

# Reserves Working Group

## 8 November 2022

<b>Report title</b>	Review of Earmarked Reserves 2022-2023	
<b>Cabinet member with lead responsibility</b>	Councillor Obaida Ahmed Resource and Digital City	
<b>Wards affected</b>	All Wards	
<b>Accountable director</b>	Claire Nye, Director of Finance	
<b>Originating service</b>	Strategic Finance	
<b>Accountable employee(s)</b>	Alison Shannon	Chief Accountant
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<b>Report to be/has been considered by</b>	N/A	

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### Recommendations for action

The Reserves Working Group is recommended to:

1. Provide its view and observations on the appropriateness of the earmarked reserves that are held by the Council.
2. Agree that it be recommended to Cabinet that any reserves no longer required for their original purpose should be transferred to the Council's Corporate Reserves as appropriate.
3. Approve that the findings and any recommendations be presented to Resources and Equality Scrutiny Panel meeting on 1 December 2022.

## **1.0 Purpose**

- 1.1 The purpose of this report is to seek the views and observations of members of the working group as to the appropriateness of earmarked reserves held by the Council by providing information on the balances held and their uses.

## **2.0 Background**

- 2.1 Reserves are made up of revenue resources which have been set aside by the Council in previous financial years in order to fund specific items of expenditure in the future. The timing and certainty of this future expenditure varies, depending on the nature of the related spend.
- 2.2 Under the Council's financial procedure rules, the establishment or dissolution of reserves require the approval of the Cabinet (Resources) Panel. Reserves must also be reviewed for relevance and adequacy at least twice per financial year, as part of the outturn and budget preparation processes.
- 2.3 The last such review was reflected in the 'Reserves, Provisions and Balances 2021-2022' report to Cabinet on 15 June 2022. Table 1 below details the balances and earmarked reserves held by the Council as at 31 March 2021 which were included in the Council's draft Statement of Accounts. It should be noted that since reporting to Cabinet in June, minor adjustments have made to the reserves, the tables below show the latest position which has been included in the draft statement of accounts.
- 2.4 Reserves play a vital role in the financial sustainability of the Council. The Council's General Fund balance stands at £13.7 million, which is approximately 5% of the net budget for 2022-2023 and is in line with recommended best practice. 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.
- 2.5 The important issue for the Council in looking forward is whether or not the earmarked reserves, taken together with the Council's general balances, are sufficient to meet the cost of fulfilling the obligations (past or future) for which these reserves were established. If those obligations have been met, it is good practice to release the reserve. The funds released are then available for other uses.
- 2.6 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.

**Table 1 - Balances and Reserves as at 31 March 2022**

	<b>Balance as at 31 March 2022 £000</b>
Total General Balances	(20,662)
Earmarked Reserves	(56,315)
Other Earmarked Reserves with Specific Criteria (excluding Schools' Balances)	(40,671)
Schools' Balances	(15,232)
<b>Total</b>	<b>(132,880)</b>

- 2.7 The Council's reserves are currently being reviewed as part of the annual budget setting process and the views and observations of the working group concerning the appropriateness of earmarked reserves are therefore being sought as part of this annual review.
- 2.8 General Balances and Schools' balances are not within the scope of this report.
- 2.9 General balances, unlike earmarked reserves, are funds that are generally available and not earmarked for a specific purpose although the individual funds (General Fund and Housing Revenue Account) are ring-fenced.
- 2.10 The Council's General Fund balance stands at £13.7 million, which is approximately 5% of the net budget for 2022-2023 and is in line with recommended best practice. The Housing Revenue Account (HRA) balance is £7 million, this balance is only available to fund expenditure against the HRA budget.
- 2.11 The policy on the use of reserves was revised during the 2014-2015 budget process and approved by Full Council in November 2013. The policy states:
1. Earmarked Reserves - to provide sufficient sums to meet known and estimated future liabilities and/or planned expenditure.
  2. General Fund Balance:
    1. To retain a minimum balance of £10.0 million at all times in order that sufficient sums are available to address the significant budget risks that face the authority should they materialise.
    2. This actual balance may however be lower than the £10.0 million where the use of these balances is the only option to fund significant costs associated with downsizing the workforce, in order to deliver significant on-going savings. These balances should however be replenished to the minimum level of £10.0 million within a maximum of two financial years.

