

Resources and Equality Scrutiny Panel

7 December 2023

Report title	Reserves Strategy	
Cabinet member with lead responsibility	Councillor Louise Miles Resources	
Wards affected	All Wards	
Accountable director	Claire Nye, Director of Finance	
Originating service	Strategic Finance	
Accountable employee(s)	Alison Shannon Tel Email	Chief Accountant 01902 554561 Alison.Shannon@wolverhampton.gov.uk
Report to be/has been considered by	N/A	

Recommendations for action or decision:

The Panel is recommended to:

1. Provide its view and observations on the Council's Reserve Strategy and use of reserves held by the council.

1.0 Purpose

- 1.1 The purpose of this report is to seek the views and observations of members of the Resources and Equalities Scrutiny Panel on the Reserves Strategy and the use of reserves held by the Council.

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 The Reserves Strategy and the Council's financial procedure rules, set out the governance arrangements for the establishment and movements on reserves. 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 and Provisions 2022-2023' report to Cabinet on 12 July 2023. Table 1 below details the balances and specific reserves held by the Council as at 31 March 2023 which were included in the Council's draft Statement of Accounts. It should be noted that since reporting to Cabinet in July, 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 £15.3 million, which is approximately 5% of the net budget for 2023-2024 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.
- 2.5 The important issue for the Council in looking forward is whether or not the revenue 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.

3.0 Reserves Strategy

- 3.1 The Reserves Strategy was approved by Council on 1 March 2023 and provides details of the reserves held by the council, their planned use and the governance arrangements.
- 3.2 The Reserves Strategy can be found at Appendix 1.
- 3.3 As detailed in paragraph 2.4 the General Fund Balance Reserve currently stands at £15.3 million, which is approximately 5% of the 2023-2024 net budget. As outlined in the Reserves Strategy in Appendix 1, the Section 151 Officer will consider a number of factors in determining the level of funding in this reserve. The level of this reserve will also be considered to ensure it is still approximately 5% once the 2024-2025 budget.
- 3.3 The Council holds revenue usable reserves for different purposes:
- **Managing risks:** Our annual budget and MTFs 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.
- 3.4 The table below provides a summary on the balance of these reserves as at the 1 April 2023, planned use and forecast balance at the 31 March 2024. Further detail can be found in Appendix 2.
- 3.5 Reserves and commitments are reviewed on a regular basis to ensure that they still reflect our priorities and to ensure we are proactively managing financial risks and challenges.

Table 1 – Revenue Reserves:

Reserve	Balance at 1 April 2023 £000	Net Forecast Use/ (Contribution) 2023-2024 £000	Forecast Balance for 2023-2024 £000
General Fund Balance	(15,321)	-	(15,321)
Risk Management	(16,445)	3,877	(12,568)
Investment	(19,994)	11,183	(8,811)
Smoothing	(12,634)	11,535	(1,099)
Sub Total	(64,394)	26,595	(37,799)
Restricted	(22,751)	9,613	(13,138)
Restricted (Schools)	(15,154)	655	(14,499)
Grand Total	(102,299)	36,863	(65,436)

4.0 Benchmarking

- 4.1 As reported in the Performance and Budget Monitoring reports, the Office of Local Government (Olog), have published some data and analysis around performance of local government, including data on reserves.
- 4.2 Benchmarking can help to sense check our strategy and approach. However, it must be recognised that every council will have a different financial position and risks to manage.
- 4.3 The data published by Oflog, showed that Wolverhampton had a lower percentage when compared against the median of both CIPFA nearest neighbours and England. However, this data is now significantly out of date having been based on the outturn position for 2021-2022. Should further up to date benchmarking data become available we will update Cabinet and Scrutiny Members,

5.0 Questions for Scrutiny to consider

- 5.1 The Panel is asked recommended to provide its views and observations on Council's Reserve Strategy and use of reserves held by the council.

6.0 Financial implications

- 6.1 These are discussed in the body of the report and are detailed in full at Appendices 1. [MH/29112023/Q]

7.0 Legal implications

- 7.1 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs.
[SZ/29112023/P]

8.0 All other implications

- 8.1 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.

9.0 Appendices

- 9.1 Appendix 1 – Reserves Strategy
9.2 Appendix 2 – Revenue Reserves

10.0 Schedule of background papers

- 10.1 Reserves and Provisions 2022-2023 report to Cabinet, 12 July 2023.