

Report to Audit Committee

Reserves Policy for 2021/22 to 2022/23

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

Officer Contact: Anne Ryans - Director of Finance
Ext. 4902

Report Author: Vickie Lambert – Senior Accountant

21 June 2022

Reason for Decision

The purpose of this report is to present to Members of this Committee, the proposed Reserves Policy of the Council for the financial years 2021/22 to 2022/23 and 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 and as a response the Chartered Institute of Public Finance and Accountancy released its Financial Resilience Index, most recently in January 2022. 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 the past few years a small number of Councils have issued notices under Section 114 of the Local Government Finance Act 1988 meaning they are not able to maintain a balanced financial position without the implementation of significant management action and that Government have appointed Commissioners to two Local Authorities in 2021/22.

Furthermore, the global pandemic has continued to have a significant impact on Local Government and the financial challenges faced by the Council means 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 2021/22 to 2022/23 and advise the Council on its suitability from a governance perspective.

Reserves Policy for 2021/22 to 2022/23**1 Background**

- 1.1 The preparation of a reserves policy is the means by which the Council demonstrates it has a strategic approach to the creation and maintenance of Earmarked Reserves. This approach is needed because funds set aside in reserves need to both support the priorities of the Council and prevent unforeseen expenditure/events impacting on year-on-year budgets.
- 1.2 In previous years, Government Ministers have expressed concerns that the level of reserves maintained by Local Authorities collectively has been too high. More recently there have been general concerns that reserves in some instances are too low. Indeed the issuing by Authorities of notices under S114 of the Local Government Finance Act 1988, the applications to Government for financial assistance and the Government assigning Commissioners to support some Authorities, has highlighted that reserves in some instances of have been run down below the level required to maintain a financially sustainable position.
- 1.3 An Audit Commission report produced a number of years ago recognised that there is no set formula for deciding the level of reserves that is appropriate but stated that having the right level of reserves was important. It advised that where reserves were low, there could be very little resilience to financial shocks and sustained financial challenges (the COVID-19 pandemic is a good example of an unforeseen event where financial resilience was brought under the spotlight). It also stated that where reserves are high, there is a risk that some Councils may retain certain funding which could otherwise be utilised as a one-off to address challenging savings targets and provide the time for transformation to deliver permanent financial savings.
- 1.4 The Audit Commission report concluded that Councils needed to consider the following when making decisions about the level of reserves:
- Undertaking an annual review to ensure reserves align with Medium Term Financial Plans.
 - Having clarity about the purpose of Earmarked Reserves.
 - 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 previous reports that advised of the introduction by the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Resilience Index which is aimed at supporting the Local Government sector as it faces continued

financial challenges. The most recent Index (the third such publication) was issued on 28 January 2022 using 2020/21 data.

- 1.7 The information contained in the Index was impacted by COVID-19 which in turn, had an impact on the use of reserves. As such, CIPFA indicated that this should be used as a “transitional year” for Councils. A clearer position on reserves is expected to emerge as the impact of COVID recedes and income and expenditure trends start to stabilise. However, there is still a concern about the financial stability of some Local Authorities.
- 1.8 The January 2022 Index advised that none of the Oldham indicators were extremely high risk or a cause for immediate concern. Compared to the previous Index of February 2021 , a number of indicators increased in risk, however, when compared to the nearest neighbour Local Authority comparator group the Council’s level of risk is quite low. As the data for 2020/21 includes the impact of COVID-19 it is difficult to make a like for like comparison with previous years.
- 1.9 Members will also recall that a report on the Financial Administration in Local Authorities was presented to this Committee on 9 September 2021. As highlighted within the report, a number of Authorities had been identified as having sustainability issues at that time. It presented details of the ten Councils for which Government had agreed capitilisation directions (allowing expenditure normally classified as revenue to be treated as capital expenditure and therefore be supported by prudential borrowing). This was because the Authorities did not have the level of reserves available to support them through the pandemic.
- 1.10 Furthermore, during 2021/22 the Government appointed Commissioners to both Slough Borough Council (where a S114 Notice had been issued) and Liverpool City Council as it had been identified that these Councils were failing in their Best Value Duty (as detailed within the Local Government Act 1999).
- 1.11 More recently, on 31 May 2022, Sheffield Council reported to its Members that after a £19.8m overspend in 2021/22 (met by reserves), a further £18.7m adverse variance is expected in 2022/23 which would also have to be funded from reserves. This projected overspend is after balancing its 2022/23 budget through savings of £53m and a use of reserves of £15m. This considerable use of reserves over a short period of time highlights the financial pressures that Sheffield is facing.
- 1.12 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 2021/22 to 2022/23

