

Report to Audit Committee

Reserves Policy for 2017/18 to 2018/19

**Portfolio Holder: Cllr A Jabbar MBE, Deputy Leader and Cabinet Member
for Finance and Corporate Resources**

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Reason for Decision

The purpose of this report is to brief Members of this Committee on the proposed Reserves Policy of the Council for the financial years 2017/18 to 2018/19 and incorporate any views into the final policy.

Executive Summary

From the financial year 2014/15 the Council developed a strategic approach to the creation and maintenance of reserves through the development of a Reserves Policy. The presentation of the Policy to the Audit Committee introduced improved transparency into this process which had previously been managed at the discretion of the Chief Financial Officer when the closure of the Final Accounts was undertaken.

The Policy is presented to the Audit Committee to review and also provide assurance that the Council manages its reserves effectively and in accordance with the questions posed within the Audit Commission publication "Striking the Balance". Whilst produced a number of years ago the questions highlighted in the report still seem to be relevant.

The Reserves Policy is attached at Appendix 1 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 2017/18 to 2018/19 and advise the Council on its suitability from a governance perspective.

Reserves Policy for 2017/18 to 2018/19**1 Background**

- 1.1 There is a need to have a strategic approach to the creation and maintenance of the earmarked reserves by the Authority. This is because resources are becoming even scarcer 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.
- 1.2 The level of reserves maintained by Local Authorities collectively has in the past attracted comment from the 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 On 27 February 2018, Local Authority reserves were again discussed at Treasury Questions, where during debates, it was suggested that the funding challenge faced by Council's could be met from reserve balances. During the discussion it was highlighted that reserves are held for a variety of reasons and not all reported balances are available to be used to fund pressures.
- 1.4 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 subject this Reserves Policy to scrutiny by the Audit Committee.

2 Reserves Policy for 2017/18 to 2018/19

- 2.1 The presented policy has been prepared, following the finalisation of the financial position at the end of 2017/18 and after a risk based review by the Director of Finance having regard to Corporate Priorities. There are 15 major earmarked reserves included in the Policy (to align to the presentation of reserves in the Statement of Accounts which is on the agenda for this Committee). As can be seen from the Statement of Accounts, earmarked reserves at the end of 2017/18 totalled £82.279m.
- 2.2 This policy document also sets out the arrangements for the management of these reserves and the approval process for use. The rationale for the reserves will be explained during the presentation of this report. The Policy is detailed at Appendix 1.

3 Conclusions

- 3.1 An appropriate Reserves Policy subject to scrutiny is considered good governance for the 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 1.
- 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 As shown in the Statement of Accounts which is presented to this Committee elsewhere on this agenda, the Council was able to deliver a financial outturn in accordance with its agreed budget for 2017/18. As such with the proposed Reserves Policy as detailed in Appendix 1, it is in a robust financial position to meet the challenges for both this financial year and in preparation for the financial year 2019/20.

7.2 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. (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 Appendix 1
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21 **Appendices**

21.1 Appendix 1- Reserves Policy for 2017/18 to 2018/19.

Appendix 1

RESERVES POLICY

FOR

2017/18 TO 2018/19



Oldham
Council

RESERVES POLICY

1 Background

- 1.1 It is important to have a strategic approach to the creation and maintenance of reserves. Having established a reserves policy for the closure of the accounts for 2014/15 and the financial year 2015/16, this updated policy addresses key issues arising from the 2017/18 accounts closure and 2018/19 financial year.

2 Policy

- 2.1 As financial resources are becoming even more scarce, it is essential to ensure that any funds set aside in reserves are considered appropriately so that they have maximum effect. Now that the principle of a reserves policy has been established, the process of identifying reserves continues to have regard to the addressing of corporate priorities.
- 2.2 Corporate Reserves have in the past been created at the discretion of the Director of Finance. Whilst it is essential that some flexibility is maintained, this policy sets out agreed priority reserves. This will enable any identified additional resources to be directed to the priority areas.
- 2.3 It will also be 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.

3 Establishing the Priorities

- 3.1 The closure of the 2017/18 accounts has enabled a detailed review of the Councils reserves and categorisation of these reserves into 15 major areas as in previous years. There are in most instances, a number of reserves within these major areas including the priority reserves.

