



Appendix 2

RESERVES POLICY

FOR

2021/22 to 2022/23



RESERVES POLICY

1 Background

- 1.1 It is important to have a strategic approach to the creation and maintenance of reserves. Having established a reserves policy for the first time for the closure of the accounts for 2014/15 and the financial year 2015/16, this updated policy addresses key issues arising from the 2021/22 accounts closure and 2022/23 financial year.

2 Policy

- 2.1 It is essential to ensure that any funds set aside in reserves are considered appropriately so that they have maximum effect. Following established practice, the process of identifying reserves continues to have regard to the addressing of corporate priorities.
- 2.2 This Policy sets out agreed priority areas and enables any identified additional resources to be directed to the priority areas, however, it does allow for some flexibility as and when required.
- 2.3 It is also essential to determine by means of a risk-based review on a case by case basis, the appropriate level of reserve to be held in each priority area. Clearly there will be the opportunity for the recommended level of required reserve to change, but it is proposed that once each reserve has reached the maximum recommended level, then resources will be directed to the next priority reserve. Once all these reserves have reached the proposed maximum, then any other available resources can be made available for individual budget holder business case requests.
- 2.4 The COVID-19 pandemic changed the financial landscape of Local Government and the Council, and highlighted the importance of financial resilience. It is therefore essential to ensure that reserves are available to support the Council and maintain financial resilience.

3 Establishing the Priorities

- 3.1 The closure of the 2021/22 accounts has enabled a detailed review of the Council's reserves and categorisation of these reserves into 12 major areas. There are in most instances, a number of reserves within these major areas including the priority reserves.

For clarity, the **12 major reserves** and the reserves created to support **corporate priorities** within them are set out and explained in this policy as follows.

1) Integrated working – £18.383m at 2021/22 accounts closure

This reserve represents resources that have been set aside to support initiatives arising from the Greater Manchester devolution agenda including joint working with the Oldham Clinical Commissioning Group (CCG) (and its successor body from 1 July 2022) and other health partners to support health and social care integration, other Greater Manchester Councils, and the Greater Manchester Combined Authority.

The priority reserves within this category are:

a) Health and Social Care Integration Reserve

The balance of this reserve is £11.570m as at the March 2022. It is held to provide resources to support further integration between health and social care

providers in line with Government policy and the local direction of travel. Previously split into two elements, it has now been combined into one large fund.

In January 2022, the Commissioning Partnership Board approved a report which agreed the Section 75 Agreement between Oldham CCG and the Council for 2021/22. It also agreed the use of £0.230m of the Health and Social Care Integration Reserve and allowed delegation to Chief Finance Officers of the CCG and the Council to finalise any adjustments to the S75 Agreement so that during 2021/22, there could be maximum support for Adult Social Care whilst providing the opportunity to facilitate further joint initiatives. As a consequence, the Council increased the reserve by £1.500m at the end of the year.

All bids for resources from this reserve will be reviewed and proposed by the Place Lead for Oldham in consultation with the Chief Finance Officers of the Council and the CCG (and its successor body) to provide assurance as to the financial benefits and to ensure compliance with the Oldham System Financial Framework as approved at the Commissioning Partnership Board. The use of the funds must, however, align to legislative and local financial frameworks applicable to Oldham Council given that the reserve is held in the accounts of the Council.

b) Adult Social Care – Reablement / Assistive Technology

A reserve of £1.576m was established at the end of the 2021/22 financial year in respect of Reablement & Assistive Technology which are key features within the Adult Social Care (ASC) Reform White Paper and is also a vital strategic measure to mitigate the impact of increased costs in relation to both demand and acuity as a result of the COVID-19 pandemic. There are also approved Council budget reductions which depend on reablement and the use of assistive technology.

This reserve will assist in developing resource, infrastructure and policy which will support achieving the approved budget reductions and the avoidance of expensive long-term permanent care.

c) Adult Social Care – White Paper Reform

This reserve of £1.500m was established at the end of the 2021/22 financial year to support the preparation for and the implementation of changes to policy and service delivery to ensure Adult Social Care is compliant with Government reforms. With particular emphasis placed on housing, the workforce, charging reform and preventive measures, the reserve will strengthen ASC's ability to deliver the vision in relation to service user choice, control, quality, fairness and accessibility.

d) Adult Social Care – Fair Cost of Care Reform

Established at the end of the 2021/22 financial year at a value of £0.742m, this reserve is to ensure the Council has the necessary resource and infrastructure in place to conduct the requirements of a fair cost of care exercise. This includes the production of a fair cost of care report, a market sustainability plan and spend return to be submitted to the Department of Health and Social Care by 14 October 2022. This reserve will supplement Government funding that has been provided for this exercise.

e) Places for Everyone

A reserve was established in previous years to cover costs expected to be incurred in relation to specialist advice and support in the continued development of the revised Places for Everyone Strategic Development Framework (formerly the Greater Manchester Strategic Framework) and Local Plan development. The balance of this reserve at 31 March 2022 was £0.148m.

