

Report title	Reserves, Provisions and Balances 2021-2022	
Decision designation	AMBER	
Cabinet member with lead responsibility	Councillor Obaida Ahmed Resources and Digital City	
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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Report to be/has been considered by		

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 2022.
3. Approve the delegation of authority to the Cabinet Member for Resources and Digital City, in consultation with the Director of Finance, to allocate funds from all reserves which fall within the Corporate remit as detailed in Appendix 1 and 2.
4. Approve the delegation of authority to the Cabinet Member for Resources and Digital City and the relevant Cabinet Member, in consultation with the Director of Finance and the relevant Director/Deputy Director to allocate funds from all other reserves as detailed in Appendix 1 and 2.

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 2022 and the purposes for which they are being held, as detailed in Appendix 1, 2, 3 and 4.
2. That the reserve strategy is currently being reviewed in light of Our City Our Plan priorities and the budget challenge facing the Council over the medium term, and an updated Reserves Strategy will be reported back to Cabinet at a future meeting.
3. That relevance and adequacy of earmarked reserves and general balances will be reviewed as required by the Constitution during the 2023-2024 budget setting process.
4. That allocation of funding from all earmarked reserves will be reported to Cabinet (Resources) Panel in the scheduled quarterly performance and budget monitoring 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, 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. That whilst the positive General Fund outturn position during 2021-2022, 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 £12.6 million in 2023-2024, rising to £25.8 million over the medium term to 2025-2026 when reported to Full Council in March 2022.
8. That the figures quoted in the report are still subject to statutory audit by Grant Thornton as part of the 2021-2022 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 2022, taking account of the outturn position for 2021-2022.

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 2022 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 2021 and 31 March 2022

	Further details	Balance at 31 March 2021 £000	Transfer Out £000	Transfer To £000	Balance at 31 March 2022 £000
Total General Balances	Table 2	(20,662)	-	-	(20,662)
Earmarked Reserves					
• Those set aside by CWC	Table 3	(44,264)	8,149	(20,431)	(56,546)
• Those earmarked with specific criteria	Table 4	(77,135)	45,895	(27,475)	(58,715)
Total Provisions	Table 5	(52,792)	9,711	(14,455)	(57,536)

- 2.2 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 specific 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.
- 2.3 Earmarked reserves that have been set aside by the Council to fund future estimated liabilities and planned expenditure have increased overall by £12.3 million in line with the budget strategy approved by Full Council in March 2022. A £4 million transfer to the Future Years Budget Strategy Reserve has been possible as a result of corporate budget efficiencies and underspends across other directorates, and £5 million of covid grant has also been used to support the underlying budget pressures in 2021-2022, thereby releasing general fund resources which can be utilised to meet the budget deficit in 2022-2023.
- 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 have decreased by £18.4 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, received in 2020-2021, but applied in 2021-2022. School balances are also within this category, these have increased by £2.4 million.

- 2.5 Provisions have increased by £4.7 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 2021-2022 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 £12.6 million in 2023-2024, rising to £25.8 million over the medium term to 2025-2026 when reported to Full Council in March 2022.
- 2.7 The Reserves Strategy is currently being reviewed in light of Our City, Our Plan priorities and the budget challenge facing the council, and an updated Reserves Strategy will be reported to Cabinet at a future meeting.

3.0 Background

- 3.1 Reserves play a vital role in the financial sustainability of the Council. It is important to note that, the Council's General Fund balance stands at £13.7 million, approximately 5% of the 2022-2023 net budget, which is in line with recommended best practice. In addition, the Council holds specific reserves which are set aside to fund future planned expenditure. It is vital that Council continues to hold these reserves to mitigate the risk of uncertainty of any potential future expenditure and to support the delivery of council priorities.
- 3.2 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.
- 3.3 The definition of provisions is set out in financial reporting standards. They state that a provision should be established when:
- the Council has a present obligation as a result of a past event, and
 - there is significant uncertainty around the timing or amount of settlement of the obligation, but
 - a reliable estimate can be made of the likely cost to the Council.
- 3.4 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.

- 3.5 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.
- 3.6 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.

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 2021 and 31 March 2022

	Balance at 31 March 2021 £000	Movement of Balances in 2021-2022 £000	Balance at 31 March 2022 £000
General Fund Balance	(13,651)	-	(13,651)
Housing Revenue Account Balance	(7,011)	-	(7,011)
Total Balances	(20,662)	-	(20,662)

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 The Council's General Fund Balance remains at £13.7 million, which represents approximately 5% of the net budget for 2022-2023 and is line with recommended best practice.

4.4 The Council does not have high levels of reserves but through the positive 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 £12.6 million in 2023-2024, rising to £25.8 million over the medium term to 2025-2026 when reported to Full Council in March 2022.