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

1) **Integrated working – £4.333m at 2017/18 accounts closure**

This reserve represents resources that have been set aside to support initiatives arising from the Greater Manchester devolution agenda including joint working with the Oldham Clinical Commissioning Group (CCG) around Adult Social Care, other Greater Manchester Councils and the Greater Manchester Combined Authority.

The priority reserves within this category are:

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

In accordance with 2017/18 financial monitoring reports, the forecast assumed full utilisation of the Improved Better Care Fund grant of £5.095m as notified in the Spring budget. Current guidance confirms that there will be no claw-back of any unspent 2017/18 funding together with definite confirmation that the 2018/19 allocation will be received in full and therefore the 2017/18 underspend of

£2.500m was transferred to reserves for utilisation in the future in accordance with the purpose of the grant.

b) BCF Reserve for use for Adult Social Care

The CCG has allocated funding to support the Council over the past few financial years. This resource is for joint working for Adult Social Care purposes and to assist the Council in the transformation of the Adult Social Care service. It is essential to retain these resources to support 2018/19 budget initiatives.

c) BCF Non Recurrent funding

In the latter part of 2016/17, the CCG agreed to the ongoing support of social worker posts to support Adult Social Care activities. At this point a new priority reserve was established, totalling £1.039m with the intention to fund costs in 2017/18 and 2018/19. After the funds were received, the Authority was notified of additional funding of £9.9m over a three year period specifically for Adult Social Care. It was subsequently agreed that the first call on this additional Government resource would be the permanent funding of the social work posts, freeing up the funds received from the CCG. It has been jointly agreed that this money, will be retained in a separate reserve for jointly agreed projects/ priority areas of spend in relation to Adult Social Care over future years.

d) Devolution Reserve

It is considered appropriate to have a reserve to support expenditure on the devolution agenda. A sum of £0.250m has been held in reserve to facilitate expenditure in this area going forward.

2) Transformation Reserve - £11.104m at 2017/18 accounts closure

This reserve holds resources set aside to provide for any costs of implementing the Councils budget requirements for 2018/19 and earlier years and also the on-going programme of change as the Council moves to address funding reductions in future years by the continued transformation of its services.

The priority reserves within this category are:

a) Transformation/Invest to Save Reserve

In order to facilitate transformational change across the Council, some funding is needed for pump priming for items such as dual running of systems and project management. During 2017/18, £0.508m was used to support transformational projects in year, £1.461m was committed for future projects and £1.341m was left uncommitted for future developments.

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 has, in the past, been held at the level of £6.000m to cover at least three years average redundancy costs. The required level of the reserve has been revised and the reserve now stands at £4.000m. If the reserve is utilised then it will be replenished the following the year.

c) Pay Review Reserve

It is expected that in the coming financial years a further exercise will need to be completed to realign pay and reward scales to reflect the Council's shifting focus and transformation. A reserve of £0.500m was created in 2014/15 to pay for review costs when they are incurred. This reserve was part utilised in previous years with the balance to be used over forthcoming financial years.

d) Early Help Offer Reserve

In order to allow time for benefits of the early help offer to be developed a reserve was established to support early help over future financial years.

e) Resident First Reserve

As part of the Council's Customer Service Transformation Programme, the Resident First Programme has been developed and split into specific phases. This Programme was designed to help the Council achieve its ambition of moving to a 'Self-serve, Self-help' service delivery model and the way it interacts with residents. This will require transformation of the delivery of the Council's services to enable residents to serve themselves and ultimately improve their 'customer experience'.

