

Report title	Reserves and Provisions 2022-2023	
Decision designation	AMBER	
Cabinet member with lead responsibility	Councillor Obaida Ahmed Resources and Digital	
Key decision	Yes	
In forward plan	Yes	
Wards affected	All Wards	
Accountable director	Tim Johnson, Chief Executive	
Originating service	Strategic Finance	
Accountable employee(s)	Claire Nye	Director of Finance
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Recommendations for decision:

The Cabinet is recommended to:

1. Approve the transfers to/from general balances and provisions as detailed in Tables 2, and 5.
2. Approve the contributions to/from earmarked reserves as detailed in paragraphs 5.11 to 5.22 and paragraphs 6.8 to 6.13.
3. Approve expenditure from provisions for their purposes as set out in Appendix 2 and 3, up to the value held in each provision as at 31 March 2023.
4. Delegate authority to the Cabinet Member for Resources and Digital and the relevant Cabinet Member, in consultation with the Director of Finance and the relevant Director/Deputy Director to allocate funds from reserves as detailed in Appendix 1.

Recommendations for noting:

The Cabinet is asked to note:

1. The level of the Council's reserves and provisions as at 31 March 2023 and the purposes for which they are being held, as detailed in Appendix 1, 2, and 3.
2. That the recommendations detailed in this report are in line with the Reserves Strategy approved by Council on 1 March 2023.
3. That relevance and adequacy of reserves will be reviewed as required by the Constitution during the 2024-2025 budget setting process.
4. That allocation of funding from all earmarked reserves will be reported to Councillors in future reports.
5. That the Resources and Equality Scrutiny Panel will scrutinise the use of reserves as part of the budget setting process as in previous years.
6. That the Director of Finance considers that the overall level of all reserves and provisions are sufficient to meet the likely level of obligations to be met from reserves and provisions in the short term.
7. That the figures quoted in the report are still subject to statutory audit by Grant Thornton as part of the 2022-2023 accounts closedown process.

1.0 Purpose

1.1 The purpose of this report is to inform Cabinet of the Council's resources currently held as reserves and provisions as 31 March 2023, taking account of the outturn position for 2022-2023.

2.0 Executive Summary

2.1 A summary of the movement in the authority's general balances, earmarked (revenue) reserves and provisions at 31 March 2023 is provided in Table 1 below. This comprises of reserves and provisions held for all funds including the General Fund, the Housing Revenue Account (HRA) and Schools.

Table 1 – Reserves and Provisions as at 31 March 2022 and 31 March 2023

	Further details	Balance at 31 March 2022 £000	Transfer Out £000	Transfer To £000	Balance at 31 March 2023 £000
General Fund Balance Reserves	Table 2	(13,651)	-	(1,670)	(15,321)
Housing Revenue Account Balance Reserve	Table 2	(7,011)	-	(247)	(7,258)
Earmarked Reserves					
• Set Aside by Council	Table 3	(59,183)	20,106	(9,996)	(49,073)
• Restricted	Table 4	(37,801)	18,340	(2,063)	(21,524)
• Restricted (Schools)	Table 4	(15,232)	2,917	(2,839)	(15,154)
Total Provisions	Table 5	(56,615)	11,135	(11,853)	(57,333)

2.2 The Reserves Strategy was approved by Council on 1 March 2023 and provides details of which reserves are held by the council along with their planned use.

2.3 Reserves play a vital role in the financial sustainability of the Council. On 22 February 2023 Cabinet approved an increase in the General Fund Balance of £1.7 million as part of the "2023-2024 Budget and Medium Term Financial Strategy 2023-2024 to 2025-2026" report. The Council's General Fund balance now stands at £15.3 million which is approximately 5% of the net budget for 2023-2024, in line with recommended best practice.

2.4 The HRA outturn position has meant a small underspend of £247,000 has been transferred to the HRA balance increasing it to £7.3 million. The HRA reserve will be kept under review throughout the year, particularly in light of inflationary pressures, take up from the budget set aside to support tenants who are experiencing financial hardship due to the rent increases in 2023-2024 (approved by Cabinet on 18 January 2023), and

any other emerging pressures. The HRA reserve will be reviewed as part of the budget setting process.

