

**2020/21 RESERVES POLICY**

**Report of the Corporate Director – Corporate and Support Services and Cabinet Member for Resources, Commissioning & Governance**

**1. INTRODUCTION AND PURPOSE OF REPORT**

- 1.1 The purpose of the report is to provide the outcome of the annual review of the Council's Reserves Policy following the reporting of the Council's 2019/20 outturn position.
- 1.2 Reserves play an essential role in the good financial management of the Council. Whilst reserves do not provide a permanent source of funding, they provide the Council with short-term budget resilience to mitigate the impact of unexpected financial pressures and funding changes. They also provide funding to invest in transformational change projects to deliver required budget efficiencies. For this reason, it is important that the Council's reserves are aligned to the Council's corporate and strategic objectives over the medium term period.
- 1.3 Members will be aware that the Council's 2019/20 Reserves Policy was approved by Cabinet at its meeting on 3 September 2019. It is acknowledged that the level of reserves held and how these are earmarked to specific priorities is based on judgement, circumstances and resource availability. For some reserves a definitive relationship between spending and risk can be established while for others it is a matter of reasonable judgement and views on the risks faced. It is for this reason that it is recommended that the Reserves Policy is reviewed on annual basis as a minimum ensuring these judgements are informed and remain appropriate particularly in relation to the potential impact of new risks and financial challenges faced by the Council.
- 1.4 A key part of the Council's financial response to the COVID19 pandemic is the 2020/21 Reserves Policy. The Reserves Policy provides the Council with the financial resilience and robust financial platform to mitigate the impact of unplanned events and unexpected financial pressures. As the financial impact of COVID19 in 2020/21 and over the medium term period continues to be assessed, the Council needs to have certainty in the level of resources it has available if needed to mitigate any cost pressures in the short term whilst permanent funding options are identified. However, it is recognised that there is a balance between mitigating the COVID19 financial impact on the Council whilst understanding the opportunity cost this presents and the severe impact this would have on the achievement of the Council's growth and reform plans, and its financial resilience and robustness over the medium term period. Section 6 of the report provides further detail on this part of the annual review.
- 1.5 The annual review of the Council's Reserves Policy considers:
  - The rationale for holding each reserve;
  - Whether the approved commitments for the use of each reserve are still needed;

- Whether the level of the Council's reserves remains appropriate to provide resilience against the financial risks and challenges facing the Council;
- Whether the existing reserves need to be reclassified to meet the Council's corporate and strategic objectives over the medium term period; and
- Whether any new reserves need to be created to meet the Council's corporate and strategic objectives over the medium term period.

1.6 The updated Reserves Policy sets out the identified priority areas where reserves are considered to be needed. The Reserves Policy also recommends the level at which the reserves need to be held including the replenishment of some reserves where resources are available to do so. It is important to note that the recommended balances of earmarked reserves held are set to ensure they remain robust and aligned to the Council's corporate and strategic objectives over the medium term period.

1.7 The Council's proposed 2020/21 Reserves Policy is included in Appendix 1.

## **2. 2019/20 Council Outturn Position**

2.1 The Council has a balance of £76.550m of earmarked reserves as at 31 March 2020. As part of the Council's 2020/21 Budget approved in February £7.079m of one-off available resources were earmarked to fund a number of one-off investments identified by the Cabinet. Following the finalisation of the Council's 2019/20 outturn position at year end the available resources reduced by £0.153m to £6.926m.

2.2 The points below set out how these resources have/will be accounted for due to the timing of the receipts:

- Resources totalling £4.817m were received as part of the 2019/20 outturn and set aside in earmarked reserves (Waste Smoothing Reserve and Collection Fund Reserve) and the General Fund Balance. As part of the Reserves Policy these resources will be realigned to a new Cabinet One-Off Investment/MTFP earmarked reserve and shown as committed subject to the assessment of the COVID19 financial impact (see paragraph 6.4).
- The £1m balance of the available resources identified will be realigned to the Council's General Fund Balance to support the Section 151 Officers risk assessment of the 2020/21 Budget.
- The balance of one-off resources identified of £1.109m will be received in year and transferred to the Cabinet One-Off Investments/MTFP Reserve during the year.
- In addition, £3.584m of available MTFP resources were approved to support the Cabinet's one-off investments in 2020/21. This resource will be transferred to the Cabinet One-Off Investments/MTFP Reserve at year end.

