

Report to Audit Committee

Reserves Policy for 2020/2021 to 2021/22

Portfolio Holder: Cllr A Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Low Carbon

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Reason for Decision

The purpose of this report is to present to Members of the Committee, the proposed Reserves Policy of the Council for the financial years 2020/21 to 2021/22 and to incorporate any views into the final policy.

Executive Summary

Members will recall that the Council has developed a strategic approach to the creation and maintenance of reserves through the development of a Reserves Policy and the presentation of the Policy to the Audit Committee. The aim is to improve the transparency of the level of and the use of reserves.

There have been several reports issued on Local Government Financial Resilience over the last few years with the Chartered Institute of Public Finance and Accountancy releasing its Financial Resilience Index, most recently in February 2021. This Index places an increased focus on the level of reserves held by Local Authorities and therefore its ability to be financially resilient. Members will also be aware that over recent months, two Councils have issued Section 114 notices which means they are not able to maintain a balanced financial position without the implementation of significant management action.

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

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

The Reserves Policy is attached at Appendix 2 and presents the Council's strategic approach to the creation and maintenance of reserves.

Recommendations

That Members of the Audit Committee review the Reserves Policy for 2020/21 to 2021/22 and advise the Council on its suitability from a governance perspective.

Reserves Policy for 2020/21 to 2021/221**1 Background**

- 1.1 There is a need to have a strategic approach to the creation and maintenance of the Earmarked Reserves held by the Authority. This is because resources are becoming even more scarce and any money set aside needs to both support the priorities of the Council and prevent unforeseen expenditure/events impacting on year on year budgets wherever possible.
- 1.2 The level of reserves maintained by Local Authorities collectively has in the past attracted comment from the (now former) Secretary of State for the Department of Communities and Local Government (now Ministry for Housing, Communities and Local Government) indicating they are excessive.
- 1.3 In December 2012, the Audit Commission produced a report into their research on the level of reserves held by Councils. The report, whilst produced a number of years ago, set out sound advice and recognised that there is no set formula for deciding the level of reserves that is appropriate. It stated that having the right level of reserves was important and where reserves were low, there could be very little resilience to financial shocks and sustained financial challenges (the COVID-19 pandemic is an event that was completely unforeseen and has created significant financial turbulence for Local Government). 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 resource to address challenging savings targets and provide time for transformation to deliver permanent financial savings.
- 1.4 One conclusion from the Audit Commission report was that Councils needed to consider their present decision making around reserves in a number of areas:
- Undertaking an annual review to ensure reserves align with Medium Term Financial Strategies;
 - Having clarity about what earmarked reserves are for;
 - Ensuring earmarked reserves held to mitigate financial risk reflect an up-to-date assessment of risk;
 - Monitoring the level and use of reserves over recent years and comparing the Council's approach to other organisations facing similar circumstances;
 - Budget monitoring and forecasting to give Elected Members greater awareness of likely year-end movements on reserves;
 - Ensuring significant or unexpected variations to budget are dealt with.
- 1.5 Members can be assured that the Council already meets the criteria detailed above through the regular review of reserves, the Revenue Budget Monitoring reports presented to Cabinet, the Statement of the Chief Financial Officer on Reserves, Robustness of Estimates and Affordability and Prudence of Capital Investments Report presented alongside the Revenue Budget Report to Council and the production of an annual Reserves Policy.
- 1.6 Members of Audit Committee will recall that during 2019/20, the Chartered Institute of Public Finance and Accountancy (CIPFA) published its Financial Resilience Index. This was in response to financial challenges being experienced by some Local Authorities. The level of reserves and balances are a key element in the CIPFA Financial Resilience Index which was published for the first time in December 2019. A second Resilience Index was issued in February 2021.

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- 1.7 In this February Index, none of the Oldham indicators were considered to be extremely high risk or a cause for immediate concern. Compared to the December 2019 Index, a number of indicators increased in risk, however, the Reserves Sustainability Measure reduced in risk quite considerably when compared to the “nearest neighbour” Local Authority comparator group. The Index has provided some useful information and confirmed the position that, leading into 2020/21, the Council was financially resilient. The Index will be issued again during 2021/22 to reflect the position at the end of 2020/21 and key information will subsequently be presented to Members once it is available.
- 1.8 Given the position facing most Authorities, including Oldham, the information contained in the Index as at the end of 2020/21 is likely to be out of date by the time it is published and will also be greatly impacted by the issues arising from Covid in 2020/21. This will prove challenging when comparing performance against previous financial years.
- 1.9 Members will also recall that a report on Local Government Financial Resilience was presented to this Committee on 12 September 2019. As highlighted within the report, a number of Authorities had been identified as having sustainability issues at that time. Since this report, the global pandemic has further impacted Local Authorities with a number identifying short and longer term resilience issues as a result of COVID-19. Croydon Council issued a Section 114 notice during December 2020 and Slough Council issued a Section 114 notice on 2 July 2021. A number of Local Authorities have sought assistance from the Ministry of Housing, Communities and Local Government in the form of a capitalisation direction (allowing expenditure normally classified as revenue to be treated as capital expenditure and therefore to be supported by prudential borrowing). These Councils include both Croydon and Slough.
- 1.10 It is important to note that those Authorities facing a significant financial challenge did not have the level of reserves available to support them through the pandemic as an unforeseen event.
- 1.11 As shown above, the level of Local Authority reserves is a key issue when discussing the funding of Council services and it is therefore considered appropriate to present this Reserves Policy for scrutiny by the Audit Committee.