2) Transformation Reserve - £6.396m at 2021/22 accounts closure

This reserve holds resources set aside to provide for any costs of implementing the Council's budget requirements for 2022/23 and later years and also the on-going programme of change as the Council continues the transformation of its services both to support the budget process and improve service provision.

The priority reserves within this category are:

a) Transformation/Invest to Save Reserve

In order to facilitate transformational change across the Council, some funding is needed for pump priming items such as dual running of systems and project management. The total held within the reserve at 31 March 2022 was £2.697m.

b) Redundancy/Efficiency Reserve

As part of the agreed budget strategy for 2015/16, the corporate redundancy base budget was reduced by £2.000m. As a consequence, funding for redundancy costs will be provided by utilising a reserve. The reserve balance at the end of the 2021/22 financial year was £3.000m. If the reserve is utilised then it will be replenished the following the year.

c) Dedicated Schools Grant (DSG) Recovery Plan

A reserve was set aside at the end of the 2016/17 financial year for £1.000m to smooth the implications arising from the realignment of General Fund and DSG resources in part resulting from changes in Government policy around the costs that can be charged to the DSG. During 2020/21, the reserve was reviewed and reduced by £0.755m. The total value held in this reserve at the end of the 2021/22 financial year was £0.245m.

3) Adverse Weather Reserve - £1.000m at 2021/22 accounts closure

The 2015/16 budget setting process approved the reduction in the Winter Maintenance base budget by £0.100m and an increase of the already established adverse weather reserve to compensate. A reserve of £1.000m is considered sufficient to fund the costs of several severe winters and the reserve was held at this value at the closure of the 2021/22 accounts.

4) Regeneration Reserve - £2.168m at 2021/22 accounts closure

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

a) Creating a Better Place Reserve

A report was presented to Cabinet on 28 March 2018 approving revenue resources of £2.879m to support the Creating a Better Place Programme. A subsequent report increased this requirement to £3.147m. These funds are to be held in reserve until required. During 2021/22, funds were released to support expenditure incurred in this regard. The balance at the end of the financial year is held at £1.918m.

b) Capital Schemes and Grants Submissions Reserve

Resources were repurposed as the year end to establish this reserve at the end of the 2021/22 financial year at a value of £0.250m. This is to provide pump priming funding for feasibility and related work to facilitate capital scheme preparation and bids for grants.

5) Emergency and External Events Reserve - £2.000m at 2021/22 accounts closure

This reserve was established in 2015/16 to ensure that the Council has sufficient resources to address costs arising from events such as flooding including the requirement to undertake emergency repairs. These reserves are topped up if required so they are maintained at recommended levels. The priority reserves in this category are:

a) Commissioning and Legal Challenges Reserve

As the Council has changed from being a deliverer in many service areas to becoming a commissioner of services including Private Finance Initiative (PFI) schemes, Adult Social Care and Public Health, it removes the Council from the day to day direct delivery of services, but introduces a range of contract management challenges which require close monitoring. There are instances where this process has led to disputes and the Council has had to seek expert advice to support and defend its position. The reserve has been maintained to support such funding requirements.

b) Equipment Replacement/Building Maintenance Costs Reserve

The Council has a reserve to fund requests for the emergency replacement of equipment or the undertaking of immediate building maintenance. This ensures a source of funds is readily available to support such costs in an emergency.

c) Flood Protection Reserve

Following the floods of December 2015 and the impact on neighbouring Authorities, a reserve was set aside to fund required flood protection measures in the Borough and the balance of this reserve stands at £0.250m at the end of the 2021/22 financial year.

d) Emergency Incident, Threat or Hazard Reserve

In order to discharge its Statutory Responsibility for Emergency Planning, the Council prepared a financial procedure to facilitate the incurring of expenditure in the case of an emergency or incident in the Borough which may result in hardship to a group of residents or the Council having to incur expenditure in the interests of public safety. This procedure required the creation of a reserve of £0.250m and this has been retained for 2021/22. It will be necessary to ensure

that a fund of £0.250m is permanently available in order to comply with the financial procedure rule.