There has been a change to the focus of Phase Two from implementing single service solutions, to identifying strategic and sustainable solutions that provide the digital capabilities identified as necessary to enable full end to end re-designed customer journeys and efficient automated business processes. Phase Two will also be aligned to capability identified in the ICT Strategic roadmap and focus on delivering the supporting digital capabilities. These changes mean that the programme will continue into 2018/19.

f) Public Health Reserve

A reserve was set aside at the year-end 2015/16 to mitigate future issues arising from a reduction in the Public Health Grant received by the Council. As part of the 2017/18 budget process, £0.373m of this reserve was identified for use to support an agreed public health budget reduction and was transferred to the balancing budget reserve. The remaining balance of this reserve is to be used to support the Public Health offer for 2018/19.

g) Social Care Budget Reserve

As part of the 2017/18 budget setting process and agreed by Budget Council on 1 March 2017, the requirement for a £3.000m reserve was identified to underpin the social care budget area. As reported throughout the 2017/18 financial year, a significant rise in the demand for children's services necessitated the full utilisation of this reserve. As social care services face unprecedented demand it has been deemed appropriate to top up this reserve by £1.306m to address issues that may arise. Any proposed use of this reserve to fund demand pressures or new initiatives in support of the integration agenda will require a full evidence based business case.

h) Dedicated Schools Grant (DSG) Recovery Plan

A reserve was set aside at the end of the 2016/17 financial year 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 e.g. historic commitments, as presented in the Councils 1 March 2017 Budget Report. Work is continuing to assess the potential implications of realigning budgets and it is deemed necessary to retain this reserve for use in future years.

3) Adverse Weather Reserve - £1.500m at 2017/18 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 £1.500m is considered sufficient to fund the costs of several severe winters and the reserve was held at this value at the closure of the 2017/18 accounts.

4) Regeneration Reserve - £3.580m at 2017/18 accounts closure

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

a) General Capital Reserve

There is a significant capital programme pressure arising from the regeneration ambitions of the Council and the major projects that are included in the capital programme. The financing arrangements of some of the schemes are yet to be finalised and given the nature of the schemes, it is possible that there could be variations from the planned level of expenditure which will need to be supported. It would therefore seem prudent to set resources aside.

b) Town Centre Investment Strategy

A reserve was initially set aside at the end of the 2012/13 financial year to support the Town Centre Investment Strategy. This has in turn been called upon and topped up and the reserve was retained at the closure of the 2017/18 accounts to support the Town Centre Masterplan in 2018/19.

c) Property Strategy

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

5) Demand Changes Reserve - £2.000m at 2017/18 accounts closure

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

In anticipation that there will be demand pressures in future years a reserve has been setup to deal with unexpected demand rises. This enables the Council to give the services involved a soft landing for demand increases and give time for the pressures to be built into the budget setting process if necessary.

6) Emergency and External Events Reserve - £2.671m at 2017/18 accounts closure

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

a) Commissioning and Legal Challenges Reserve

In recent years, the Council has changed from being a deliverer in many service areas to becoming a commissioner of services including PFI schemes, Adult Social Care and Public Health. Whilst this is able to drive efficiencies and removes the Council from the day to day direct delivery of services, it introduces a range of contract management challenges which require close monitoring. There are instances where this process has led to disputes and the Council has had to seek expert advice to support and defend its position.

b) Equipment Replacement/Building Maintenance Costs Reserve

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

c) Flood Protection Reserve

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

d) Emergency Incident, Threat or Hazard Reserve

In order to discharge its Statutory Responsibility for Emergency Planning, the Council prepared a financial procedure to facilitate the incurring of expenditure in the case of an emergency or incident in the Borough which may result in hardship to a group of residents or the Council having to incur expenditure in the interests of public safety. This procedure required the creation of a reserve of £0.250m and this was established in 2015/16 and has been retained for 2017/18. It will be necessary to ensure that a fund of £0.250m is permanently available in order to comply with the financial procedure rule.

e) Water Courses and Culverts

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

7) Levy Reserve - £0.558m at 2017/18 accounts closure

During 2017/18, the Greater Manchester Waste Disposal Authority (GMWDA) made a decision to terminate the existing waste PFI arrangements in order to reduce costs and deliver operational improvements. A revised Levy Allocation Methodology Agreement was approved in December 2017 with transitional arrangements being in place for 2018/19 before full implementation in 2019/20. The balance of the reserve was held at the year end to support the impact on the Council's levy arising from these transitional arrangements.

