

REPORT FOR DECISION

DECISION OF:	The Cabinet
DATE:	29 July 2020
SUBJECT:	Reserves Strategy
REPORT FROM:	Leader of the Council and Cabinet Member for Finance and Growth
CONTACT OFFICER:	Mike Woodhead, Joint Chief Finance Officer
TYPE OF DECISION:	Key decision
FREEDOM OF INFORMATION/STATUS:	This paper is within the public domain.
SUMMARY:	This paper sets out a proposed reserves strategy for the council. The proposed consolidation of reserves ensure the council has a corporate approach to the management and control to reserves and that these are focussed and aligned to financial risk and corporate priorities.
OPTIONS & RECOMMENDED OPTION	<p>Cabinet is asked to:</p> <ul style="list-style-type: none">• Approve the reserves strategy and note the position on reserves at the end of 2019/20;• Note that further work will be undertaken to ensure here are effective strategies, including exit strategies, in place for those ongoing activities that are funded from reserves;• Note the position on the DSG negative reserve and that this is currently offset by other earmarked reserves pending further guidance from the Department for Education;• Note a further update to Cabinet on the DSG deficit reserve and recovery plan will be provided;• Note that further work is required to establish whether there are some specific conditions on

	some capital reserves that have not been utilised for several years.
IMPLICATIONS:	
Corporate Aims/Policy Framework:	The proposals accord with the Policy Framework
Statement by Section 151 Officer:	There are no direct financial implications from the proposal however the implementation of the reserves strategy will enable the council to be more effective in its financial planning, and management of risk.
Equality/Diversity implications:	No
Considered by Monitoring Officer:	Yes
Are there any legal implications?	No
Wards Affected:	All
Scrutiny Interest:	Overview and Scrutiny Committee

INTRODUCTION

1.1 As part of the year end closure process a review of reserves and provisions has been carried out. This review was considered in the wider context of existing financial risks and also those emerging as part of the COVID crisis. The review provided an opportunity to consolidate and streamline existing reserves and to ensure those reserves that support and mitigate against financial risk and volatility were adequately set. In doing so, the need for a reserves strategy that ensures reserves are fully embedded and considered as part of the Council's financial management arrangements was identified. A proposed reserves strategy is set out at Appendix 1 for consideration and an analysis of reserves is set out at Appendix 2.

2 Background

2.1 The Council plans over the short and medium term how we will use the resources we are allocated and raise to deliver services for and to the residents and communities in Bury. As a complex organisation, there will always be variations between our actual spending/income and our plans due to variations in demand, demographic change, changes in costs and funding decisions of third parties as well as needing to deliver project and investments spanning more than one financial year.

2.2 To ensure the Council can manage these financial risks whilst being able to maintain services requires the Council to hold funds to meet these costs as and when they arrive. This is of even greater importance given the current COVID-19 situation.

2.3 Excluding school reserves, and the general fund the Council had 106 earmarked reserves totalling £63.754m and, as a result of this, there is currently a lack of clarity and process on how these are accessed and used. The proposed reserves strategy sets out an approach on how these will be consolidated and targeted to manage fiscal and volatility risk as well as identifying those reserves that are being held for a particular purpose and are fully committed.

2.4 If approved, the reserves (excluding schools) will be consolidated into 5 main groups:

- General Fund
- Risk Management Reserves
 - Directorate Risk Reserves
 - Volatility and Fiscal Mitigation
- Corporate Priorities
- External Funding/Grants

2.5 This categorisation of reserves enables the council to easily distinguish between those reserves that are available to support ongoing risks, including changes in demand, funding and insurance, and those that are for specific purposes and are therefore committed. It also sets out those reserves that are available to support specific priorities for the council although these will require prior approval before they can be committed.

2.6 Additionally the External Funding/Grants reserves provides an oversight on that funding which has been received and is targeted to specific outcomes and deliverables. This category is significantly higher than in previous years due to the fact that the council received some COVID related grant funding at the end of 2019/20 that will be spent in the current financial year.

- 2.6 The table below sets out the position on reserves at the end of 2019/20 and assumes that the proposals in the reserves strategy are agreed by Cabinet.