- 2.1 The 2021/22 to 2022/23 reserves policy has been prepared, following the finalisation of the financial position at the end of 2021/22 and after a risk-based review by the Director of Finance having regard to Corporate Priorities. There are 12 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 £99.228m (a reduction of £14.284m compared to 2020/21), Revenue Grant Reserves of £10.731m (a reduction of £9.415m) and Schools Reserve of £10.192m (an increase of £0.886m). In total, reserves are £120.150m an overall decrease of £22.814m.
- 2.2 The level of reserves held at the end of 2021/22, which are detailed within the reserves policy are deemed sufficient to ensure the Council’s financial resilience for 2022/23. 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 2022/23 of £20.686m (21%) leaving a balance of £78.542m. This is comprised of £11.879m of General and Specific Reserves and £8.807m of reserves to support a technical budget adjustment arising from the introduction of Business Rate Reliefs after the 2021/22 budget had been set. In addition, a further £6.000m is to be used to support the revenue budget in 2023/24 with £3.932m being used to support 2024/25, leaving a remaining balance of £68.609m available for use. As advised in the Policy, there are plans to use other reserves to support corporate initiatives.

- 2.3 The COVID-19 pandemic created uncertainty, resulting in increased expenditure together with income losses. Although the position is now stabilizing, there are longer term impacts which are starting to become clearer. These pressures will continue to impact on the finances of the Council. 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 and for the delivery of the Council's Transformation Programme.
- 2.4 As presented in the Reserves Policy, it is important to note that 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 Management Board/Members in advance. Key issues arising in relation to reserves in such instances will be determined at the discretion of the Director of Finance having regard to the overall financial position of the Council and reported after the accounts have been closed.
- 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, the Reserves Policy has been developed and 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.

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- 7.2 As shown in the Statement of Accounts, which can be found elsewhere on the agenda, the Council was able to deliver a financial outturn in accordance with its agreed budget for 2021/22. As such, with the proposed Reserves Policy as detailed in Appendix 2, the Council is in a robust financial position to meet the challenges for this financial year. In order to manage its medium-term financial position effectively, the Council is using reserves to support the budget process. However, appropriate action will be taken to support the financial sustainability of the Council
- 7.3 In view of the accelerated timeline for the closure of the accounts, decisions have to be taken around the use and creation of reserves without the opportunity to formally report these to Management Board/Members in advance. Key issues arising in relation to reserves in such instances will be determined at the discretion of the Director of Finance (section 151 Officer) having regard to the overall financial position of the Council and reported after the Council's accounts have been closed. (Anne Ryans)
8. **Legal Services Comments**
- 8.1 N/A
9. **Cooperative Agenda**
- 9.1 N/A
- 10 **Human Resources Comments**
- 10.1 N/A
- 11 **Risk Assessments**
- 11.1 It is important in managing its finances that an Authority achieves a balance of both setting aside Earmarked Reserves which are appropriate supporting Corporate Priorities and Objectives whilst retaining financial resilience to secure its medium and long term financial stability. (Mark Stenson)
- 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
Officer Name: Anne Ryans / Vickie Lambert
Contact No: 0161 770 4902

21 **Appendices**

21.1 Appendix 1 – Summary Earmarked Reserves
Appendix 2 - Reserves Policy for 2021/22 to 2022/23.