

## 1. Background

- 1.1 It is important that the Council has a strategic approach to the creation and use of reserves. It is therefore considered prudent and timely to assess the optimum levels of reserves required by the Council in light of the current Medium Term Financial Plan, whether the current arrangements for their use are working well and whether alternative arrangements could result in the better use of resources, more effective investments and improved financial management.
- 1.2 This Policy sets out the approach the Council will take to this in 2020/21, ensuring reserves are aligned to the Council's priorities over the medium term.

## 2. Policy

- 2.1 It is important to ensure that the Council's resources set aside in reserve are considered appropriately to ensure they are being used to maximum effect in line with the Council's priorities. This Policy changes the methodology for the creation and use of reserves to enable a more corporate approach to be taken.
- 2.2 Whilst some flexibility is needed to the creation of reserves, the Policy proposes an agreed corporate priority list of reserves where available resources will be directed in the first instance.
- 2.3 In order to determine the appropriate level to be held in each reserve consideration will need to be given on a case by case, risk based approach. Once each reserve has reached the maximum recommended level then resources will be directed to the next priority reserve. Once all these reserves have reached the maximum recommended level, then any other resources can be made available for individual budget holder business case requests.

## 3. Updates to the Reserves Policy

- 3.1 The Reserves Policy recommends the Council holds earmarked reserves totalling £76.362m.
- 3.2 The Council's 2019/20 outturn surplus of £0.813m has been allocated to the new Cabinet One-Off Investment reserves in 2020/21 as approved as part of the Council's 2020/21 Budget.
- 3.3 As part of the annual review of earmarked reserves, the following adjustments and reclassifications have been actioned to ensure monies held are aligned to the reserves in line with the Council's corporate and strategic priorities. This includes:
  - **Cabinet One-Off Investments/MTFP Reserve** – a new reserve linked to the Strategic Priority Reserve category has been created to hold the

resources set aside for this purpose. This reserve will be used to hold the £4.817m of resources received to date. Resources received during the year earmarked to support the one-off investments will be transferred to the reserve during the year. Whilst considering the use of these resources to support the funding of the identified one-off investments, Members are asked to note the COVID19 financial impact (see section 6) and the financial challenge this presents the Council over the medium term period. Therefore, consideration needs to be given to the flexibility of the use of these resources to support the MTFP and as a result the ability to uncommit these resources and make them available to support the Council's financial response to the pandemic if needed.

- **Greater Manchester Bus Reform Reserve** - £1.859m of the available one-off resources identified as part of the 2020/21 Budget were earmarked to fund the Council's contribution to the Greater Manchester Bus Reform. The resources will be held in a new reserve linked to the Strategic Priority Reserve category.
- **Airport Reserve** – £4.680m of resources have been realigned to mitigate the financial impact of COVID19. This provides a total reserve of £5.430m to cover commercial income losses linked to the Airport. Whilst it is recognised that this does not fully cover the £6.408m income budget linked to the Council's investment in the Airport, any shortfall would need to be supported from the resources identified as being available (uncommitted) as part of the COVID19 element of the annual review recognising the opportunity cost and financial resilience impact this would have on the Council. In addition, Members are asked to note that Government support funding to date has not included financial support for commercial income losses (which includes the Airport dividend) suffered by Local Authorities as a result of the COVID19 pandemic. The Council will continue to lobby Government for this support.
- **Interest and Income Risk Mitigation Reserve** - £2.006m of resources have been realigned to mitigate the financial impact of COVID19. This provides a total reserve of £4.073m to cover commercial income losses linked to the Council's town centre strategic investments. In addition, Members are asked to note that Government support funding to date has not included financial support for commercial income losses suffered by Local Authorities as a result of the COVID19 pandemic. The Council will continue to lobby Government for this support.
- **Insurance Reserve** – the reserve has been reduced by £2.000m in line with the annual valuation of the Insurance Reserve set aside to meet future insurance claims against the Council. The resources have been realigned to the Airport Reserve as detailed above. If these resources are not needed in full or part to support commercial income losses, then these reserves can be realigned back to the Insurance Reserve as required.
- **Transformation Invest to Save Reserve** – the reserve has been reduced by £1.595m to support the increase in the Airport Reserve and

Income and Interest Rate Mitigation Reserve detailed above. This leaves an available balance of £2.273m to support transformational investment over the medium term period to 2022/23. If these resources are not needed in full or part to support commercial income losses, then these reserves can be realigned back to the Insurance Reserve as required.