4.5 The Housing Revenue Account (HRA) Balance remains at £7 million and 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 2022 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 2021 £000	Transfer Out £000	Transfer To £000	Balance at 31 March 2022 £000
Adult Services	(2,616)	138	(1,000)	(3,478)
Children's and Education	(206)	14	-	(192)
Governance	(330)	42	(19)	(307)
Corporate	(35,688)	7,312	(17,567)	(45,943)
Regeneration	(2,118)	487	(489)	(2,120)
Finance	(2,447)	156	(1,205)	(3,496)
City Housing and Environment	(802)	-	-	(802)
Public Health and Wellbeing	(57)	-	(56)	(113)
Strategy	-	-	(95)	(95)
	(44,264)	8,149	(20,431)	(56,546)

- 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 the Specific Reserves Working Group on 14 December 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 £12.3 million. This increase includes the £4 million transfer to the Future Years Budget Strategy Reserve as a result of corporate budget efficiencies and underspends across other directorates, and £5 million of covid grant has also been used to support the underlying budget pressures in 2021-2022, thereby releasing general fund resources which can be utilised to meet the budget deficit in 2022-2023. Both of these transfers are in accordance with the budget strategy approved by Full Council in March 2022. In addition, due to the strong financial management and the favourable out-turn position it is recommended that a further £2.2 million be transferred into the Future Years Budget Strategy Reserve to support the budget deficit over the medium term.
- 5.4 The Covid-19 pandemic has significantly distorted the budget and medium term financial strategy and continues to have significant financial implications for the Council. To ensure that resources continue to be aligned to the needs of local people Our Council Plan was refreshed. In March 2022, the Council approved Our City, Our Plan, which incorporates key policy areas into a refreshed narrative and updated structure and aligns with the key priorities and objectives identified in the Relighting Our City Recovery Framework and continues to identify an overarching ambition that 'Wulfrunians will live longer, healthier lives'. The Council has managed its resources well, ensuring the right response was delivered at the right level to support our residents and business. By managing resources well, including one-off grants, the council has been able to ensure it can continue to invest in our priorities. It is therefore recommended that the Recovery

Reserve is renamed the Our City, Our Plan Reserve and £3.4 million is transferred in to enable the council to support our priorities going forward

- 5.5 Contributions to reserves to offset in year usage has been possible due to the positive outturn position. The Performance and Budget Outturn report, also on this agenda, provides full details of the outturn position.
- 5.6 Earmarked reserves set aside by the Council will be reviewed as part of the revenue budget monitoring process throughout 2022-2023, as required within the Constitution. Any proposed adjustments to earmarked revenue reserves will be reported to Cabinet (Resources) Panel for approval.
- 5.7 The Reserves Strategy is currently being 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 £12.6 million in 2023-2024, rising to £25.8 million in 2025-2026 as reported to Full Council in March 2022. An updated Reserves Strategy will be reported back to Cabinet at a future meeting.
- 5.8 Furthermore, the Resources and Equality Scrutiny Panel will scrutinise the use of these reserves as part of the 2023-2024 budget setting process, as in previous years.
- 5.9 An analysis of the earmarked reserves due to specific criteria at 31 March 2022 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 2021 £000	Transfer Out £000	Transfer To £000	Balance at 31 March 2022 £000
Adult Services	(7)	-	-	(7)
Children's and Education	(1,600)	36	(1,186)	(2,750)
City Assets	(58)	-	(3)	(61)
Corporate	(52,463)	43,690	(17,304)	(26,077)
Regeneration	(199)	10	-	(189)
Finance	(2,699)	-	(364)	(3,063)
City Housing and Environment	(3,103)	70	(345)	(3,378)
Public Health and Wellbeing	(4,134)	-	(3,824)	(7,958)
School Balances	(12,872)	2,089	(4,449)	(15,232)
Total Specific Reserves	(77,135)	45,895	(27,475)	(58,715)

- 5.10 There has been a net decrease £18.4 million in earmarked reserves with a specific criteria as shown in Appendix 2.
- 5.11 Schools' Balances (including balances held by Pupil Referral Units) are accumulated from underspends against school budgets in past years. This balance includes the 2021-

2022 deficit against Dedicated Schools Grant - High Needs Block, this will be funded from High Needs Block in 2022-2023. 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 2022 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 2021 £000	Transfer Out £000	Transfer To £000	Balance at 31 March 2022 £000
Provisions for expected credit losses	(41,173)	5,723	(7,427)	(42,877)
Other Provisions	(11,619)	3,988	(7,028)	(14,659)
Total	(52,792)	9,711	(14,455)	(57,536)

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 2021-2022, 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 £12.6 million in 2023-2024, rising to £25.8 million over the medium term to 2025-2026 when reported to Full Council in March 2022. 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 27 July 2022.

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 Cabinet Member for Resources and Digital City.

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 Cabinet Member for Resources and Digital City.

10.0 Financial Implications

10.1 The financial implications are discussed in the body of the report.
[MH/07062022/W]

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/06062022/A]

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 All other implications

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

14.0 Background Papers

14.1 [Performance and Budget Outturn 2021-2022](#), report to Cabinet, 15 June 2022.

14.2 [2022-2023 Budget and Medium Term Financial Strategy 2022-2023 to 2025-2026](#) report to Cabinet, 23 February 2022.

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

15.4 Appendix 4 – Other Provisions