

Report to Cabinet

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

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23 February 2021

Reason for Decision

To recommend that Cabinet agrees the level of balances necessary to support the 2021/22 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 Section 5 of the report but

were largely prompted by the financial challenges at Northamptonshire County Council during 2018 followed by both Nottingham City Council (NCC) and the London Borough of Croydon Council (LBC) in 2020 and the raising of significant concerns about the financial stability of other Local Authorities. On 10 February it was announced that four other Councils were to be provided with financial support by the Ministry of Housing, Communities and Local Government (MHCLG) in the form of a capitalisation direction. This is to ensure that they are able to set a balanced budget for 2021/22.

Whilst the Council has prepared a detailed revenue budget within a three 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 £32.945m have been used to underpin the Council's revenue budget alongside a number of one-off measures. In 2020/21, £10.008m of reserves and £5.150m of one-off measures were used to support the revenue budget. Included within the Medium Term Financial Strategy is the required use of reserves of £29.000m over the next two financial years. For 2021/22, it is proposed to use corporate reserves of £16.703m and specific reserves of £0.127m together with £25.456m to offset the Collection Fund deficit arising from the awarding of business rates reliefs in 2020/21 (this is a technical accounting adjustment) combined with one-off measures totaling £2.000m. The remaining corporate Balancing Budget reserve of £12.297m will be used to support 2022/23.

There is, therefore, a considerable reliance on the use of reserves to balance the budget in 2021/22 and also 2022/23. 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 2021/22 is expected to begin to address this challenge although this has been impacted by the global pandemic. The expected benefits of the transformation programme will be phased over several financial years and will be supported by the use of reserves over the short term.

As detailed within the Council's Audit Completion Report, presented alongside the Statement of Accounts, the External Auditors concluded that for 2019/20 the Council had made proper arrangements to deliver financial sustainability in the medium term. However, it was also pointed out that "The Council has significant levels of Earmarked Reserves as at 31 March 2020, but these are not sufficient to sustain the Council's financial position over the medium term". It is important to note that the public findings into both NCC and LBC indicate Councils at risk of not being able to agree balanced budgets as their reserves are insufficient to mitigate either in year or 2021/22 estimated shortfalls in resources. LBC is still awaiting a response to its request for support from the MHCLG.

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 July 2020 and it is proposed to action the same review again in 2021/22 after the closure of the accounts for 2020/21.

Whilst the Council is utilising a number of reserves to support the 2021/22 revenue budget and anticipates a use of reserves in 2022/23, Members can be assured that Oldham Council

currently remains financially resilient. Work is taking place to address the on-going financial pressures that the Council is facing. At the start of 2021/22 it continues to be well placed to meet the difficult financial challenges ahead. However, this strategy relies on the delivery of the transformation programme over the short to medium term, so the comments made by the external auditor to support the value for money conclusion for the financial year-end 2020/21 are fair. However, transformational change at pace is required. Public findings reported elsewhere have shown that some Authorities have not, in a small number of cases, been able to deliver the level of transformational savings required.

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 2021/22. Despite the use of reserves over recent years, the level of reserves remains adequate to support the 2021/22 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 £15.641m for 2021/22 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 28 January 2021. The Select Committee was content to commend this to Cabinet.

Recommendations

It is recommended that Cabinet approves and commends to Council:

- The proposed General Fund Balance currently calculated for 2021/22 at £15.641m.
- The initial estimate of General Fund Balances to support the Medium Term Financial Strategy is as follows:
 - £17.349m for 2022/23 and
 - £18.602m for 2023/24.
- The intended report to be presented to the Audit Committee on Earmarked Reserves to ensure this area is subject to appropriate scrutiny.
- The actions necessary to secure a properly balanced budget as presented in paragraph 3.6.
- 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 2021/22 revenue budget is detailed at Appendix 1. It also calculates an indicative recommended level of balances to support the 2022/23 and 2023/24 budgets. These allow for the current pressured state of the Council's finances which, by way of example, include the unprecedented impact of the COVID-19 global pandemic.
- 1.4. The recommended level of general balances to support the 2021/22 budget is £15.641m. Although the Council is currently reporting a forecast adverse position it is anticipated that management actions alongside additional Central Government funding to support the Council's response to COVID-19 and partner contributions will ensure that there will be no requirement to supplement the revenue budget from balances in 2020/21 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 £17.349m for 2022/23 and £18.602m for the years 2023/24. These are in line with the level of risk included in the 2021/22 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 12 Earmarked Reserves as summarised in Appendix 3 and has estimated Earmarked Reserves at the 2020/21 year-end totalling £84.915m. This total is after the anticipated call down of £21.417m in year offset by a Section 31 grant for Business Rate compensation at a value of £25.456m. This additional Section 31 funding will be used in 2021/22 in full to support the Collection Fund Deficit as a result of the global pandemic. There