- **Workforce Investment/Change Reserve** - the reserve has been reduced by £1.167m to support the increase in the Airport Reserve and Income and Interest Rate Risk Mitigation Reserve detailed above. This leaves an available balance of £2.333m to support costs of workforce investment and change over the medium term period to 2022/23 i.e. current year plus two further years. If these resources are not needed in full or part to support commercial income losses, then these reserves can be realigned back to the Insurance Reserve as required.
- **RCCO Reserve** – the resources held in this reserve have been realigned to mitigate the financial impact of COVID19. The capital schemes they were earmarked to contribute to will be financed by borrowing as a replacement. This was set out in the CPRR – Annual Report 2019/20 and approved by Cabinet at its meeting on 23 July 2020.
- **Directorate Reserve** – the Place Directorate reserve has been topped by £0.162m to the recommended level of £0.250m. As a result, each Directorate will have £0.250m of resources available to provide flexibility to mitigate budget pressures and unforeseen costs that arise during the financial year.
- **Waste Smoothing Reserve** - £3.925m of resources have been realigned to create the Cabinet One-Off Investments/MTFP Reserve, the Greater Manchester Bus Reform Reserve and to support the increase to the Airport Reserve detailed above.
- **Collection Fund Reserve** - £3.446m of resources have been realigned to create the Cabinet One-Off Investments/MTFP Reserve.
- **General Fund Balance** – £1m of resources have been realigned to the Council's General Fund Balance to support the Section 151 Officers risk assessment of the Council's 2020/21 Budget.

## 4. Establishing the Priorities

### 4.1 Reserves Linked to Budget

#### **Transformation – Invest to Save Reserve**

In order to facilitate the transformational change required to generate further efficiencies and savings, funding will be needed for one off investment of projects to facilitate service change and redesign including the temporary cost of change management and implementing new service solutions. It is recommended that the Council holds a reserve of £3.191m for this purpose. This would provide invest to save funding for the MTFP period, but it is

proposed that the reserve balance is reviewed annually and adjusted as necessary to ensure ongoing transformation funding is available each budget year.

### **Transformation – Double Running Reserve**

Often it can take time to fully deliver transformational change and deliver the related budget efficiencies and savings. To facilitate this process, it is recommended that a double running reserve is created to allow time to embed new processes and new approaches to service delivery. This will help to fund the costs of dual running systems or services. It is recommended that the Council holds a reserve of £2.361m for this purpose. This would provide funding for the MTFP period, but it is proposed that the reserve balance is reviewed annually and adjusted as necessary to ensure ongoing transformation funding is available each budget year.

### **Workforce Investment/Change Reserve**

As the Council continues to find further efficiencies and savings workforce costs (such as redundancy) will be incurred as well as investment requirements in developing the workforce required for different service operating models. It is recommended that a reserve of £2.333m is held to cover the average redundancy costs over the next 3 years. It is proposed that the reserve is replenished on an annual basis to maintain this balance.

### **Airport Reserve**

The Council budget reflects the anticipated annual income from the Manchester Airport dividend. Underpinning an element of the budget on the expectation of receiving a dividend payment carries an element of risk. It is recommended that this reserve is held at £5.430m to support the Council's budget should there be a reduction in the forecast income impacting on the dividend received.

## **4.2 Strategic Priority Reserves**

### **Cabinet One-Off Investment Reserve - \*New\***

One-off resources set aside to fund the Cabinet's one-off investment projects approved in the Council's 2020/21 Budget. It is proposed that the reserve is reviewed annually in line with the Council's Strategic Priorities. It is also noted that resources held in this reserve will need to be considered as part of the Council response to the financial challenge ahead in light of the COVID19 pandemic. It is recommended that a reserve of £4.817m is held.

### **Greater Manchester Bus Reform Contribution - \*New\***

£1.859m of the available one-off resources identified as part of the 2020/21 Budget were earmarked to fund the Council's contribution to the Greater Manchester Bus Reform. It is recommended that a reserve of £1.859m is held to match the required contribution from the Council.

