

## Reserves Strategy

### 1.0 What Are Reserves?

1.1 Reserves are resources that the Council has accumulated over time. They are an integral element of our budget setting process, medium-term financial plan and financial management. We use reserves to help mitigate the risks that we face as well as to fund specific planned expenditure.

### 2.0 What the Law and the Chartered Institute of Public Finance and Accountancy (CIPFA) say:

2.1 The Local Government Act 2003 (section 25) requires local authorities, when setting their budgets and the level of Council tax, to have regard to the advice of the Chief Financial Officer, namely the officer appointed under s.151 of the Local Government Act 1972 (“the CFO”), on the adequacy of the proposed financial reserves.

2.2 The CIPFA Financial Management (FM) Code states that

- Local authorities are directed to have regard to the level of reserves when considering their budget requirement. Consequently, reserves are a recognised and intrinsic part of financial planning and budget setting. The assessment of ‘adequate’ and ‘necessary’ levels of reserves is a matter for local authorities to determine. It is the responsibility (with statutory backing in England and Wales) of the CFO to advise the local authority on the appropriate level of reserves and the robustness of the estimates.
- A well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed.
- These should be maintained at a level appropriate for the profile of the authority’s cash flow and the prospect of having to meet unexpected events from within its own resources.
- The budget report should include details of the earmarked reserves held, and explain the purpose of each reserve, together with the estimated opening balances for the year, details of planned additions/withdrawals and the estimated closing balances
- The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves

### 3.0 Usable and Unusable Reserves

- 3.1 In accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code) our reserves are categorised in the Statement of Accounts as either usable or unusable.
- 3.2 The Code describes usable reserves as those that represent resources that the authority might use to support service delivery at the reporting date. Some usable reserves may have restrictions upon their use dependent upon the relevant legislative requirements.
- 3.3 Unusable reserves are not available to use to support service delivery at the reporting date. These reserves arise from either:
- a) statutory adjustments required to reconcile balances to the amounts chargeable to council tax (or rents) for the year, in order to comply with legislation, or
  - b) accounting gains or losses recognised in other comprehensive income and expenditure in accordance with accounting standards adopted by the Code, rather than in the surplus or deficit on the provision of services
- 3.4 This strategy relates to usable reserves only.

### 4.0 Capital Reserves

- 4.1 The Council has the following capital usable reserves:
- **Major Repairs Reserve:** The council is required to maintain the major repairs reserve, which controls the application of the Major Repairs Allowance (MRA). The MRA is restricted to being applied to new capital investment in HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the MRA that has yet to be applied at the year end
  - **Capital Receipts Reserve:** This reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.
  - **Capital Grants unapplied Account:** This reserve holds the grants and contributions received towards capital projects for which the council has met the conditions that would otherwise require repayment of the monies, but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.
- 4.2 The use of these reserves is subject to the Capital Programme Funding Strategy and Treasury Management Strategy. These reserves do not form part of this strategy.

### 5.0 Housing Revenue Account (HRA)

- 5.1 The HRA balance acts as a corporate contingency for unexpected events and emergencies. The level of HRA balance is considered and approved as part of the annual HRA Business Plan report.

## 6.0 Types of Revenue Usable Reserves

6.1 We hold revenue reserves for different purposes:

- **Managing risks:** Our annual budget and MTF5 is based on robust estimates of the resources available to us and the cost of delivering services and council priorities. However, like any large complex organisation we face risks and uncertainty. Inevitably there will be changes facing us including levels of demand, costs, funding streams, government policy.  
Therefore, we hold a number of reserves specifically to protect us against unforeseen expenditure or loss of income as a result of such risks materialising.
- **Investment Reserves:** Funds held to pump prime investment and activity to support the delivery of Our City: Our Plan and transformation.
- **Smoothing Reserves:** To manage areas where the expenditure or income is variable and unpredictable but where the annual fluctuations are averaged out over the medium term.
- **Restricted Reserves:** 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. Restricted reserves include balances held on behalf of schools.

