) Fiscal Mitigation Reserve - £26.977m at 2019/20 closure

This reserve has been established to fund future costs expected to arise from reforms to Central Government Funding, pressures that result from legislative changes and was extended at the end of 2019/20 to include pressures arising from COVID-19. The priority reserves within this category include:

a) Business Rates Reserve

The income from Business Rates remains volatile and therefore it is prudent to have resources available to support the General Fund should business rates income be reduced in future years' budget processes. Also, with the introduction of the 100% Business Rates retention pilot from 2017/18, this reserve also holds resources that may be paid over to or received from the Greater Manchester Combined Authority in accordance with the pooling of the benefits of the Business Rates retention pilot scheme. It was expected that this pilot would end in 2019/20 with 75% of Business Rate Retention being implemented in 2020/21, however due to other priorities, this was extended for a further year.

b) COVID-19 Reserve

On 27 March 2020 the Council received £7.641m of Government grant funding to support the additional costs and lost income due to the COVID-19 pandemic. At the end of the 2019/20 financial year all of the resource was transferred to an Earmarked Reserve to support the Council in 2020/21. Subsequently, it was also agreed, in a report approved at Cabinet on 23 April 2020, that this reserve be increased from Council resources by £2.359m to support the Council's response to COVID-19. The balance held at the end of the financial year was £10.000m.

c) Brexit

The impact on Local Authorities as a result of the Brexit vote remains unknown. It is appropriate to hold a reserve to support any financial implications arising from leaving the European Union.

d) Capital Receipts - Flexible Use and Other shortfall in capital financing

The 2020/21 revenue budget relies on taking advantage of the Ministry of Housing, Communities and Local Government's (MHCLG) flexibility in the use of capital receipts. As such, the 2020/21 revenue budget is underpinned by the use of £3.750m of capital receipts to support transformational revenue

expenditure. The Capital Programme also relies on capital receipts as a major financing source.

This reserve has been created at a value of £4.000m to fund any shortfall in the level of capital receipts available or in supportable qualifying expenditure which can be financed by the flexible use of capital receipts.

e) Pay Award

At the end of the 2019/20 financial year end the NJC pay award for 2020/21 had not yet been agreed. An initial offer of 2% had been rejected by Trades Unions with negotiations continuing. The 2020/21 revenue budget included provision for a potential 2.5% increase, however as no agreement has been reached it was considered necessary to create a reserve to support any increase above the amount budgeted.

f) Bus Reform

During 2019/20, the Greater Manchester Combined Authority (GMCA) proposed a bus franchising scheme for the whole of Greater Manchester. The financial case for the 'bus reform' proposals included a full assessment of how the GMCA could afford to make and operate the proposed scheme. The assessment set out a range of credible funding sources which exceeded the net modelled costs to operate the scheme over the proposed transition period to 2024/25. The assessment also concluded the proposed franchising scheme was affordable and would represent value for money. Following the outcomes of the consultation on Bus Reform, should the GMCA proceed with its proposal, a contribution from GM Local Authorities may be required. A reserve has been established to support this in 2020/21 if approved.

g) Income Generation

As a result of the COVID-19 pandemic, it is anticipated that a large proportion of the Council's income from fees and charges will not be received. This will have a significant impact on the 2020/21 budget and as such a reserve has been established to support the revenue budget over the next financial year if required.

h) Budget Reductions

Whilst the 2020/21 budget was based on the full delivery of all budget reductions, this reserve is to support any potential shortfall.

10) Balancing Budget Reserve - £10.008m at 2019/20 accounts closure

During the budget setting process for 2020/21, a reserve was established at a value of £10.008m to balance the 2020/21 budget. The creation and use of this reserve in 2020/21 was approved by Council on 26 February 2020.

11) Contractual Life Cycle Costs Reserve – £1.580m at 2019/20 accounts closure

The Council has a number of PFI and other schemes that operate in a similar manner to PFIs. The life cycle costs of these schemes vary over the period of the contract and sinking funds are required to support the transition of the asset back into Council ownership at the end of the contract life. The life-cycle costs have been smoothed for budget purposes and therefore require a transfer to and from reserves to meet the commitments.

12) Insurance Reserve - £12.165m at 2019/20 accounts closure

It is essential that reserves are held to ensure that there are adequate resources available to support insurance claims against the Council. The requirement for this reserve is closely linked to the claims profile of the Council and was assessed as part of the 2019/20 year-end closedown process.