### **Capital Investment Reserve – Stockport Interchange**

Resources set aside to meet the costs of the Stockport Interchange capital project. This is in line with the allocation of one-off resources approved in the Council's 2019/20 Budget. It is proposed that the reserve is reviewed annually

in line with the Capital Programme requirements. It is recommended that a reserve of £5.479m is held.

#### **Capital Investment Reserve – Merseyway**

Resources set aside to meet the costs of the Merseyway capital project (as approved by Cabinet) which will fund the refurbishment and development of the shopping centre linked to the wider Town Centre regeneration projects. It is proposed that the reserve is reviewed annually in line with the Capital Programme requirements. It is recommended that a reserve of £5.761m is held.

#### **Capital Investment Reserve – Mayoral Development Corporation (MDC)**

Resources set aside to meet the expected capital costs linked to the set-up and running of the MDC. It is proposed that the reserve is reviewed annually in line with the Capital Programme requirements. It is recommended that a reserve of £3m is held.

#### **Capital Investment Reserve – Town Centre & District Schemes**

Resources set aside to meet the expected capital costs linked to the Town Centre & District Centre regeneration projects. It is proposed that the reserve is reviewed annually in line with the Capital Programme requirements. It is recommended that a reserve of £0.903m is held.

#### **Corporate Property Reserve**

To ensure there are funds available to support the undertaking of emergency building repair and maintenance costs, it is recommended that monies are set aside in reserve. It is recommended that a reserve of £0.843m is held.

#### **Infrastructure Investment Reserve**

To ensure there are funds available to support the undertaking of infrastructure repair and maintenance. This reserve will also provide investment funding to protect existing Council assets. It is recommended that monies are set aside in reserve. It is recommended that a reserve of £1.782m is held.

#### **Digital by Design Reserve/Radical Digital Authority**

To support the committed and planned costs of the Digital by Design project, it is recommended that a reserve of £3.110m is held. This reserve will support the Council's priority of becoming a Radical Digital Authority.

#### **Health and Social Care Integration Reserve**

To support the costs of the continuing integration of Health and Social Care services, it is recommended that a reserve of £2.031m is held. Whilst this reserve will provide funding for the length of the existing project, it is proposed that the reserve is reviewed annually and adjusted as necessary.

#### **Equipment Refresh Reserve**

To ensure there are funds available for the replacement of equipment such as ICT, it is recommended that monies are set aside in reserve. It is recommended that a reserve of £1.234m is held.

### **Waste Smoothing Reserve**

Resources set aside to mitigate the impact of increases of the levy. The finalisation of the contractual arrangements and the reduction in the risk of significant cost increase, it is recommended that a reserve of £1.122m is held. This equates to 5% of the 2020/21 Waste Disposal Levy.

### **Traded Services Reserve**

The Council has a number of traded services which through their trading operation are able to generate annual surpluses. The balances are held in one corporate reserve to support all traded services with future investment projects or support those in deficit positions. The balance on the reserve is recommended to be held at £0.532m and will be reviewed annually.

### **Community Investment Fund Reserve**

Resources set aside for Community Investment Projects within the Strategic Priority Reserve. These funds are to be used by individuals and groups within the community on projects to improve their neighbourhoods. It is recommended that the balance of £0.820m should be held.

### **SEND Review Reserve**

Resources set aside for the Council's response to the SEND Review recommendations. It is recommended that a balance of £0.795m should be held. The reserve will be review in line with work being completed by Officers to respond to the review recommendations.

## **4.3 Reserves Linked to Budget Resilience Issues**

### **Children's Reserve**

Children and Family Services currently have a reserve to meet the costs of unexpected increase in Looked After Children (LAC). This is a demand led service with significant costs attached to each LAC case which cannot be anticipated until they occur. As a demand led service, it is recommended that a reserve of £1.839m is held. It is proposed that the reserve is replenished on an annual basis to maintain this balance.

### **Adults Reserve**

Changing demographics and people living longer is putting increasing demand pressures on Adults Services resulting in significant budget pressures. It is recommended that a reserve of £1.562m is held to support the service to manage these demand pressures. It is proposed that the reserve is replenished on an annual basis to maintain this balance.