- 2.5 In addition, the Council holds earmarked reserves which are set aside to fund future planned expenditure. It is vital that the Council continues to hold these reserves to mitigate the risk of uncertainty and any potential future expenditure, and to support the delivery of council priorities.
- 2.6 Usable revenue earmarked reserves that have been set aside by the Council to fund future estimated liabilities and planned expenditure, have reduced overall by £10.1 million. Further information is detailed in paragraphs 5.3 and Table 3.
- 2.7 The Council is required to hold a number of earmarked reserves due to either specific criteria associated with funding, legal requirements or accounting practice, these have reduced overall by £16.4 million, including Schools Balances. Further information is detailed in paragraphs 6.5, 6.6 and Table 4.
- 2.8 Provisions have increased by £718,000. These include the level of provision required to support forecast future expected credit losses. Further information can be found in paragraph 7 and, Appendix 2 and 3.
- 2.9 Whilst the Council does not have a high level of reserves, the outturn position detailed in the Performance and Budget Outturn 2022-2023 report, on this same agenda, has enabled the Council to protect the current level of reserves to some extent. This will help to support the Council's short-term financial position but, does not address the challenging financial position that the Council finds itself in over the medium-term; namely identifying further projected budget reductions which were estimated at £16.4 million in 2024-2025, rising to £23.1 million over the medium term to 2025-2026 when reported to Full Council in March 2023.

3.0 Background

- 3.1 On 1 March 2023, Council approved the Reserves Strategy, which provides details of which reserves are held by the Council, their planned use and the governance arrangements.
- 3.2 Reserves play a vital role in the financial sustainability of the Council. They are resources that the Council has accumulated over time and are an integral element of our budget setting process, medium term financial strategy and financial management.
- 3.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management (FM) Code states that local authorities are directed to have regard to the level of reserves when considering their budget requirements. Consequently, reserves are a recognised and intrinsic part of financial planning and budget setting. The assessment of 'adequate' and 'necessary' level of reserves is a matter for local

authorities to determine. It is the responsibility of the Chief Finance Officer to advise the local authority on the appropriate level of reserves and robustness of the estimates.

- 3.4 In accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code) reserves are categorised as usable and unusable. The Code describes usable reserves as those that represent resources that the authority might use to support services delivery at the reporting date. Some usable reserves may have restrictions upon their use dependent upon the relevant legislative requirements. Unusable reserves are not available to support service delivery and are held due to accounting purposes. This report focuses on usable reserves.
- 3.5 The Council are also required to hold provisions. The definition of provisions is set out in financial reporting standards. They state that a provision should be established when:
- a. the Council has a present obligation as a result of a past event, and
 - b. there is significant uncertainty around the timing or amount of settlement of the obligation, but
 - c. a reliable estimate can be made of the likely cost to the Council.
- 3.6 These definitions are for accounting purposes. The important issue for the Council in looking forward is whether or not the earmarked reserves and provisions, taken together with the Council's general reserve balances, are sufficient to meet the cost of fulfilling the obligations (past or future) for which these reserves and provisions were established. If those obligations have been met, it is good practice to release the reserve or provision. The funds released are then available for other uses.
- 3.7 Due to the projected financial challenges facing the Council over the medium term, combined with the budget risks, reserves should only be called on in very specific circumstances and are not a viable funding option to reduce the projected budget deficit over either the short or longer term.

4.0 General Balance Reserves

- 4.1 The General Fund Balance Reserve acts as a corporate contingency to cushion the impact of unexpected events or emergencies. It also provides a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
- 4.2 There is no statutory minimum for the level of General Fund Balance Reserve to be held although it is widely accepted that a minimum of 5% of net budget is best practice.
- 4.3 When making a recommendation on the level of General Fund Balance Reserve which should be maintained, the Section 151 Officer considers:
- The overall financial position of the Council
 - The Council's financial management arrangements and track record
 - The level of risk and uncertainty facing the council.
 - The level of other risk management reserves

- The level of specific contingencies within the annual budget to manage in year pressures
- 4.4 Cabinet on 22 February 2023, approved that the General Fund balance be increased by £1.7 million to £15.3 million, which represents approximately 5% of the 2023-2024 net budget.
- 4.5 The Housing Revenue Account (HRA) balance also acts as a corporate contingency for unexpected events and is ringfenced for the use of the HRA. This report recommends a slight increase of £247,000 into the reserve, funded from the HRA surplus for 2022-2023. As detailed in paragraph 2.4, this will be kept under review throughout the year to and reviewed as part of the budget setting process.
- 4.6 Table 2 below summaries the General Reserves.