is also a further £1.000m of Section 31 grant is to be transferred to reserve at the end of 2020/21, the anticipated Government compensation for irrecoverable Collection Fund losses in 2020/21. Alongside this there is further anticipated transfer to reserves of £0.084m with regards to Mercury Emissions and the reclassification of reserves between categories totalling £0.425m. This £0.425m will be used to support the 2021/22 revenue budget. 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. The projected level of reserves does not allow for the carry forward of any COVID related Government grant funding which has been awarded in 2020/21 but may not be spent by the end of the financial year. At this stage it is not clear if or how much of such grant will remain unspent at 31 March 2021 or if any will have to be returned to Government.
- 2.3. Further detail of the estimated Earmarked Reserves held by the Council which are supported by the Reserves Policy are detailed in Appendix 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
 - Transformation Reserve
 - Lifecycle Costs Reserve
 - Fiscal Mitigation Reserve
- 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 £32.945m have been used to underpin the Council's revenue budget alongside other one-off measures. In 2020/21, £10.008m of reserves and £5.150m of one-off measures were used to support the revenue budget. Included within the Medium Term Financial Strategy (MTFS), is the required use of reserves of £29.000m over the next two financial years. For 2021/22, it is proposed to use £16.703m of the corporate Balancing Budget reserve and two specific reserves held within the Balancing Budget Reserve:
 - a) the reserve to support budget proposal REF-BR1-432 – Review of Elected Member Reserves of £0.127m
 - b) £25.456m relating to grant compensation received in 2020/21 to support Collection arising from the award by Government of business rates relief

This will be combined with other one-off measures totalling £2.000m. The remaining £12.297m of the corporate Balancing Budget reserve will be used to support 2022/23.

- 2.7. As shown, the reliance upon reserves remains considerable. However, this approach has enabled the Council to balance its budget, but this 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 2021/22 is expected to begin to address this challenge although this has been impacted by the global pandemic. The expected benefits of the transformation programme will be phased over several financial years supported by reserves over the short term.
- 2.8. As detailed within the Council's Audit Completion Report, presented alongside the Statement of Accounts, the External Auditors concluded that for 2019/20 the Council had made proper arrangements to deliver financial sustainability in the medium term. However, it was also pointed out that "The Council has significant levels of Earmarked Reserves as at 31 March 2020, but these are not sufficient to sustain the Council's financial position over the medium term". It is therefore evident that the reliance on one off measures cannot continue.
- 2.9. Whilst the level of reserves expected to be available to support the Council in 2021/22 and 2022/23 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 and is not sustainable. This is highlighted by the most recent financial challenges experienced by Nottingham City Council and London Borough of Croydon Council where reserves were depleted over several years to support the revenue budget. In addition to one off measures, there was an over reliance on commercial income which meant those Councils had not realigned their core activities in a transformative way, resulting in an inability to set or sustain a balanced budget.
- 2.10. Oldham Council does have an extensive transformation programme; however, it is essential that this delivers to timeline and to the anticipated budgetary levels required to avoid further unplanned reliance on reserves.