2 Reserves Policy for 2020/21 to 2021/22

- 2.1 The 2020/21 to 2021/22 reserves policy has been prepared, following the finalisation of the financial outturn position at the end of 2020/21 and after a risk-based review by the Director of Finance having regard to Corporate Priorities. There are 14 major Earmarked Reserves included in the Policy to align to the presentation of reserves at Note 15 in the Statement of Accounts (see Appendix 1). As can be seen from the Appendix and also in the Statement of Accounts, the accounts were closed with a balance of Earmarked Reserves of £113.512m (an increase of £34.152m), Revenue Grant Reserves of £20.145m (an increase of £12.212m) and Schools Reserve of £9.306m (an increase of £3.819m). In total, reserves are £142.964m an overall increase of £50.183m.
- 2.2 Overall, reserves were increased in part due to the receipt of some COVID specific grants (including £25.182m compensation for Business Rates reliefs awarded in 2020/21 which was retained for use in 2021/22).
- 2.3 The level of reserves held at the end of 2020/21, which are detailed within the reserves policy, are deemed sufficient to ensure the Council’s financial resilience for 2021/22. It should be noted that there was an immediate call on Earmarked Reserves at the start of the year to reflect the use of reserves to balance the budget for 2021/22 of £42.012m (37%) leaving a balance of £71.501m. Of this balance, a further £12.297m is proposed to be used

to support the revenue budget in 2022/23, leaving a remaining balance of £59.204m available for use.

2.4 The COVID-19 pandemic has created uncertainty, and this has resulted in increased expenditure and income losses. The future impact of the pandemic is unclear. The reserves of the Authority are therefore important in providing support for the financial position giving time for any required budgetary adjustments to be made. The Reserves Policy makes it clear that the final decision in relation to any of the reserves lies with the Director of Finance (S151 Officer) having regard to the overall financial position of the Council.

2.5 This policy document also sets out the rationale for the creation of the reserves, the arrangements for their management and the approval process for use. The Policy is detailed at Appendix 2.

3 **Conclusions**

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

4 **Options**

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

4.2 Option 2 – That Members suggest an alternative approach to the creation and maintenance of reserves.

5 **Preferred Option**

5.1 Option 1 is the preferred option.

6 **Consultation**

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

7 **Financial Implications**

7.1 In order to increase the transparency on the Earmarked Reserves held by the Council, a specific reserves policy has been developed which is now subject to annual review. This has enabled the Council to align its Earmarked Reserves to the Corporate and Strategic Objectives of the Council.

7.2 As shown in the Statement of Accounts which is presented to this Committee elsewhere on the agenda, the Council was able to deliver a financial outturn in accordance with its agreed budget for 2020/21. As such, with the proposed Reserves Policy as detailed in Appendix 2, it is in a robust financial position to meet the challenges for this financial year. However, COVID-19 has undoubtedly changed the financial outlook. In order to manage its medium-term financial position effectively, the Council will have regard to the Government funding packages, any required revisions to budgeted expenditure and income and very careful management of reserves. Appropriate action will be taken to support the financial sustainability of the Council. The Reserves Policy makes it clear that the final decision in relation to any of the reserves lies with the Director of Finance (S151 Officer) having regard to the overall financial position of the Council. (Anne Ryans)

8.	Legal Services Comments
8.1	N/A
9.	Cooperative Agenda
9.1	N/A
10	Human Resources Comments
10.1	N/A
11	Risk Assessments
11.1	It is important in managing its finances that an Authority achieves a balance of both setting aside earmarked reserves which are appropriate in supporting Corporate Priorities and Objectives whilst retaining financial resilience to secure its medium and long term financial stability. (Mark Stenson)
12	IT Implications
12.1	N/A
13	Property Implications
13.1	N/A
14	Procurement Implications
14.1	N/A
15	Environmental and Health & Safety Implications
15.1	N/A
16	Equality, community cohesion and crime implications
16.1	None
17	Equality Impact Assessment Completed?
17.1	No
18	Key Decision
18.1	No
19	Key Decision Reference
19.1	N/A

20 **Background Papers**

20.1 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 included at Appendices 1 and 2
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21 **Appendices**

21.1 Appendix 1 – Summary Earmarked Reserves 2020/21
Appendix 2 - Reserves Policy for 2020/21 to 2021/22.