Table 2 – General Reserves at 31 March 2022 and 31 March 2023

	Balance at 31 March 2022 £000	Movement of Balances in 2022-2023 £000	Balance at 31 March 2023 £000
General Fund Balance Reserve	(13,651)	(1,670)	(15,321)
Housing Revenue Account Balance Reserve	(7,011)	(247)	(7,258)
Total General Reserves	(20,662)	(1,917)	(22,579)

5.0 Usable Earmarked revenue reserves

- 5.1 In addition to general reserves, the Council also holds a number of usable earmarked revenue reserves.
- 5.2 The Reserves Strategy details the purposes for which earmarked reserves are held. Earmarked Reserves are held for:
- Managing risk
 - Investment Reserves
 - Smoothing Reserves
 - Restricted Reserves
- 5.3 A summary of the earmarked reserves set aside by the Council at 31 March 2023 is provided in Table 3 and Table 4 below. Further detail by individual reserves is shown in Appendix 1.

Table 3 – Usable Earmarked Reserves Set Aside by the Council

	Balance at 31 March 2022 £000	Transfer Out £000	Transfer To £000	Balance at 31 March 2023 £000	Latest Commitments £000
Risk Management	(19,814)	4,917	(1,548)	(16,445)	3,382
Investment	(20,825)	2,704	(1,873)	(19,994)	10,056
Smoothing	(18,544)	12,485	(6,575)	(12,634)	11,535
Total Reserves Set Aside by Council	(59,183)	20,106	(9,996)	(49,073)	24,973

- 5.4 As part of the 2023-2024 budget process all earmarked reserves were once again reviewed for relevance and adequacy by Strategic Finance in conjunction with Budget Managers. The earmarked reserves were also reviewed by the Specific Reserves Working Group on 8 November 2022 for appropriateness.
- 5.5 Usable earmarked reserves transferred out during the year totalling £20.1 million have been used in line with approvals and plans. An amount for £6.4 million approved commitments has been reprofiled to future years and is still committed. Reprofiling represents a more updated timescale for the use of the reserve.
- 5.6 Contributions to reserves to offset in year usage has been possible due to the positive outturn position. The Performance and Budget Outturn 2022-2023 report, also on this agenda, provides full details of the outturn position.
- 5.7 Earmarked reserves set aside by the Council will be reviewed as part of the revenue budget monitoring process throughout 2023-2024, as required within the Constitution. Any proposed adjustments to earmarked revenue reserves will be approved under the governance arrangements specific in the Reserves Strategy.
- 5.8 The Reserves Strategy has been reviewed in light of the Our City: Our Plan priorities and the budget challenge facing the Council over the medium term, namely the forecast budget deficit of £16.4 million in 2024-2025, rising to £23.1 million in 2025-2026 as reported to Full Council in March 2023.
- 5.9 Furthermore, the Resources and Equality Scrutiny Panel will scrutinise the use of these reserves as part of the 2024-2025 budget setting process, as in previous years.
- 5.10 This report seeks approval for the following contributions to/from reserves.

Future Years Strategy Reserve

- 5.11 In line with the strategy reported to Cabinet on 22 March 2023 in the Performance and Budget Monitoring 2022-2023, it is proposed that efficiencies identified from across the Council are transferred into the Future Years Strategy Reserve to support the budget. Approval is sought from this meeting for the use of £5.8 million to the Future Years

Strategy Reserve to fund 2023-2024 efficiency targets held corporately / or the forecast budget deficit for 2024-2025.

Budget Contingency Reserve

- 5.12 In line with the strategy reported to Cabinet on 22 March 2023 in the Performance and Budget Monitoring Report, it is proposed to contribute efficiencies totalling £548,000 from Adult Services to the Budget Contingency Reserve to support any pressures going forward. Any use of this reserve will be subject to separate approval when required.

Business Rates Equalisation Reserve

- 5.13 As detailed in the Reserves Strategy, reserves are reviewed as part year end process. As a result of this review, it is proposed that the balance of £22,000 in the Business Rates Equalisation Reserve is no longer required and is fully utilised in 2022-2023.