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:
- The unprecedented impact of the global pandemic in 2020/21. This has had a significant impact on all Local Authorities as they have been at the forefront of the country's response to support its residents. This has had a significant impact across all Council services during the financial year with far reaching implications of long COVID expected over the medium term. Whilst this has greatly impacted Local Authorities, there has been significant additional resources provided by Central Government which has, in the main, underpinned the extra expenditure / lost income for 2020/21. The Government has advised of continued grant support in 2021/22, although it is as yet unclear whether this will be sufficient. A particular concern is in regard to the continuation of support for adult social care which is received from the Department of Health via Oldham Clinical Commissioning Group (CCG). In the longer term, the impact of COVID on the Collection Fund is difficult to quantify and has moved this area from one of relative stability to significant uncertainty.
 - 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. Despite COVID being a major focus for central Government, the impact of the recent trade deal between the United Kingdom (UK) and the European Union (EU) will lead to more uncertainty as to how this will affect the country and Local Authorities.
- Whilst the publication of the Provisional Local Government Finance Settlement on 17 December 2020 and the approval of the Final Local Government Finance Settlement on 10 February 2021 provided funding information for 2021/22 to assist with financial planning over the next financial year, it gave no financial foresight over the longer term making medium term planning more challenging. The funding allocated for COVID related activities in 2021/22, as advised in the February 2021: COVID-10 Funding for Local Government for 2021 to 22 Policy Paper issued on 10 February 2021, may yet prove insufficient.
- 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 2022/23. 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 2021/22.
- Major changes to the Local Government Finance System are planned to coincide with a multi-year Spending Review now due to take place in 2021 (having been deferred from 2019/20). As well as reviews and changes to the operation of the Business Rates Retention system, it is expected that there will be a Review of Local Authority Relative Needs and Resources ('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 2022/23 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, Community Health and Adult Social Care (CHASC) and Children's Social Care (CSC) continue to be areas which are reporting adverse variances. Whilst an element of this will be due to COVID-19, there are significant Business as Usual issues. Despite investment of resources as part of the budget setting process over a number of financial years, there continues to be a structural overspend. For 2020/21 there is a projected business as usual overspend of £1.560m for CHASC and £3.311m for CSC.
- 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 2020/21, the DSG in Oldham is still expected to have an overall deficit of £4.559m 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 in 2019 to the Department for Education (DfE) to outline how it will bring the DSG

into balance. The Recovery Plan illustrates that, with the increased funding anticipated and the planned actions to address new operating arrangements to generate efficiencies, the DSG should be brought into a position where there is a small surplus in 2023/24. The new 2020 Regulations mean that there will no longer be an automatic 1% trigger for the production of a DSG deficit recovery plan, instead the DfE will focus on those Authorities requiring help through a more measured and targeted approach. As the current recovery plan has been agreed with the Schools Forum, the Council will continue to use the recovery plan arrangements as an effective means of monitoring the DSG position and returning the deficit to a surplus and will continue to liaise with the Schools Forum accordingly.

- 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.
- 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 2020/21, there are a number of pressures which cannot be absorbed by the Directorates. In these instances, the 2021/22 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 2021/22 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 2021/22. 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 Base setting rely on an overall collection rate of 96.75%. This is a reduction from 97% in 2020/21, reflecting the impact of the increase in those qualifying for Council Tax Reduction and the general economic position. 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 Business Rates 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.
- There is a minimum call on reserves, except for agreed corporate priorities.
- Management accountability for budgets so that financial challenges are addressed quickly.

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 grant 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 all Local Authorities to 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. A review of the Capital Programme was undertaken when preparing Capital Strategy and Capital Programme 2021/22 to 2025/26, not only to ensure that it reflected the most up to date forecasts, but also to see if there were opportunities to alleviate some of the revenue budget pressures of the Council. The reprofiling of planned capital spending in accordance with current projections has facilitated a revision to estimated capital financing costs for 2021/22 of £2.150m.
- 4.5. As part of the review, Cabinet approved a revised vision and strategic framework for 'Creating a Better Place' which places more emphasis on economic recovery and accelerating the potential for generating revenue budget savings. The report was the culmination of a fundamental review of the programme which saw approximately £90m of schemes removed from the programme. These were schemes primarily associated with corporate property investment activities or those which would not make a sufficient contribution to strategic objectives.
- 4.6. The Capital Strategy and Capital Programme 2021/22 to 2025/26 has therefore been produced following these reviews and the impact of the Council's current investment plans detailed in the Capital Strategy and Capital Programme 2021/22 to 2025/26, 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 2021/22, with future year's charges being estimated in the MTFS. As can be seen in the Capital

Strategy, despite the challenging financial position, the Council has ensured that there is sufficient revenue budget to meet the capital commitments and deliver the regeneration objectives for the Borough 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 2021/22 and beyond. Much more attention has been focused on financial resilience over the past three 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 26 February 2020.