6) Council Initiatives Reserve - £2.944m at 2021/22 accounts closure

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

a) Learning and Attainment Reserve

There is a political priority to support the learning and attainment agenda to promote the improvement of results in schools. A reserve of £1.000m was created in 2014/15 to be used over future years. At the end of 2021/22, £0.299m remained in the reserve.

b) Career Advancement Service

This reserve was established to fund the Career Advancement Service Pilot scheme during the period 2016/17 to 2019/20. The strategy seeks to improve population skills and outcomes to support Oldham's strategic goals. Due to the success of this scheme during the pilot years, the service has now been extended for a further two years and the reserve was held at a balance of £0.170m at the end of the financial year.

c) Corporate Apprenticeship Scheme

An identified Council priority initiative for 2022/23 is the development of a corporate apprenticeship scheme, providing employment opportunities within the Council for residents of Oldham. A reserve of £0.250m was established as at 31 March 2022.

d) Place Marketing

This reserve was created at the end of the financial year to help the Council deliver the corporate priorities as set out in the current Coronavirus Recovery Strategy, as well as supporting the delivery of economic and business priorities expected within the refreshed Oldham Plan/ Corporate Plan. The reserve is to be used to enable the Council to attract new investors and visitors to the borough, as well as promoting those businesses who are already located here to new audiences.

e) Local Welfare Provision

As a result of Central Government withdrawing direct funding for Local Welfare Provision several years ago, the Council has continued to provide support for those in need, primarily through the provision of white goods, essential furniture, bedding, carpets and household set up packs. This support is funded via a reserve which at the end of 2021/22 was £0.731m.

f) Corporate Priorities

This reserve is available to address corporate priorities which are identified during the financial year and have not been included in the Councils budget.

7) Fiscal Mitigation Reserve - £20.820m at 2021/22 closure

This reserve has been established to fund future costs expected to arise from reforms to Central Government Funding and also pressures that result from legislative changes or local initiatives. The specific priority reserves within this category are:

a) Business Rates Reserve

The income from Business Rates remains volatile and therefore it is prudent to have resources available to support the General Fund should business rates income be reduced in future years' budget processes. This reserve also will support the payment to the GMCA of any contributions required as a result of the piloting of the Business Rates Retention regime. The balance held within this reserve at the end of the 2021/22 financial year was £2.282m.

b) Pay Award

With the 2021/22 NJC Pay Award not being agreed until late in the financial year and with uncertainty around future pay awards, as advised in the 2022/23 Revenue Budget report, it was deemed appropriate to hold a reserve to support any additional increase over that which has been allowed for within the revenue budget for 2022/23 and the Council's Medium Term Financial Strategy (MTFS). This reserve is held at £1.500m.

c) Budget Reductions

Whilst the 2022/23 budget was based on the full delivery of all budget reductions, in line with the 2022/23 Revenue Budget report, this reserve of £2.207m is held to support any potential shortfall within the Children's Services portfolio in 2022/23, including that related to the delivery of budget reductions.

d) Adult Social Care Financial Resilience

The Adult Social Care Service over the last few financial years has delivered its services against a backdrop of significant uncertainty and unprecedented pressures. The budget setting environment for future years is equally uncertain. It was deemed appropriate at the end of the financial year to establish a reserve to support the financial resilience of this area of the Council over the medium term.

e) COVID-19 Legacy Reserve

As highlighted within the revenue monitor for 2021/22, the long-term impacts of COVID-19 are beginning to become apparent causing additional financial pressures for the Council. Included within the Revenue Budget for 2022/23 was a base budget allocation to provide for these ongoing costs over the short to medium term. As these pressures are still emerging, and in line with the commentary in the Revenue Budget report, it was deemed appropriate for the Council to establish a reserve of £2.000m to mitigate any additional financial impact.

f) Treasury Management Income

A new but key reserve, established at the end of the 2021/22 financial year, is in effect a risk reserve to offset any shortfall in Treasury Management income given the volatility that has been experienced in this area over recent years.

g) Energy Costs

In accordance with the Revenue Budget report for 2022/23, a reserve of £1.250m was established in 2021/22 to provide for any additional costs as a result of the national increase in energy costs. Whilst base budget has been included within the Council's 2022/23 budget and within future years' estimates, the prevailing position at the financial year end indicated that this may not be sufficient to cover the impact of price increases.