Development Reserve / Regeneration Reserve

- 5.14 Following a review of reserves, it is proposed to merge the Development Reserve and Regeneration Service as they are similar in nature. Approval is therefore sought to transfer £194,000 from the Development Reserve to the Regeneration Reserve.
- 5.15 In addition, following a review of the outturn position, £355,000 has been transferred into the Regeneration Reserve to continue to fund regeneration priorities.

Transformation Reserve

- 5.16 The Transformation Reserve is vital to ensure we can continue to progress transformation projects across the council. As part of the outturn review, it is proposed that a total of £930,000 is transferred into this reserve to support projects going forward (projects will be subject to business cases and separate approval).
- 5.17 Approval is sought from this meeting for the use for £130,000 from the Transformation Reserve in order to support with Revenues and Benefits related enquiries which are Council Tax, Housing Benefits, Business Rates and Council Tax Recovery received by Customer Services. This will provide support to reduce high call wait times and abandonment rates whilst an Omnichannel solution is procured and implemented.

Elections Reserve

- 5.18 The Elections Reserve is intended to fund the costs where standalone elections costs are expected to exceed the local elections budget. Costs incurred in 2022-2023, in relation to the local election, resulted in an overspend against his budget. It is therefore proposed that £143,000 from the Elections Reserve is used to fund the overspend.

Our City Our Plan Reserve

- 5.19 As part of the outturn review, £55,000 has been transferred into the Our City Our Plan Reserve.

Revenues and Benefits Strategy Reserve

- 5.20 Cabinet on 23 March 2022 approved the Council Tax Discretionary Reduction scheme fully funded from grant and reserves. The allocation was set based on forecast information known at the time, however due to an increase in demand and eligibility, additional awards were made. In accordance with the original approval, it is proposed that additional awards totalling £66,000 is funded from the Revenues and Benefits Strategy Reserve.

Youth Initiatives Reserve

- 5.21 As part of the outturn review, it is proposed that £303,000 be transferred into this reserve to support future youth activities.
- 5.22 Approval is sought from this meeting to use £303,000 from the Youth Initiatives Reserve to support with Yo! Wolves service delivery in 2023-2024.

6.0 Restricted Reserves

- 6.1 The Council also hold Restricted Reserves, which are held 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.
- 6.2 Restricted reserves also include balances held on behalf of schools.
- 6.3 An analysis of the restricted reserves at 31 March 2023 is provided in Table 4 below. Further detail by individual reserves is shown in Appendix 1.

Table 4 – Restricted Earmarked Reserves due to specific criteria

	Balance at 31 March 2022 £000	Transfer Out £000	Transfer To £000	Balance at 31 March 2023 £000	Latest Commitments £000
Restricted Reserves	(37,801)	18,340	(2,063)	(21,524)	9,527
School Balances	(15,232)	2,917	(2,839)	(15,154)	-
Total Specific Reserves	(53,033)	21,257	(4,902)	(36,678)	9,527

- 6.4 There has been a net decrease £16.4 million in restricted earmarked reserves as shown in Appendix 1.
- 6.5 Restricted Reserves transferred out during the year totalling £18.3 million have been used in line with approvals and plans. An amount of £992,000 has been reprofiled to future years and is still committed. Reprofiling represents an updated timescale for the use of reserves. Contributions totalling £2.1 million has been made into these reserves in line with the funding requirements.

- 6.6 School balances are accumulated from underspends against school budgets in previous years. There has been a net movement of £379,000 for schools that remain in control of the local authority, taking the total accumulated reserves to £15.2 million at 31 March 2023. In addition to this £82,000 has been borrowed from the High Needs Block allocation for 2023-2024 to use in 2022-2023. This sum is only available to fund expenditure against schools' delegated budgets. Further details on school's balances are detailed in the Performance and Budget Outturn 2022-2023 report and in more detail in Appendix 3 of the same report, on the agenda for this meeting.
- 6.7 These contributions to / from restricted reserves are in line with the requirements of the funds held in these restricted reserves.

Regional Adoption Agency Reserve

- 6.8 The Regional Adoption Agency Reserve was established as part of the funding arrangements with partner authorities. It is proposed that £741,000 is transferred into the reserve at year end.