Analysis of Reserves at 31 March 2020	
	£M
General Reserves	6.989
Directorate Risk Reserves	0.992
Volatility and Fiscal Risk	34.174
Total Management of Risk Reserves	42.155
Corporate Priorities	7.794
External Funding/Grants	20.794
Total Earmarked Reserves	28.588
TOTAL COUNCIL RESERVES	70.743
School Reserves	
Individual School Budgets	5.551
Individual School Balances relating to academies	(0.666)
DSG Central Reserve	(20.067)
TOTAL SCHOOL RESERVES	(15.182)
TOTAL NET RESERVES	55.561

- 2.7 The guidance on the school reserves is still awaited following the change to the Terms and Conditions of the DSG that set out that Local Authorities are no longer able to fund any deficits within the DSG. The route to obtaining Secretary of State permission to override the Terms and Conditions have not yet been articulated. The Department for Education (DfE) has indicated that councils should not set aside provisions within their accounts to offset DSG deficits. However this is inconsistent with the National Audit guidance which confirms previous advice that there is no statutory basis for having a negative DSG reserve and the accounting code under which the accounts are prepared 'neither anticipates or allows for a voluntary earmarked balance to be presented in a deficit position'. Therefore to comply with the DfE guidance and the accounting code, the DSG deficit reserve is offset by the Council's earmarked reserve and will continue to do so until a permanent resolution is in place.
- 2.8 The increasing DSG reserve continues to be a concern for the Council and is impacting on the reserves position. Further updates on the reserve and the recovery plan are scheduled to be presented to Cabinet in September.

3 Governance

- 3.1 The governance arrangements for the reserves is set out in the proposed strategy and will be implemented as soon as the strategy is approved. Use of reserves will be reported on a quarterly basis as part of the council's monitoring on revenue and capital budgets.
- 3.2 There are a number of reserves that require some further work. These include those reserves that are currently funding post and activities within the council. In these cases, the reserves will be fully exhausted in the next 2/3 years and therefore it is essential that effective exit plans are in place. In addition to this there are some capital

reserves that appear to be historic, have not been utilised for a number of years and therefore there is no clarity on what they can be used for. Given that some of these reserves can sometimes have specific conditions attached to them, some further work is needed. This will be undertaken in the next quarter and reported as part of the Quarter 2 monitoring position.

4 FINANCIAL IMPLICATIONS

4.1 The financial implications are set out in the report.

5 LEGAL IMPLICATIONS

5.1 There are no legal implications arising from the report.

6 ASSOCIATED RISKS

6.1 The content of the report supports the Council in managing the overall financial risks and financial planning for the Council. Without the approach there is a risk that the Council will not maximise its opportunity for financial resilience and management risks.

7 NEXT STEPS AND CONCLUSION

7.1 The strategy will be applied with immediate effect and will be reviewed on an annual basis in line with other financial policies and procedures.

RESERVES STRATEGY

1 Purpose

- 1.1 Reserves are revenue resources accumulated over time and set aside for a particular purpose as part of an integrated approach to financial management over the short, medium and long term.
- 1.2 A reserves strategy sets out the choices we make in relation to the level and purpose or which we hold the reserves we have accumulated. It is made up of 3 elements:
 - **Our Strategic Intent** – what we are seeking to achieve through holding reserves;
 - **Our Programme** – the level of reserves we hold and our plans for their use over the period of the medium term financial strategy;
 - **Our Framework** – the way we will determine the level of reserves we need, manage those reserves and plan for their use in line with best practice and statutory requirements.
- 1.3 Together these elements set our ambition for reserves, the nature of our ambition and how we provide assurance.

2 Rationale

- 2.1 We plan over the short and medium term how we will use the resources we are allocated and raise to deliver services for and to the residents and communities in Bury. As a complex organisation, there will always be variations between our actual spending/income and our plans due to variations in demand, demographic change, changes in costs and funding decisions of third parties as well as needing to deliver project and investments spanning more than one financial year.
- 2.2 To ensure we can manage these financial risks whilst being able to maintain services requires the Council to hold funds to meet these costs as and when they arrive. A reserves strategy enables us to do this in a planned way.