8) Balancing Budget Reserve - £30.618m at 2021/22 accounts closure

During the budget setting process for 2022/23, a reserve was held at a value of £30.618m to balance the 2022/23, 2023/24 and 2024/25 budget. The use of this reserve over the MTFS period was approved by Budget Council on 2 March 2022. Resources of £11.879m will be used to balance the 2022/23 budget with an additional £8.807m being used to offset the Collection Fund Deficit as a result of Business Rate Reliefs and for which compensation has been received from Government. This therefore leaves £6.000m to support budget setting for 2023/24 and £3.932m for 2024/25.

9) Contractual Life Cycle Costs Reserve – £1.643m at 2021/22 accounts closure

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

10) Insurance Reserve - £10.020m at 2021/22 accounts closure

It is essential that reserves are held to ensure that there are adequate resources available to support insurance claims against the Council. The requirement for this reserve is closely linked to the claims profile of the Council and was assessed as part of the 2021/22 year-end closedown process.

11) District Partnership Reserve - £0.561m at 2021/22 accounts closure

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

12) Directorate Reserve - £2.674m at 2021/22 accounts closure

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

Management of Reserves

Creation/ Decommissioning of Reserves

- 4.1 A list of areas/initiatives for which an additional reserve might be created or where an existing reserve might be increased in value will be presented to Senior Managers for consideration before the year end. The approval or otherwise of the reserve requests will be considered on a case by case basis and in the context of the overall projected financial position of the Council. The recommended use of reserves will be considered by the Director of Finance at the year-end and action taken as appropriate.

- 4.2 The report will also give consideration to those reserves no longer required or no longer considered to be priority areas. This will allow for the utilisation of the resources for other purposes, either the reallocation to other reserves, or to support the budget.
- 4.3 The financial resilience of the Council is a key issue going forward and the level of reserves available plays an important part. As such, the Director of Finance is able to decommission any reserves where it is deemed necessary to do so to support the Council in delivering a balanced budget.

Schools Related Reserves

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

District Partnership Reserve

- 4.5 It should be noted that District Partnership reserves operate under separate arrangements which allow the carry forward of any unspent resources at the year end.

Flexibility at the Year End

- 4.6 In addition, given the accelerated timeline for the closure of the accounts, decisions will need to be taken around the use and creation of reserves without the opportunity to formally report these to 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 and reported after the Council's accounts have closed.

5 Approval of the Use of the Reserves

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

- a) After a review and agreement by Senior Managers as to the rationale for their use:
- Adverse Weather Reserve
 - Regeneration Reserve
 - Council Initiatives
 - Integrated Working Reserve (except for the £11.570m Health and Social Care Integration Reserve).
- b) After a review and agreement by the Place Lead for Oldham / Chief Finance Officers of Oldham CCG and Oldham Council with reporting via the Commissioning Partnership Board:
- Health and Social Care Integration Reserve (£11.570m)
- c) After review and agreement by the Management Board and the Director of Finance:
- Transformation Reserve
 - Directorate Reserve
- d) After review and agreement of the Director of Finance:
- Emergency and External Events Reserve
 - Fiscal Mitigation
 - Balancing Budget Reserve

- Life Cycle Costs Reserve
- Insurance Reserve

e) After review and agreement of District Partnership Executives:

- District Partnership Reserve

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

5.3 The use and creation of reserves in year will be incorporated into the revenue budget monitoring report which is discussed with the Deputy Leader and Cabinet Member for Finance and Low Carbon and presented to Cabinet for approval. At the end of the financial year, as advised at 4.6, there will be a requirement to allow the Director of Finance discretion to address reserve issues as deemed appropriate in the context of the overall financial position of the Council.

6 Other Key Reserves Matters

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

a) Schools Reserve – this includes the balances held by Schools under the scheme of delegation. The use of these reserves is at the discretion of schools and as at the 31 March 2022 £10.192m was held in reserves.

b) Revenue Grants Reserve – this represents income from grants received which have no conditions attached or where the conditions have been met but no expenditure has yet been incurred. The use of these reserves will be determined by the relevant service Director and the Director of Finance. The balance held in this reserve at the end of the financial year was £10.731m.