8) Council Initiatives Reserve - £5.179m at 2017/18 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 a four year period. At the end of 2017/18, £0.946m remained in the reserve.

b) Get Oldham Working

A reserve was established at the end of the 2016/17 financial year to fund the costs for the continuation of the Get Oldham Working programme over a two year period from 2017/18. The balance held within reserve is to fund the programme in 2018/19.

c) 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.

d) Flytipping

At the end of the 2016/17 financial year a reserve was set aside to provide financial support for the Flytipping Scheme. This fund was established to address the issues around flytipping within the Borough and will help to deliver a co-operative approach.

e) Well Oldham and Thriving Communities

A reserve has been set aside to support the Well Oldham and Thriving Communities programme.

f) Digital Enterprise Hub

At the Cabinet meeting of 21 March 2016, Members agreed the allocation of £0.200m to support the creation of the Digital Enterprise Hub within Oldham Town Centre over a three year period.

g) Youth and Crime Prevention

A reserve has been set aside to support Youth and Crime Prevention work across the Borough. This reserve was established at the end of the 2017/18 financial year to support this work over the forthcoming financial years.

h) Road Marking Works

During 2017/18, it was identified that a refresh of road markings were required at key critical safety locations to reduce and prevent loss of control road traffic collisions and a reserve was established to support these works.

9) Fiscal Mitigation Reserve - £17.160m at 2017/18 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 and as a result of the potential requirement to support performance improvement on selected services. The 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. With the introduction of the 100% Business Rates retention pilot from 2017/18, Oldham Council is able to keep 99% of its Business Rates income. It was agreed that any additional financial benefits arising from the additional funding would be split on a 50/50 basis with Greater Manchester Combined Authority (GMCA). The Council and GMCA anticipated shares of benefits were held in reserve at the end of 2017/18 and are therefore available to support the financial position of each organisation in future years.

b) Housing 21 Budget Reduction Reserve

Income of £1.000m was received in March 2016 following a Deed of Variation agreement with Housing 21 in lieu of PFI contract specification changes. The approved 2016/17 budget reduction (B023) proposed that the £1.000m income received be set aside in a reserve with £0.250m drawn down in 2016/17 and each of the next 3 years to offset the base budget saving. A sum of £0.250m has been used to support the 2018/19 budget leaving £0.250m available for 2019/20.

c) New Investment Opportunities

On the 28 February 2018, Council approved budget reduction CCS-PSV-119 New Investment Opportunities. Within this, it was identified that an earmarked reserve of £0.100m was required for additional assessment and due diligence associated in delivering the saving.

10) Balancing Budget Reserve - £7.264m at 2017/18 accounts closure

During the budget setting process for 2018/19, a reserve was established at a value of £7.264m which has been used to balance the 2018/19 budget. The creation and use of this reserve in 2018/19 was approved by Council on 28 February 2018.

11) Contractual Life Cycle Costs Reserve – £6.611m at 2017/18 accounts closure

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

12) Insurance Reserve - £14.933m at 2017/18 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 2017/18 year-end closedown process.

13) District Partnership Reserve - £0.735m at 2017/18 accounts closure

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

14) Taxation / Treasury Reserve - £0.625m at 2017/18 accounts closure

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

15) Directorate Reserve - £4.477m at 2017/18 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 started. The Directorate Reserve will ensure that such initiatives can be completed.

4 Management of Reserves

Creation/ Decommissioning of Reserves

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

Schools Related Reserves

- 4.3 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

- 4.4 It should be noted that District Partnership reserves (detailed at section 3.13) operate under separate arrangements.

Flexibility at the Year End

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

5 Approval of the Use of the Reserves

5.1 Reserves can only be recommended for use as follows:

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

- Integrated Working Reserve
- Transformation Reserve
- Adverse Weather Reserve
- Regeneration Reserve
- Demand Changes Reserve
- Emergency and External Events Reserve
- Waste Smoothing Reserve
- Life Cycle Costs Reserve

b) After review and agreement by the relevant Executive Director and the Director of Finance:

- Directorate Reserve

c) After review and agreement of the Director of Finance:

- Council Initiatives
- Fiscal Mitigation
- Insurance Reserve
- Taxation Reserve
- Balancing Budget Reserve

d) 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 Corporate Resources and presented to Cabinet for approval. At the end of the financial year, as advised at 4.5, 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.

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.