3 Aligning to Other Strategies

- 3.1 The reserves strategy is part of a suite of supporting strategies that supplement the Bury 2030 Plan and the medium term financial strategy. All supporting strategies are aligned to the Bury 2030 Plan and provide an additional level of granularity that help create a bridge between the high level over-arching plan and operational delivery. As such it forms part of a collective accountability framework for the management of the Council's financial resources.
- 3.2 Maintaining high standards of financial management across the organisation is critical to the successful delivery of the medium term financial strategy and the Bury 2030 strategy. Any weakening of financial management has a direct impact on the level of reserves needed to offset the risk of services overspending and/or the non-delivery of savings targets. The central role in the management of the Council's reserves lies with the Executive Team, both individually and collectively, with support and advice from finance.

4 Our Reserves

4.1 Our drivers for holding reserves are to:

1. Manage financial risk so that risk materialising does not undermine the Council's overall financial position or impact on service delivery;
2. Plan for effective use of project resources over time;
3. Ensure we meet funding conditions in our use of any available resources, and
4. Retain any other accumulated underspends prior to decisions on their use

4.2 We will always need to retain reserves for each of these reasons. All reserves that do not fall into the first 3 categories automatically fall into category 4. Appendix 1 sets out the Council's reserves as at the end of 2019/20. Reserves change over time and will be incorporated in the Council's financial monitoring on a quarterly basis.

5 Reserves Framework

5.1 The reserves framework sets out our accountability and governance arrangements around the retention and use of reserves. In doing so it balances speed of decision-making with Member oversight and accountability for decisions about the effective use of the Council's resources.

5.2 The principles for managing and using reserves are:

- The primary purpose is to manage financial risk and promote financial sustainability;
- Subject to meeting this requirement we will;
 - Maximise the ability to use reserves flexibly to deliver the organisation's priorities;
 - Control the amount of scarce resources we hold in reserves;
 - Hold reserves at a Corporate/Directorate level unless there is a business/technical reason for not doing so.

5.3 The planned use of reserves will be agreed as part of the annual budget setting process and medium term financial planning process. Other than in exceptional circumstances the planned use of reserves is only expected to change in year as a result of:

- Change projects approved by the Executive Team/Members, and;
- Adjustments to reflect the impact of the previous year's out turn that were not known at the time the budget for the year was agreed.

5.4 Service risk reserves will be held at Directorate level to manage in-year financial risk and to cover any over/underspends across the Directorate at the end of the year;

5.5 All reserves will be subject to a year-end review to ensure the reason for holding the reserve and the plans for its use aligns with the medium term financial strategy and this strategy;

5.6 Reporting on each reserve and seeking approval for any variations or to create a new reserves will form part of the quarterly monitoring report to Cabinet.

6 Year End Review

- 6.1 All reserves will be subject to a year-end review by the Executive Team with the S151 officer. At the end of each financial year for each reserve there will be a delivery plan that sets out;
- Plans for use of reserves including closure dates
 - Benefits to be delivered from the investment
 - Without an approved delivery plan in place a reserve cannot be accessed

7 Categories of Reserves

7.1 Reserves will be categorised as follows:

- General Fund (Management of Financial Risk Corporate)
- Management of Financial Risk – Directorate
- Volatility and Fiscal Mitigation
- Earmarked
- Investment Funds

General Fund (Management of Financial Risk Corporate)

- Level of reserve set by the S151 as the minimum amount required, based on their assessment of the financial risks facing the organisation and the extent to which these are covered elsewhere.
- Allocations approved by Cabinet
- Any approved use to be replenished up to the minimum level as part of setting the councils' budget for the following financial year.

Management of Financial Risk – Directorate

- To manage in-year financial variations, e.g. fluctuations in demand or any other financial risk
- Maximum level of reserves is 5% of gross budget
- Held at Directorate level with the Executive Director accountable
- Decisions and proposals reported to Cabinet as part of the out turn reporting process

Volatility and Fiscal Mitigation

- To manage areas of spending where costs in any one year is variable and unpredictable but where annual fluctuations are averaged over the medium term
- The continued need for and level of volatility funds will be subject to an annual review. Held at Corporate level with accountability of the S151 officer.
- Allocations approved by Cabinet

Earmarked

- To fund corporate priorities as set out in the corporate plan. Held at corporate level with sign off by the Chief Executive and S151 officer.
- To manage external funding received for specific purposes where the decisions on how the funding is used is not wholly within the control of the council. Held at service level with accountability of the Executive Director.