### **Demand Changes Reserve**

Demand increases in future years will create budget pressures across Council services. It is recommended that monies are set aside in reserve to meet the costs of these unexpected increases in demand. This will provide services affected with one-off funding to give them time to adjust to the increased demand and associated costs and build the pressure in to the budget setting process if necessary. It is recommended that a reserve of £0.578m is held for this purpose.

## 4.4 Corporate Reserves

### **Insurance Reserve**

The insurance reserve is required to ensure that there are adequate resources available to support the costs of insurance claims against the Council. The level of reserve is linked to the claims profile and is recommended by the Council's insurance advisors as part of their annual actuarial review of the insurance fund.

### **Collection Fund Reserve**

Balances held to support the Collection Fund. This reserve will also help to support the Council's General Fund against the volatility of Business Rates income.

### **Legislative and Statutory Requirements Reserve**

There are a number of Council services which deliver legislative and statutory requirements (i.e. Election Service and Safeguarding Boards). This reserve will provide funding for the costs of legislative and statutory requirements of the Council that are difficult to forecast and/or span more than one year such as the Core Strategy and Housing Needs Assessment requirements. Instead of holding individual reserve balances for each of these services, it is recommended that the reserves are brought together in to one corporate reserve.

### **Third Party Monies Reserve**

The Council holds monies on behalf of other groups and bequests it has been given which can only be used to fund specified expenditure. The balance on the reserve will be dependent upon monies held on behalf of third parties.

### **Area Committee Reserves**

This relates to the carried forward balances on the Area Committee budgets held in reserve. The balance on this reserve of £0.403m is fully committed against existing approved spending priorities and the use of this reserve approved in the 2020/21 Budget.

### **Revenue Grant Reserve (includes ringfenced reserves)**

This relates to income from grants received which have conditions attached or where conditions have been met but expenditure it yet to be incurred. This reserves includes the balance of Government Grants received by the Council for Brexit preparations.

### **Revenue Contributions to Capital Outlay (RCCO)**

Balances are held to finance capital schemes in the Council's Capital Programme.

### **Income and Interest Rate Risk Mitigation Reserve**

The Council has a significant Capital Programme arising from its growth and regeneration ambitions. The financing arrangements of these schemes contain elements of risk based on future income projections linked to rental income and cover provided to fund interest cost on borrowing. Therefore, it is possible that

variations from the planned levels of income being used to fund borrowing costs will need to be supported. It is recommended that resources of £4.073m are set aside for this purpose. It is recommended that this reserve is reviewed annually in line with the Investment and Development Account.

#### 4.5 Directorate Reserves

It is recommended that each Directorate holds a reserve of £0.250m to mitigate in year budget pressures across their services. It is proposed that the Corporate Director and Cabinet Member for each Directorate are responsible for approving the use of the Directorate Reserve by their services during the year. It is proposed that the reserve is reviewed on an annual basis and replenished to maintain this balance.

#### 4.6 Other Ringfenced Reserves

##### School Reserves

Balances are held on behalf of schools under the scheme of delegation and are not available for use by the Council. School balances are also held in relation to academic year funding.

##### HRA Reserves

Balances and earmarked reserves are held in relation to the Housing Revenue Account.

### 5. Approval Process

5.1 Reserves can only be drawn down once all the necessary approvals have been received. The decision to draw down reserves will be considered in the context of the Council's in year financial position and the impact on the Medium Term Financial Plan by the Borough Treasurer before being sent for approval.

- **Reserves Linked to Budget** – Council Deputy Leader and Corporate Leadership Team.
- **Reserves Linked to Strategic Priorities** – Council Deputy Leader and Corporate Leadership Team (except those currently committed which will be approved by the Borough Treasurer and the Project Leads)
- **Reserves Linked to Budget Resilience Issues** – Council Deputy Leader and Corporate Leadership Team.
- **Corporate Reserves** – Borough Treasurer (except the Area Committee Reserve which will be approved by Cabinet Members and the Council Deputy Leader)

5.2 The use and creation of reserves during the year will be included within the quarterly monitoring report which is presented to the Cabinet for approval. However, at the year end the Borough Treasurer will have discretion (within the boundaries of this Policy) to use and create reserves as appropriate in the context of the overall financial position of the Council.