5.2. As previously highlighted, there are 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 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.
- Following Grant Thornton's Public Interest Report on the governance and commercial investment issues published on 11 August 2020, the Secretary of State for Housing, Communities and Local Government on 26 October 2020 requested a non-statutory review of Nottingham City Council which has now been publicly reported. The review found that over the past few years, NCC has led a large programme of capital expenditure which was largely funded by internal and external borrowing leading to the Council carrying a large amount of debt with a corresponding impact on the revenue budget due to debt servicing. This was alongside a policy of commercialisation seeking opportunities to maximise income streams. An example of this was the failed Robin Hood Energy company which resulted in a cost to the Council of £38m and which exposed the fragile nature of the Authority's financial position.
- Furthermore, on the 1 October 2020, Peterborough City Council approached Ministry of Housing Communities and Local Government (MHCLG) to investigate further avenues which could be progressed as an alternative to issuing a section 114 notice. This is a result of an in year funding shortfall of £11m which would mean that usable reserves would be virtually fully depleted by the end of 2020/21 if no alternative solution is found. The Council is forecasting a budget gap of £35.668m for 2021/22 where savings alone cannot bridge the gap. As part of 'Peterborough Takes Action' strategy, the Council has proposed a number of options to MHCLG which are to bridge the funding gap, and these include a capitalisation direction for COVID-19 costs. The capitalisation direction was agreed on 10 February 2021.
- On 11 November 2020, the London Borough of Croydon Council issued its first Section 114 notice after reporting a £66m overspend in year with budget reductions of £47m required for 2021/22. Whilst the global pandemic has partly influenced the current forecast overspend, a number of other financial issues have contributed.

Included within the 2019/20 Draft Statement of Accounts for Croyden Council, it is highlighted that the amount of Earmarked Reserves available to support the Council was £9.132m. As the current gap is £113m for the next two financial years, the low level of reserves meant that a S114 notice was required. As Members will recall, under the terms of a Section 114 notice, Councillors have 21 days to agree action to bring the budget back into balance. If the budget remains unbalanced, it must then issue another notice. The second section 114 notice was issued on 2 December 2020. Subsequently, following discussions with CIPFA, it has been agreed that a third section 114 notice does not need to be issued until the financial situation changes. Croydon is seeking capitalisation loans of more than £130m over the next two years of which £70m is for 2020/21 and £64m for 2021/22. To date, MHCLG has not yet agreed this request.

- Capitalisation directions were also announced on 10 February 2021 to provide support to the London Borough of Bexley, Luton Borough Council and Eastbourne District Council to enable them to set balanced budgets for 2021/22.

5.3. These challenges being experienced by other Local Authorities are a warning to the Local Government sector as a whole and emphasise the importance of good financial management and financial resilience.

5.4. There have also been a number of publications on the subject of financial resilience and these are detailed in paragraphs 5.5 to 5.30.

Audit Commission Publication

5.5. 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.

5.6. 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.

5.7. 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

- 5.8. 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 had 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 had 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.
- 5.9. 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.
- 5.10. 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. This has been exacerbated by dealing with the financial implications of COVID.

Public Accounts Committee

- 5.11. On 12 March 2019, the Public Accounts Committee released a paper on the subject of 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.
- 5.12. 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.
- 5.13. 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

- 5.14. On 16 December 2019, CIPFA published its Local Authority Financial Resilience Index as it is aimed at supporting the Local Government sector as it faces continued financial challenges. 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
- 5.15. There were no Oldham indicators where risk was extremely high or a cause for immediate concern. However, reserves sustainability and change in reserves when compared to other Authorities was around the mid-point on the risk scale. The change in Unallocated and Earmarked reserves was high relative to nearest neighbour Authorities.
- 5.16. The Index did provide some useful information and confirmed the position that, the Council at the end of 2018/19 was financially resilient. It also served 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.
- 5.17. The CIPFA Financial Resilience Index for 2019/20 is to be issued after mid-February 2021. There has been a delay due to the time taken to conclude the audit of accounts (on a national not local basis). For Oldham, given the level of reserves with which the accounts were closed, it is not anticipated that there will be a significant change from those ratings previously issued.
- 5.18. Based upon the requirement to support the revenue budget over the short to medium term with a significant level of Earmarked Reserves it is expected that the CIPFA Financial Resilience Index over future financial years will be greatly impacted with risk indicators being high.