3. Can only be used following the agreement of Full Council having first been considered by the Cabinet Member for Resources in consultation with Cabinet colleagues and then by Cabinet (Resources) Panel and only in the following circumstances:
- a. To fund one-off exceptional/extraordinary items of expenditure where such expenditure cannot be contained within existing budgets or by calling on earmarked reserves and/or provisions.
  - b. To smooth the impact of a significant projected medium term budget deficit, where robust plans to address that deficit will take time to approve and implement.
  - c. To fund Invest to save or income generating initiatives where there are insufficient sums held within the Efficiency Reserve to fund the initiative and there is a payback within a reasonable period of time.

2.12 The associated financial management arrangements of Schools' balances are governed by the City of Wolverhampton's Scheme for Financing Schools.

### 3.0 Review

3.1 This report provides detailed information on the Council's current earmarked at Appendix 1. Other earmarked reserves that are administered by the Council but that have specific criteria for allocation are provided for information in Appendix 2. A summary of this information by Directorate can be found in tables 2 and 3 below.

**Table 2 – Earmarked Reserves by Directorate**

Directorate	Actual Balance as at 1 April 2022 £000	Forecast Net Use/(Contribution) 2022-2023 £000	Forecast Balance as at 31 March 2023 £000
Adult Services	(3,478)	823	(2,655)
Children's and Education	(191)	0	(191)
City Housing and Environment	(802)	239	(563)
Corporate	(45,713)	22,314	(23,399)
Finance	(3,496)	2,220	(1,276)
Governance	(307)	0	(307)
Public Health	(113)	0	(113)
Regeneration	(2,120)	1,311	(809)
Strategy	(95)	0	(95)
<b>Total</b>	<b>(56,315)</b>	<b>26,907</b>	<b>(29,408)</b>

**Table 3 – Other Earmarked Reserves with Specific Criteria by Directorate**

<b>Directorate</b>	<b>Actual Balance as at 1 April 2022 £000</b>	<b>Forecast Net Use/(Contribution) 2022-2023 £000</b>	<b>Forecast Balance as at 31 March 2023 £000</b>
Adult Services	(7)	0	(7)
Children's and Education	(2,749)	100	(2,649)
City Assets	(61)	0	(61)
City Housing and Environment	(3,378)	250	(3,128)
Corporate	(23,265)	17,164	(6,101)
Finance	(3,063)	0	(3,063)
Public Health	(7,959)	0	(7,959)
Regeneration	(189)	0	(189)
<b>Total</b>	<b>(40,671)</b>	<b>17,514</b>	<b>(23,157)</b>

3.2 It is proposed that any resources released from earmarked reserves be transferred to the Council's Corporate Reserves as appropriate in order to continue the funding that is available for strategic programmes.

#### **4.0 Questions for Scrutiny to consider**

4.1 The Reserves Working Group is recommended to provide its views and observations on the appropriateness of earmarked reserves held by the Council.

4.2 The Reserves Working Group is asked to consider what further information and support is needed to more effectively carry out their scrutiny function role.

#### **5.0 Financial implications**

5.1 These are discussed in the body of the report and are detailed in full at Appendices 1 and 2.

[RP/31102022/A]

#### **6.0 Legal implications**

6.1 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs.

[SZ/31102022/P]

#### **7.0 All other implications**

7.1 There are no other direct implications arising as a result of this report. However, any consideration given to the use of reserves, provisions or balances 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.

## **8.0 Schedule of background papers**

8.1 Reserves, Provisions and Balances 2021-2022, report to Cabinet, 15 June 2022.

## **9.0 Appendices**

9.1 Appendix 1 – Earmarked Reserves by Directorate

9.2 Appendix 2 – Earmarked Reserves with a specific criteria by Directorate