

# Cabinet

## 16 June 2021

<b>Report title</b>	Reserves, Provisions and Balances 2020-2021	
<b>Decision designation</b>	AMBER	
<b>Cabinet member with lead responsibility</b>	Councillor Ian Brookfield Leader of the Council	
<b>Key decision</b>	Yes	
<b>In forward plan</b>	Yes	
<b>Wards affected</b>	All Wards	
<b>Accountable director</b>	Tim Johnson, Chief Executive	
<b>Originating service</b>	Strategic Finance	
<b>Accountable employee</b>	Claire Nye Tel Email	Director of Finance 01902 550478 claire.nye@wolverhampton.gov.uk
<b>Report to be/has been considered by</b>	Strategic Executive Board	8 June 2021

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### Recommendations for decision:

The Cabinet is recommended to:

1. Approve the transfers (to)/from earmarked reserves, provisions and general balances as detailed in tables 2, 3 and 4.
2. Approve expenditure from provisions for their purposes as set out in Appendix 3 and 4, up to the value held in each provision as at 31 March 2021.
3. Approve the delegation of authority to the Leader of the Council, in consultation with the Director of Finance, to allocate funds from the Budget Contingency Reserve, the Recovery Reserve, the Regeneration Reserve, the Efficiency Reserve, the Transformation Reserve, the Development Reserve, the Regional Work Reserve, the Enterprise Zone Business Rates Reserve, the Business Rates Equalisation Reserve, the Treasury Management Equalisation Reserve, the Pension Deficit Recovery Reserve, the

Budget Strategy Reserve, the Highways Management Reserve and Community Initiatives and Crowdfund Wolves Reserve.

4. Approve the delegation of authority to the Cabinet Members for Adults, in consultation with the Directors of Children's and Adult Services and Finance, to allocate funds from the Adults Reserve.

### **Recommendations for noting:**

The Cabinet is asked to note:

1. The level of the Council's earmarked reserves, provisions and general balances as at 31 March 2021 and the purposes for which they are being held, as detailed in Appendix 1, 2, 3 and 4.
2. That relevance and adequacy of earmarked reserves and general balances will be reviewed as required by the Constitution during the 2022-2023 budget setting process.
3. That allocation of funding from all earmarked reserves will be reported to Cabinet (Resources) Panel in the scheduled quarterly budget monitoring reports.
4. That Our Council Scrutiny Panel will scrutinise the use of reserves as part of the budget setting process as in previous years.
5. That the Director of Finance considers that the overall level of all reserves, provisions and balances is sufficient to meet the likely level of obligations to be met from reserves, provisions and general balances in the short term.
6. That whilst the positive General Fund outturn position during 2020-2021, and the resulting adjustments to reserves, will help to support the Council's short term financial position, it 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 £25.4 million in 2022-2023, rising to £29.6 million over the medium term to 2023-2024 when reported to Full Council in March 2021.
7. The Covid-19 pandemic has significantly distorted the Council's financial position and medium-term financial strategy (MTFS). Whilst the Government has made good on its commitment to fund councils to "to do whatever it takes" to address the emergency the economy and social effects of the pandemic will be felt for years to come. We have no information from Government as to how they will fund councils to be able to manage this.
8. That the figures quoted in the report are still subject to statutory audit by Grant Thornton UK LLP as part of the 2020-2021 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 earmarked reserves, provisions and general balances as at 31 March 2021, taking account of the outturn position for 2020-2021.

## 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 2021 is provided in Table 1 below. This comprises of reserves, provisions and balances held for all funds including the General Fund, the Housing Revenue Account and Schools.

**Table 1 – Balances, Reserves and Provisions as at 31 March 2020 and 31 March 2021**

	Further details	Balance at 31 March 2020 £000	Transfer Out £000	Transfer To £000	Balance at 31 March 2021 £000
Total General Balances	Table 2	(20,011)	-	(651)	(20,662)
Earmarked Reserves					
• Those set aside by CWC	Table 3	(35,357)	1,344	(9,921)	(43,934)
• Those earmarked with specific criteria	Table 4	(29,241)	2,315	(50,539)	(77,465)
Total Provisions	Table 5	(39,987)	9,361	(22,166)	(52,792)

- 2.2 In order to be prudent, it is proposed that the General Fund balance is increased by the 2020-2021 positive variance against budget to an overall total of £13.7 million. This represents approximately 5% of the net budget for 2021-2022 and is in line with recommended best practice.
- 2.3 Earmarked reserves that have been set aside by the Council to fund future estimated liabilities and planned expenditure have increased overall by £8.6 million. The increase in reserves includes the planned contribution of £5.1 million to the Future Years Budget Strategy Reserve to support the approved 2021-2022 budget strategy. Contributions to reserves to offset in year usage has been possible due to an underspend outturn position. The Budget Outturn Report, also on this agenda, provides full details of the outturn position.
- 2.4 The Council is required to hold a number of earmarked reserves due to either specific criteria associated with funding, legal requirements or accounting practice. The total values of these types of earmarked reserves has increased by £48.2 million. These reserves include the specific reserve for section 31 grant funding for business rates

reliefs, including those granted to support businesses during the Covid-19 pandemic, totalling £30.6 million which was received during 2020-2021; however due to collection fund accounting treatment this grant must be transferred into a reserve at year end in order to offset the deficit that will be charged to the 2021-2022 accounts. School balances are also within this category, these have increased by £6.8 million.