## 7.0 Governance

7.1 All reserves will be reviewed at year end as part of the preparation of the statement of accounts. A report on reserves will be presented to Cabinet following year end outlining the purpose of each reserve, any proposals for new reserves, the balance and any commitments against the reserve and plans for their use where appropriate. Governance arrangements for each reserve will be specified in this report.

7.2 In accordance with The Code, the Statement of Accounts provides a full breakdown of reserve balances on 31 March and the annual movement in reserves (usable and unusable, capital and revenue). The Statement of Accounts is subject to external audit.

7.3 The use of reserves during the year will be reported as part of quarterly Performance, Finance and Risk Reports to Cabinet.

7.4 As part of the budget setting process a scrutiny working group will review the Reserves Strategy and the use of reserves.

7.5 This reserves strategy will then be refreshed and presented to Cabinet as part of the suite of documents underpinning the budget and MTF5.

## 8.0 Our Strategy

8.1 The Council has the following set aside in usable revenue reserves:

Balance at 1 April 2022 £000	Forecast Balance at 31 March 2023 £000	Commitments already approved for future years £000	Approvals sought as part of this budget report for 2023-2024 £000	Forecast Balance - Future £000
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General Fund Balance	(13,651)	(15,321)	-	-	(15,321)
Risk Management	(19,814)	(14,337)	2,200	-	(12,137)
Investment	(20,826)	(12,834)	2,962	497	(9,375)
Smoothing	(18,543)	(7,210)	5,800	-	(1,410)
<b>Sub Total</b>	<b>(72,834)</b>	<b>(49,702)</b>	<b>10,962</b>	<b>497</b>	<b>(38,243)</b>
Restricted	(37,803)	(18,242)	4,620	1,936	(11,686)
Restricted (Schools)	(15,232)	(15,326)	-	-	(15,326)
<b>Grand Total</b>	<b>(125,869)</b>	<b>(83,270)</b>	<b>15,582</b>	<b>2,433</b>	<b>(65,255)</b>

## 8.2 General Fund Balance Reserve

8.3 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.

8.4 There is no statutory minimum for the level of General Fund Balance to be held although it is widely accepted that a minimum of 5% of net budget is best practice. In making a recommendation as to the level of General Fund Balance Reserve which should be maintained, the Section 151 Officer considers:

- **The overall financial position of the Council:** The budget proposed for 2023-2024 is balanced without the need to draw on the General Fund Balance Reserve and growth has been provided in response to significant increases in costs and demand. The budget does not include significant savings programmes at service level but there are a number of corporate efficiency targets that must be delivered. It is projected that the medium term forecast budget deficit could be in the region of £23.1 million by 2025-2026.
- **The Council's financial management arrangements and track record:** The Council has a good track record of managing finances well, setting robust budgets aligned to Our City: Our Plan. There is rigorous budget monitoring aligned to performance and risk management and a track record of delivering within budget despite emerging in year pressures.
- **The level of risk and uncertainty facing the council:** There are a number of significant risks and uncertainty including high levels of inflation, the impact of cost of living on residents and businesses, increasing interest costs, unknown pay award for 2023-2024 and uncertain government funding beyond 2023-2024.
- **The level of other risk management reserves:** There are a number of other reserves to manage risks: Budget Contingency Reserve, Budget Strategy Reserve, Insurance Reserve and Job Evaluation Reserve. The total of these reserves, after approved commitments, is £12 million.
- **The level of specific contingencies within the annual budget to manage in year pressures.** The budget includes contingencies for inflationary pressures, and increase in demand. These are held corporately to mitigate against cost pressures and will be passed out to services subject to business cases.

8.5 In summary, the Council faces significant financial challenges over the medium term and high levels of uncertainty over the next 12 months and over the medium term. However, the

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Council has robust financial management arrangements, a strong track record of managing in year pressures and a number of reserves to mitigate against specific risks. It is therefore recommended that a minimum level of 5% of net budget is currently sufficient as a General Fund Balance Reserve.

- 8.6 In order to maintain a General Fund Balance of 5% of the 2023-2024 net budget, it is proposed that £1.7 million is transferred from the Budget Strategy Reserve into the General Fund Reserve.