CIPFA's Financial Management Code

- 5.19. CIPFA published its Financial Management Code 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”.
- 5.20. 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
- 5.21. 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.
- 5.22. It was expected that Local Authorities would apply the requirements of the Financial Management Code in full by 1 April 2020, however after further consideration, CIPFA recognised the need for Authorities to ensure that their governance and management styles fit the requirements of the Code and as such concluded that a shadow year would be in place for 2020/21 with Local Authorities being fully compliant by 1 April 2021. This shadow year has provided the Council with a platform for good financial management throughout 2020/21 and future years.
- 5.23. The detailed guidance notes were issued in May 2020 and the Finance Service has undertaken work throughout 2020/21 to ensure its compliance with this Code. Work is continuing with the wider organisation to ensure full compliance by 2021/22.

Grant Thornton / CIPFA “Financial Foresight” report

- 5.24. 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.
- 5.25. 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.

5.26. It should be noted that the Council is currently focusing efforts in the key areas highlighted within the report. For example, the Council:

- Operates a workforce review panel to control expenditure.
- Has a robust approach to the review and management of reserves.
- Has a strategy for Creating a Better Place.
- Has financial planning arrangements in place to assess demand and cost pressures.
- Is implementing the next phase of its ambitious transformation programme from 2021/22.

However, there is still much work to do to ensure the Council's future financial sustainability particularly in light of the COVID-19 pandemic.

Institute of Fiscal Studies - The Financial Risk and Resilience of English Local Authorities in the Coronavirus Crisis

5.27. On 22 June 2020, the Institute of Fiscal Studies released a report on the financial risk and resilience of English Local Authorities in the coronavirus crisis alongside a spreadsheet dashboard that collates for each Local Authority in England a series of indicators of coronavirus-related risks.

5.28. The report focuses on the geographical differences in demographic and economic structures which have made different parts of the country more vulnerable to different effects of the crisis particularly on health, on families and children, and on jobs and incomes. This means the demands and costs facing each Local Authority will change in different ways and at different times. Moreover, differences in the extent to which each Local Authority relies on different revenue sources and on financial reserves means that they face differing degrees of financial risk and have differing degrees of financial resilience.

5.29. The spreadsheet dashboard looks at the extent to which the risks vary across each Local Authority focusing on revenues and financial resilience. It also briefly discusses the extra funding that central Government has made available to Council's to help them address the risks in 2020/21.

5.30. The findings of the report and dashboard suggests that Local Authorities of different types and serving different types of communities will be affected by the coronavirus crisis in different ways. Those serving more affluent communities and especially shire districts appear to be exposed to greater revenue risks due to their reliance on local taxes and Sales, Fees and Charges income (rather than central Government grants). However, Councils serving more deprived communities could see particular increases in service needs and challenges if the coronavirus crisis has a more severe impact on individuals and families already suffering disadvantage, and these effects could be long lasting resulting in reduced financial resilience.

6. Budget Recommendations

6.1. 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 2021/22. Despite the use of reserves over recent years, the current level of reserves remains adequate to support the 2021/22 financial position and demonstrates financial resilience in the short to medium term. However, this is only the case provided that action is taken to ensure that the balances

are set at the level of £15.641m for 2021/22 as calculated in this report and that all budget options, or in year alternatives, are delivered as planned and monitored.

7. Consultation

- 7.1. 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 as to why Local Authorities have been able to manage significant on-going year on year reductions in budget whilst remaining financially resilient.
- 7.2. The Earmarked Reserves as set aside by the Council at each financial year-end have been independently verified by the external auditor.
- 7.3. 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. Financial Implications

- 8.1. 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 2021/22 budget, in line with good practice and the duties of the Director of Finance.
- 8.2. It is essential that the transformation programme is delivered to timeline and value to ensure that there are no unplanned use of reserves and the proposed Medium Term Financial Strategy can be delivered, albeit underpinned by reserves. The 2021/22 financial position will be subject to close monitoring and review and remedial action will be required if there are any variations from plan.

9. Legal Services Comments

- 9.1. 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.

10. Co-operative Agenda

- 10.1. 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.

11. Human Resources Comments

- 11.1. Not Required.

12. Risk Assessments

- 12.1. 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)

13. IT Implications

- 13.1. Not Required.