Safeguarding Partnership Board

- 6.9 The Safeguarding Partnership Board is made up of contributions from partner agencies. As part of the outturn review, it is proposed to transfer £21,000 into this reserve to support future expenditure.
- 6.10 Approval is sought to use £21,000 from the Safeguarding Partnership Board Reserve to support costs during 2023-2024.

The Education (Penalty Notices) Regulations 2007 Reserve

- 6.11 It is proposed that £28,000 is contributed into this reserve from 2022-2023 fines and penalties for non-school attendance during term time.

Victoria Square Sinking Fund Reserve

- 6.12 The Victoria Square Sinking Fund Reserve is made up of contributions from tenants. It is proposed to contribute £2,500 to this reserve from 2022-2023 tenant contributions.

WM Strategic Migration Partnership Reserve

- 6.13 This reserve has been established and is made up of ring-fenced contributions from other authorities to support the West Midlands Strategic Migration Partnership. It is proposed that £56,000 is transferred into this reserve from underspends against this service from 2022-2023.

7.0 Provisions

- 7.1 The Council hold provisions which is a liability that the Council is aware of, but the amount and timing of the liability is uncertain.

7.2 Table 5 below provides a summary of the provisions held at 31 March 2023, further details can be found in Appendix 2 and 3.

Table 5 – Provisions as at 31 March 2022 and 31 March 2023

	Balance at 31 March 2022 £000	Transfer Out £000	Transfer To £000	Balance at 31 March 2023 £000
Provisions for expected credit losses	(41,956)	7,225	(9,806)	(44,537)
Other Provisions	(14,659)	3,910	(2,047)	(12,796)
Total	(56,615)	11,135	(11,853)	(57,333)

8.0 Adequacy

8.1 In accordance with the provisions of the Local Government Act 2003 (Section 25), the Director of Finance is required to report on the adequacy of the proposed reserves. The Director of Finance considers that the overall level of all reserves and provisions is sufficient to meet the likely level of obligations to be met from reserves, provisions, and general balances in the short term.

8.2 It is important to note that many of the changes to earmarked reserves detailed within this report, which have arisen from the positive General Fund outturn position in 2022-2023, will help to support the Council's short-term financial position. This does not, however, address the challenging financial position that the Council finds itself in over the medium term; namely identifying further projected budget reductions estimated at £16.4 million in 2024-2025, rising to £23.1 million over the medium term to 2025-2026 when reported to Full Council in March 2023. Due to external factors, in particular the impact of the increasing cost of living and rising inflation, budget assumptions remain subject to significant change, which will continue to have significant financial implications for the Council.

8.3 Work continues to review the budget strategy to address the projected budget deficit faced by the Council over the medium term and progress will be reported to Cabinet on 26 July 2023.

9.0 Evaluation of alternative options

9.1 The reserve and provision adjustments are all considered to be prudent in the opinion of the Director of Finance.

10.0 Reason for decisions

10.1 Contribution to and from reserves requires the approval from Cabinet. The reserve amendments detailed in this report are all considered to be prudent in the opinion of the Director of Finance.

11.0 Financial implications

- 11.1 The financial implications are discussed in the body of the report.
[MH/04072023/U]

12.0 Legal implications

- 12.1 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs. The recommendations set out in this report will allow the Council to comply with this obligation.
[TC/04072023/D]

13.0 Equality implications

- 13.1 This report has no direct equality implications. However, any consideration given to the use of reserves and provisions could have direct or indirect equality implications. These will need to be considered as and when sums are allocated from reserves and/or balances whereby an initial screening will be conducted.

14.0 All other implications

- 14.1 There are no other implications arising as a result of this report.

15.0 Background Papers

- 15.1 Performance and Budget Outturn 2022-2023, report to Cabinet, 12 July 2023.
- 15.2 2023-2024 Budget and Medium Term Financial Strategy 2023-2024 to 2025-2026 report to Cabinet, 22 February 2023.
- 15.3 Final Budget Report 2023-2024 report to Council, 1 March 2023.

16.0 Appendices

- 16.1 Appendix 1 – Earmarked Reserves
- 16.3 Appendix 2 – Provisions for Expected Credit Loss
- 16.4 Appendix 3 – Other Provisions