13) District Partnership Reserve - £0.629m at 2019/20 accounts closure

This reserve represents sums set aside to fund projects already agreed by the District Executives which are either programmed for a future financial year or span more than one financial year.

14) Taxation / Treasury Reserve - £0.500m at 2019/20 accounts closure

This reserve holds funding set aside for any future taxation liabilities e.g. from HM Revenues and Customs and any Treasury Management issues.

15) Directorate Reserve - £1.860m at 2019/20 accounts closure

There are a wide range of Directorate initiatives which span more than one financial year or for which funds have been budgeted but not yet utilised. The Directorate Reserve will ensure that such initiatives can be completed.

4 Management of Reserves

Creation/ Decommissioning of Reserves

- 4.1 A list of areas/initiatives for which an additional reserve might be created or where an existing reserve might be increased in value will be presented to the Senior Management Team (SMT) for consideration before the year end. The approval or otherwise of the reserve requests will be considered on a case by case basis and in the context of the overall projected financial position of the Council. These SMT recommended reserves will be considered by the Director of Finance at the year-end and action taken as appropriate.
- 4.2 The report will also give consideration to those reserves no longer required or no longer considered to be priority areas. This will allow for the utilisation of the resources for other purposes, either the reallocation to other reserves, or to support the budget.
- 4.3 The financial resilience of the Council is a key issue going forward, especially given the pressures of resulting from COVID-19. The level of reserves available is an important part in maintaining financial resilience. As such, the Director of Finance has delegated authority to decommission any reserves where it is deemed necessary to do so to support the Council in ensuring a balanced financial position can be delivered.

Schools Related Reserves

- 4.4 There are some schools related initiatives which may require funding on an academic year basis rather than financial year. It is proposed that such reserves are created as required.

District Partnership Reserve

- 4.5 It should be noted that District Partnership reserves operate under separate arrangements.

Flexibility at the Year End

- 4.6 In addition, given the accelerated timeline for the closure of the accounts, decisions will need to be taken around the use and creation of reserves without the opportunity to formally report these to SMT/Members in advance. Key issues arising in relation to reserves in such instances will be determined at the discretion of the Director of Finance and reported after the Council's accounts have closed.

5 Approval of the Use of the Reserves

- 5.1 Reserves can only be recommended for use as follows:

- a) After a review and agreement by SMT as to the rationale for their use:

- Integrated Working Reserve
- Adverse Weather Reserve
- Regeneration Reserve
- Council Initiatives

- b) After review and agreement by the Strategic Design and Delivery Board:

- Transformation Reserve

- c) After review and agreement by the Deputy Chief Executive, Strategic Director or Managing Director and the Director of Finance:

- Directorate Reserve

- d) After review and agreement of the Director of Finance:

- Demand Changes Reserve
- Emergency and External Events Reserve
- Levy Reserve
- Fiscal Mitigation
- Balancing Budget Reserve
- Life Cycle Costs Reserve
- Insurance Reserve
- Taxation Reserve

- e) After review and agreement of District Executives:

- District Partnership Reserve

- 5.2 **The decision to utilise any reserve will only be made once the in-year and future impact of use on the overall financial position of the Council has been considered by the Director of Finance.**

- 5.3 The use and creation of reserves in year will be incorporated into the revenue budget monitoring report which is discussed with the Deputy Leader and Cabinet Member for Finance and Green and presented to Cabinet for approval. At the end of the financial year, as advised at 4.6, there will be a requirement to allow the Director of Finance

discretion to address reserve issues as deemed appropriate in the context of the overall financial position of the Council.

6 Other Key Reserves Matters

6.1 There is an accounting requirement to identify two separate reserves outside the scope of this policy:

a) Schools Reserve – this includes the balances held by Schools under the scheme of delegation. The use of these reserves is at the discretion of schools and as at the 31 March 2020 was held at £0.571m (Schools balances of £5.487m offset by the deficit on the DSG of £4.916m).

b) Revenue Grants Reserve – this represents income from grants received which have no conditions attached or where the conditions have been met but no expenditure has yet been incurred. The use of these reserves will be determined by the relevant service Director and the Director of Finance. The balance held in this reserve at the end of the financial year was £7.934m.

7 Conclusion

7.1 Maintaining an adequate level of reserves and controlling their use has never been more important. Hence, any decision to use reserves will be carefully considered and made once the overall financial position of the Council has been considered by the Director of Finance.