14. Property Implications

14.1. Not Required.

15. Procurement Implications

15.1. Not Required.

16. Environmental and Health & Safety Implications

16.1. Not Required.

17. Equality, community cohesion and crime implications

17.1. Not Required.

18. Equality Impact Assessment Completed?

18.1. Not Required.

19. Key Decision

19.1. Yes.

20. Key Decision Reference

20.1. FG-13-20

21. Background Papers

21.1. 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 1-3
Officer Name:	Mark Stenson
Contact No:	0161 770 4783

22. Appendices

22.1. Appendix 1 General Balances Calculation
Appendix 2 Eleven Areas of Risk for Oldham Council
Appendix 3 Anticipated Earmarked Reserves as at 31/03/2021

General Balances Calculation

Appendix 1

Area of Risk	2021/22 Budget £000	Risk Factor	Value £000	2022/23 Budget £000	Risk Factor	Value £000	2023/24 Budget £000	Risk Factor	Value £000
Inflation									
Salaries including pensions	99,809	0.50%	499	100,807	0.50%	504	101,815	0.50%	509
Premises	11,422	0.25%	29	11,422	0.50%	57	11,422	0.50%	57
Transport	6,187	0.25%	15	6,187	0.50%	31	6,187	0.50%	31
Supplies	93,730	0.25%	234	94,667	0.25%	237	95,614	0.25%	239
PFI	21,558	0.00%	0	21,774	0.25%	54	21,991	0.25%	55
Other	Quantum		250	Quantum		500	Quantum		500
			1,027			1,383			1,391
Interest Rates									
Changes in rates	Quantum		500	Quantum		500	Quantum		250
			500			500			250
Grants									
H. Benefit/ Council Tax Support	1,138	0.00%	0	1,138	1.00%	11	1,138	1.00%	11

New Homes Bonus	171	0.00%	0	0	0.00%	0	0	0.00%	0
Business Rates Top Up	41,748	0.00%	0	41,748	0.51%	213	41,748	0.77%	321
Grants in Lieu of Business Rates	10,843	1.05%	114	10,843	1.08%	117	10,843	1.10%	119
Improved Better Care Fund	10,859	2.53%	275	10,859	1.00%	109	10,859	1.00%	109
Independent Living Fund Grant	2,580	0.00%	0	2,420	1.00%	24	2,340	1.00%	23
Homelessness Support /New Burdens Grant	0	0.00%	0	358	0.00%	0	358	0.00%	0
Social Care Support Grant	8,947	0.00%	0	8,947	0.00%	0	8,947	0.00%	0
Lower Tier Services Support Grant	407	0.00%	0	0	0.00%	0	0	0.00%	0
Local Council Tax Support Grant	3,183	0.00%	0	0	0.00%	0	0	0.00%	0
Covid Grant	7,737	0.00%	0	0	0.00%	0	0	0.00%	0
PFI Credits	13,262	1.00%	132	13,262	1.00%	132	13,262	1.00%	132
			521			606			715
Estimated Budgets									
Academies Loss	Quantum		150	Quantum		125	Quantum		100
Carbon Emissions	Quantum		50	Quantum		50	Quantum		50
			200			175			150

Volume Changes									
Council Tax including Adult Social Care	98,552	1.00%	986	103,349	0.25%	258	108,373	0.25%	271
Retained Business Rates	50,619	1.00%	506	50,619	1.50%	752	50,619	3.00%	1,518
Unity Partnership Ltd	Quantum		253	Quantum		273	Quantum		314
			1,745			1,283			2,103
Budget Savings									
2021/22	8,793	25.00%	2,198	8,793	2.00%	176	8,793	1.00%	88
2022/23	0	0.00%	0	31,900	12.30%	3,926	31,900	1.89%	605
2023/24	0	0.00%	0	0	0.00%	0	21,849	20.60%	4,500
			2,198			4,102			5,193
Insurance									
Medical Malpractice linked to Health Devolution	Quantum		100	Quantum		100	Quantum		100
			100			100			100
Emergency Planning									
ICT disaster	Quantum		500	Quantum		500	Quantum		500
Flooding	Quantum		250	Quantum		250	Quantum		250
Offices	Quantum		250	Quantum		500	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
			3,500			3,250			2,850