- 2.5 Provisions have increased by £12.8 million. These include the level of provision required to support forecast future expected credit losses.
- 2.6 Whilst the Council does not have a high level of reserves, the outturn position detailed in the Budget Outturn 2020-2021 report, to be presented at this meeting, 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 £25.4 million in 2022-2023, rising to £29.6 million over the medium term to 2023-2024 when reported to Full Council in March 2021.
- 2.7 In addition to this challenge, the impact of the Covid-19 pandemic continues to have significant financial implications for the Council. A specific reserve was established to set aside funds at the end of 2019-2020 to support the Council's Covid-19 recovery strategy.

### **3.0 Background**

- 3.1 Earmarked reserves are made up of retained surpluses against previous years' revenue budgets, which are available to fund future expenditure. Some are required by law or accounting practice, whilst others represent amounts voluntarily set aside by the Council for specific purposes.
- 3.2 The definition of provisions is set out in financial reporting standards. They state that a provision should be established when:
  - 1. the Council has a present obligation as a result of a past event, and
  - 2. there is significant uncertainty around the timing or amount of settlement of the obligation, but
  - 3. a reliable estimate can be made of the likely cost to the Council.
- 3.3 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 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.
- 3.4 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.

3.5 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 Leader [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.

#### **4.0 General Balances**

4.1 The Council maintains a number of general balances created by retained surpluses in this year and past years, as detailed in the table below.

**Table 2 – General Balances at 31 March 2020 and 31 March 2021**

	Balance at 31 March 2020 £000	Movement of Balances in 2020- 2021 £000	Balance at 31 March 2021 £000
General Fund Balance	(13,000)	(651)	(13,651)
Housing Revenue Account Balance	(7,011)	-	(7,011)
<b>Total Balances</b>	<b>(20,011)</b>	<b>(651)</b>	<b>(20,662)</b>

- 4.2 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.
- 4.3 As a result of the positive General Fund outturn position for 2020-2021, as reported to Cabinet at this meeting in the Budget Outturn 2020-2021 report, the Council underspent by £651,000. It is therefore proposed that the underspend be transferred into the General Fund Balance. The Council's General Fund Balance represents approximately 5% of the net budget for 2021-2022 and is line with recommended best practice.
- 4.4 The Council does not have high levels of reserves but through an underspend outturn position has been able to protect the levels or reserves to some extent. The current level of reserves will help to support the Council's short term financial position, however it 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 £25.4 million in 2022-2023, rising to £29.6 million over the medium term to 2023-2024 when reported to Full Council in March 2021.
- 4.5 The Covid-19 pandemic has significantly distorted the council's financial position and medium-term financial strategy (MTFS). Whilst the Government has made good on its commitment to fund councils to "to do whatever it takes" to address the emergency the economy and social effects of the pandemic will be felt for years to come. We have no information from Government as to how they will fund councils to be able to manage this.
- 4.6 The Housing Revenue Account (HRA) Balance has been accumulated from net surpluses against HRA budgets in previous years. This balance is only available to fund expenditure against the HRA budget.

## 5.0 Earmarked revenue reserves

- 5.1 In addition to general balances, the Council also holds a number of earmarked reserves. An analysis of the earmarked reserves set aside by the Council at 31 March 2021 is provided in Table 3 below. Further detail by individual reserves is shown in Appendix 1.

**Table 3 – Earmarked Reserves Set Aside by the Council**

	Balance at 31 March 2020 £000	Transfer Out £000	Transfer To £000	Balance at 31 March 2021 £000
Adult Services	(1,200)	-	(1,416)	(2,616)
Children's Services	(196)	-	(10)	(206)
City Assets and Housing	(125)	-	-	(125)
Corporate	(29,302)	1,324	(7,710)	(35,688)
Regeneration	(1,333)	-	(785)	(2,118)
Finance	(2,447)	-	-	(2,447)
City Environment	(750)	20	-	(730)
Public Health	(4)	-	-	(4)
	<b>(35,357)</b>	<b>1,344</b>	<b>(9,921)</b>	<b>(43,934)</b>