- Governance arrangements agreed as part of the approval process for setting up the reserve, but will be determined by the requirements of the individual ring-fence. Reporting as part of financial monitoring arrangements.
- Subject to annual review.

Investment funds

- Funds set up to provide pump-priming investment to deliver the Council's key objectives
- Held at Corporate Level with responsibility of the Executive Team
- Governance arrangements agreed as part of the approval process for the investment if the project plan extends beyond one financial year
- All investment fund reserves expected to be time limited and subject to annual review

Analysis of Reserves as at 1 April 2020			
Reserve Category	Description	£m	Description
Corporate	Community Safety	0.049	
Corporate	Climate Change	0.150	
Corporate	Culture	0.040	
Corporate	Corporate	1.921	
Corporate	Adults Social Care Transformation	1.247	
Corporate	Children's Social Care Transformation	0.094	
Corporate	Homelessness	0.987	
Corporate	Housing	0.123	
Corporate	Skills	2.085	
Corporate	ICT	0.892	
Corporate	Council Transformation	0.206	
Total Corporate Reserves		7.794	
Directorate			
Business, Growth and Infrastructure	Business, Growth and Infrastructure	0.397	
Operations	Commercial and Regulation	0.024	Rolling 3 year income for taxis
Operations	Catering	0.350	Sinking fund to support equipment purchase
Operations	Schools Catering	0.064	Traded Service Equalisation
Operations	Cleaning	0.019	Traded Service Equalisation
Children and young people	Bury Integrated Safeguarding Partnership	0.025	Serious Case Reviews
Children and Young people	CLAS	0.113	Traded Service Equalisation
Total Directorate Reserves		0.992	
Volatility and Fiscal Mitigation			
Corporate	GWDA Levy	0.980	
Corporate	Airport Equalisation	15.694	
Corporate	Insurance Risk	12.000	
Corporate	Insurance Liability Surplus	-0.100	
Corporate	NNDR Appeals	5.600	Collection Fund Equalisation
Total Volatility and Fiscal Mitigation		34.174	

Reserve Category	Description	£m	Description
External Funded/Grants			
Operations	Parks and Open Spaces	0.108	
Operations	Leisure Management	0.260	
Operations	Food Hygiene Inspections	0.051	
Corporate	Schools	0.281	
Children and Young People	Troubled Families Grant	0.549	Funds SCIL Team – Exit Strategy Required
Children and Young People	YOS Grant	0.124	
Children and Young People	Early Intervention Grant	0.107	Reduced Serious & Youth Violent Crime Workshops
Children and Young People	Training Grant	0.103	ASYE Funding
Children and Young People	Controlling Migration	0.100	Unaccompanied Asylum Seeker Funding
Children and Young People	Pathways to Talking	0.038	
Children and Young People	GM Health and Social Care Transformation	0.035	Signs Of safety Training – One Off
Children and Young People	YJB Remand Grant	0.023	
Children and Young People	Reducing Parental Conflict	0.014	
Children and Young People	GMCA Innovations Funding	0.198	
One Commissioning Organisation	Substance Misuse Grant	0.404	
One Commissioning Organisation	Public Health Reserve	0.394	Funds public health related projects. Time limited Exit Strategy Required
One Commissioning Organisation	Better Care Fund	0.216	
One Commissioning Organisation	BEST	0.038	
One Commissioning Organisation	Afghan Project	0.028	
One Commissioning Organisation	Transformation	0.017	
Finance	New Burdens – Revenues and Benefits	0.826	
Corporate	COVID Grant – S31 NNDR Grant	9.344	Will be fully utilised in 2020/21 – offsets business rates reliefs offered by government as a result of COVID-19
Corporate	COVID -19 Grant (Tranche 1)	4.264	Will be fully utilised in 2020/21 – government funding to fund additional costs of COVID-19
Sub Total		17.522	

Reserve Category	Description	£m	Description
Capital			
Operations	Engineering and Traffic	0.139	
Operations	Flood Defences	0.319	
Business, Growth and Infrastructure	Planning	0.297	Pimhold Fold rents
Corporate	Property/Investment	2.517	Various – to be reviewed
Sub Total		3.272	
TOTAL EXTERNAL FUNDED/GRANTS RESERVES		20.794	
General Reserves		6.989	
TOTAL GENERAL RESERVES		6.989	
TOTAL EARMARKED RESERVES		70.743	