Changes									
Debt Collection	Quantum		100	Quantum		100	Quantum		100
			100			100			100
Financial Guarantees									
Contractual Disputes	Quantum		1,000	Quantum		750	Quantum		500
Levying Bodies	Quantum		250	Quantum		250	Quantum		250
Pensions	Quantum		1,000	Quantum		750	Quantum		500
Devolution	Quantum		250	Quantum		250	Quantum		250
Investments	Quantum		1,000	Quantum		750	Quantum		500
Grant Claw back	Quantum		250	Quantum		350	Quantum		250
			3,750			3,100			2,250
Other									
Flexible Use of Capital Receipts	Quantum		250	Quantum		0	Quantum		0
Transformation Agenda	Quantum		250	Quantum		1,000	Quantum		1,500
General	Quantum		1,000	Quantum		1,000	Quantum		1,500
COVID Legacy	Quantum		500	Quantum		750	Quantum		500
			2,000			2,750			3,500
TOTAL			15,641			17,349			18,602

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 rates 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 COVID-19 and Brexit. The risk assessment suggests that it would seem unreasonable to include a higher level of inflation in the budget but there should be an awareness that it might occur. 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. This has been compounded as a result of the global pandemic. The general prediction is that there is no imminent increase to interest rates due, however there may be a cut to rates in 2021 as the UK’s economic outlook is “unusually uncertain”. Allowing for borrowing profiles, the 2021/22 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. Since the global pandemic this has been impacted further.</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 2021/22 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 (delayed from 2019/20). As well as changes to the operation of the Business Rates Retention system, the Government is expected to undertake a review of Local Authority Relative Needs and Resources (‘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 budgets 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. The Collection Rate for 2021/22 has reduced from 97% to 96.75% as a direct result of COVID-19.</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 2020/21 experience, the achievement of the budget reduction programme in monetary terms has shown significant achievement, although this is becoming increasingly difficult for services to be maintained. In the next three financial years from 2021/22 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"> • In a complex organisation there are contractual disputes for claims against the Council. • 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. • 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 regarding recognising cost risk. • Grant clawback could occur whereby the Council is the accountable body for a grant. • Investments of the Council where market value can fluctuate. • There is a risk around Health Devolution and associated financing agreements between the Council and Oldham CCG.
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 and this includes COVID Legacy.</p>

Anticipated Earmarked Reserves as at 31/03/2021

Earmarked Reserve	Balance £000	Assessment of Current Risk
Council Initiatives Reserve	(1,904)	<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"> 1) There is a Corporate Priority to support the learning and attainment agenda to promote the improvement of results in schools. 2) Costs associated with the development of the Corporate Plan Priorities.
Insurance Reserve	(8,080)	<p>This includes:</p> <ol style="list-style-type: none"> 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. 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. 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. 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. <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 2020/21. The amount could increase or decrease at the year-end as reported dependent upon the output of this Actuarial Review.</p>

Levy Reserve	(250)	This reserve has been set aside to smooth the impact of future levy increases on the Council budget.
Adverse Weather Reserve	(1,000)	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.
Transformation Reserve	(5,710)	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	(1,080)	This reserve is required to support the Fleet Management Programme and the replacement of assets as and when they have reached the end of their lifecycle.
Fiscal Mitigation Reserve	(3,455)	The financial environment in which the Council operates has changed from 1 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.

Balancing Budget Reserve	(54,583)	This reserve contains resources to support the revenue budget in future years as detailed within the financial strategy. This reserve provides the resources required to underpin the 2021/22 budget, with £16.703m of corporate reserves, £0.127m of specific reserves and the £25.456m to be used to support the Collection Fund deficit in 2021/22. It also holds the £12.307m of reserves to support the 2022/23 budget.
Regeneration Reserve	(3,715)	The Council has an extensive and ambitious regeneration agenda and resources have been set aside to support the Creating a Better Place Programme.
Integrated Working Reserve	(3,297)	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	(1,339)	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	(502)	This is a reserve which has funds set aside to support existing commitments of the District Executives across the Borough.
Total Estimated Earmarked Reserves 31/03/2021	(84,915)	

Schools/Grant Related Reserves

Individual School Balances	(839)	This Earmarked Reserve consists of the estimated individual school balances as at 31 March 2021 held by schools under their delegated budgets. These funds are not available for Council use. The gross estimate for school balances is £5.398m, however the overall DSG deficit of £4.559m will reduce this forecast closing position to £0.839m.
Revenue Grants Reserve	(6,917)	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.