- 5.2 As part of the 2021-2022 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 Our Council Scrutiny Panel Specific Reserves Working Group on 9 February 2021 for appropriateness.
- 5.3 Earmarked reserves that have been set aside by the Council to fund future estimated liabilities and planned expenditure have increased overall by £8.6 million. The increase in reserves includes the planned contribution of £5.1 million to the Future Years Budget Strategy Reserve to support the approved 2021-2022 budget strategy. Contributions to reserves to offset in year usage has been possible due to an underspend outturn position. The Budget Outturn report, also on this agenda, provides full details of the outturn position.
- 5.4 Earmarked reserves set aside by the Council will be reviewed as part of the revenue budget monitoring process throughout 2021-2022, as required within the Constitution. Any proposed adjustments to earmarked revenue reserves will be reported to Cabinet (Resources) Panel for approval. In addition to this, a fundamental review of all earmarked reserves will be undertaken during 2021-2022 to rationalise earmarked reserves where appropriate.
- 5.5 Furthermore, the Our Council Scrutiny Panel will scrutinise the use of these reserves as part of the 2022-2023 budget setting process, as in previous years.
- 5.6 An analysis of the earmarked reserves due to specific criteria at 31 March 2021 is provided in Table 4 below. Further detail by individual reserves is shown in Appendix 2.

**Table 4 – Earmarked Reserves due to specific criteria**

	Balance at 31 March 2020	Transfer Out	Transfer To	Balance at 31 March 2021
	£000	£000	£000	£000
Adult Services	(7)	-	-	(7)
Children's Services	(958)	209	(851)	(1,600)
City Assets and Housing	(250)	-	(100)	(350)
Corporate	(15,087)	-	(37,376)	(52,463)
Regeneration	(219)	20	-	(199)
Finance	(2,691)	-	(8)	(2,699)
City Environment	(3,372)	942	(382)	(2,812)
Public Health	(598)	-	(3,535)	(4,133)
School Balances	(6,059)	1,130	(7,943)	(12,872)
Governance	-	14	(344)	(330)
<b>Total Specific Reserves</b>	<b>(29,241)</b>	<b>2,315</b>	<b>(50,539)</b>	<b>(77,465)</b>

5.8 There has been a net increase of £48.2 million in earmarked reserves with a specific criteria as shown in Appendix 2.

5.9 Schools' Balances (including balances held by Pupil Referral Units) are accumulated from underspends against school budgets in past years. This balance includes the 2020-2021 deficit against Dedicated Schools Grant - High Needs Block, this will be funded from High Needs Block in 2021-2022. This sum is only available to fund expenditure against schools' delegated budgets.

## 6.0 Provisions

6.1 An analysis of the authority's provisions, which is a liability that the Council is aware of but the amount and timing of the liability is uncertain, as at 31 March 2021 is provided in the table below and is shown in more detail by individual provision in Appendix 3 and 4.

**Table 5 – Provisions as at 31 March 2020 and 31 March 2021**

	Balance at 31 March 2020 £000	Transfer Out £000	Transfer To £000	Balance at 31 March 2021 £000
Expected Credit Loss and Bad Debt Provision	(29,841)	6,205	(17,537)	(41,173)
Other Provisions	(10,146)	3,156	(4,629)	(11,619)
<b>Total</b>	<b>(39,987)</b>	<b>9,361</b>	<b>(22,166)</b>	<b>(52,792)</b>



## **7.0 Adequacy**

- 7.1 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, provisions and balances is sufficient to meet the likely level of obligations to be met from reserves, provisions and general balances in the short term.
- 7.2 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 2020-2021, 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 £25.4 million in 2022-2023, rising to £29.6 million over the medium term to 2023-2024 when reported to Full Council in March 2021. The Covid-19 pandemic has had a significant international, national and regional impact, and will continue to have, significant financial implications for the Council.
- 7.3 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 28 July 2021 in the Revenue Budget Update report.

## **8.0 Evaluation of alternative options**

- 8.1 The reserve, provision and balance adjustments are all considered to be prudent in the opinion of the Director of Finance and the Leader of the Council.

## **9.0 Reason for decisions**

- 9.1 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 and the Leader of the Council.

## **10.0 Financial Implications**

- 10.1 The financial implications are discussed in the body of the report.  
[MH/10162021/X]

## **11.0 Legal Implications**

- 11.1 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/10062021/C]

## **12.0 Equality Implications**

- 12.1 This report has no direct equality implications. 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.

## **13.0 Other Implications**

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

## **14.0 Background Papers**

- 14.1 [Budget Outturn 2020-2021](#), report to Cabinet, 16 June 2021.
- 14.2 [2021-2022 Final Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024](#), report to Cabinet, 17 February 2021.

## **15.0 Appendices**

- 15.1 Appendix 1 – Earmarked Reserves
- 15.2 Appendix 2 – Other Earmarked Reserves with specific criteria
- 15.3 Appendix 3 – Expected Credit Loss and Bad Debt Provision
- 15.4 Appendix 4 – Other Provisions