2.3 The Cabinet's planned use of the available resources to support one-off investments identified as part of the 2020/21 Budget are detailed below:

	<b>£000s</b>
Flooding Repair and Maintenance Investment	1,500
Gym and Park Equipment Investment	1,000
Recyclable Business Loans Fund Investment	300
Open+ Library Investment	232
Werneth and Brinnington Pilot Investment	1,200
Stockport Local and Community Fund Investment	500
Health and Care System Investment	500
School Placements and School Estate Investment	500
Climate Emergency Investment	250
Ward Orchards Investment	150
One-Off Resource – Investment TBC	3,378
	<b>9,510</b>

*\*£1m of resources were allocated to the Council's General Fund Balance in line with the Section 151 Officers budget risk assessment*

- 2.4 The unallocated balance of £3.378m will be held in the Cabinet One-Off Investments Reserve and considered for future investment. The Cabinet outlined a number of considerations for the use of this resources in the Council's 2020/21 Budget to support the achievement of its ambitions for the Borough.
- 2.5 Following the outbreak of the COVID19 pandemic and the significant financial impact on the Council, the resources held in earmarked reserves and the General Fund Balance including the resources being held for the Cabinet's one-off investments have been reviewed as part of the Reserves Policy. Whilst it is hoped that the use of these resources can be minimised to mitigate any opportunity cost to the Council by having to use these resources to support the Council's financial response to the pandemic, consideration has to be given to the use of these resources if needed and the impact this will have on the Council's growth and reform plans, and the Council's financial resilience and robustness over the medium term period. Section 6 of this report provides further details on the COVID19 financial impact and the use of the Council's Reserves Policy as part of the financial response.

### **3. Financial Resilience**

- 3.1 The financial impact of the COVID19 pandemic illustrates the importance of the Council's financial robustness and resilience to the impact of unplanned for events. This ensures the Council is able to mitigate the financial impact in the short term whilst permanent funding options are identified and implemented. There are a number of ways the Council demonstrates its financial resilience to Members and Stockport residents:
- **MTFP Summer Review and Updates** – regular reviews of the key assumptions and forecasts that underpin the Council's MTFP to ensure they remain robust and based on the most up to date information throughout the year;
  - **Reserves Policy** – annual update of the Council's Reserves Policy to ensure earmarked reserves are aligned to the Council's corporate and strategic objectives over the medium-term period;
  - **Budget Risk Assessment** – annual assessment of the adequacy of the Council's General Fund Balance to mitigate the impact of risks;
  - **Scrutiny Committee and Audit Committee** - regular Member scrutiny of the Council's Financial Management throughout the year; and

- **Internal and External Audit** – independent audits of the Council’s financial management throughout the year. During 2019/20 an internal audit of the Council’s financial governance and financial resilience gave the Council substantial assurance.
- 3.2 CIPFA are continuing to develop its approach to increase local authority financial resilience including the publication and implementation of its Financial Management Code of Practice. The Council welcomes the increased attention and will continue to work with other Local Authorities and CIPFA to develop these systems and ensure they integrate with the Council’s existing processes.
- 3.3 The planned use of earmarked reserves is a key indicator of an authority’s financial resilience with the Reserves Policy being an important way for the Council to demonstrate this. The uncertainty, complexity and volatility of the financial landscape has been highlighted on numerous occasions, and the COVID19 pandemic has exacerbated this further. The Reserves Policy helps to ensure the Council has a robust financial position and is able to mitigate the unknown impact of the significant financial challenge this presents.
- 3.4 The following paragraphs are taken from the covering report of the 2019/20 Reserves Policy. Due to COVID19 pandemic there has not been an update to CIPFA’s Local Authority financial resilience model. In addition, at the time of writing the 2019/20 statement of accounts of the other GM Authorities are not available to update the comparison charts. However, the paragraphs still provide useful context to support the Council’s Reserves Policy and the rationale for the level of earmarked reserves held.

*The Chartered Institute of Public Finance and Accountancy (CIPFA) have highlighted the need for a robust understanding of local authority financial resilience as part of authorities’ medium term financial planning. A recent article in Public Finance (January/February 2019 edition) reported that CIPFA’s analysis of local authority financial resilience indicated that up to 15% of councils in England are at risk of financial instability. It also noted that key indicators within their analysis were the ‘level of reserves held’, ‘the change of reserves’, ‘depletion time of reserves’ and ‘council budget flexibility’.*

*CIPFA’s analysis of local authority financial resilience has provided a useful insight into the Council’s earmarked reserves position. The screenshot below taken from the analysis demonstrates that the Council’s earmarked reserves (as at 31 March 2018) were considered to be robust in comparison to other Metropolitan Districts.*

**Tier Group**

UPPER  LOWER

Authority

Methodology

Comparator Group

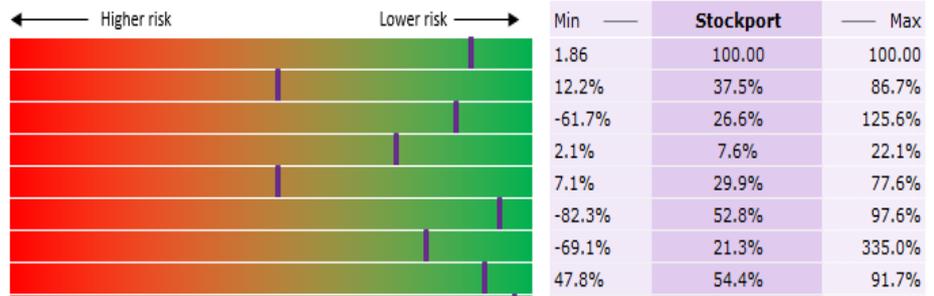
Year



**Results Breakdown**

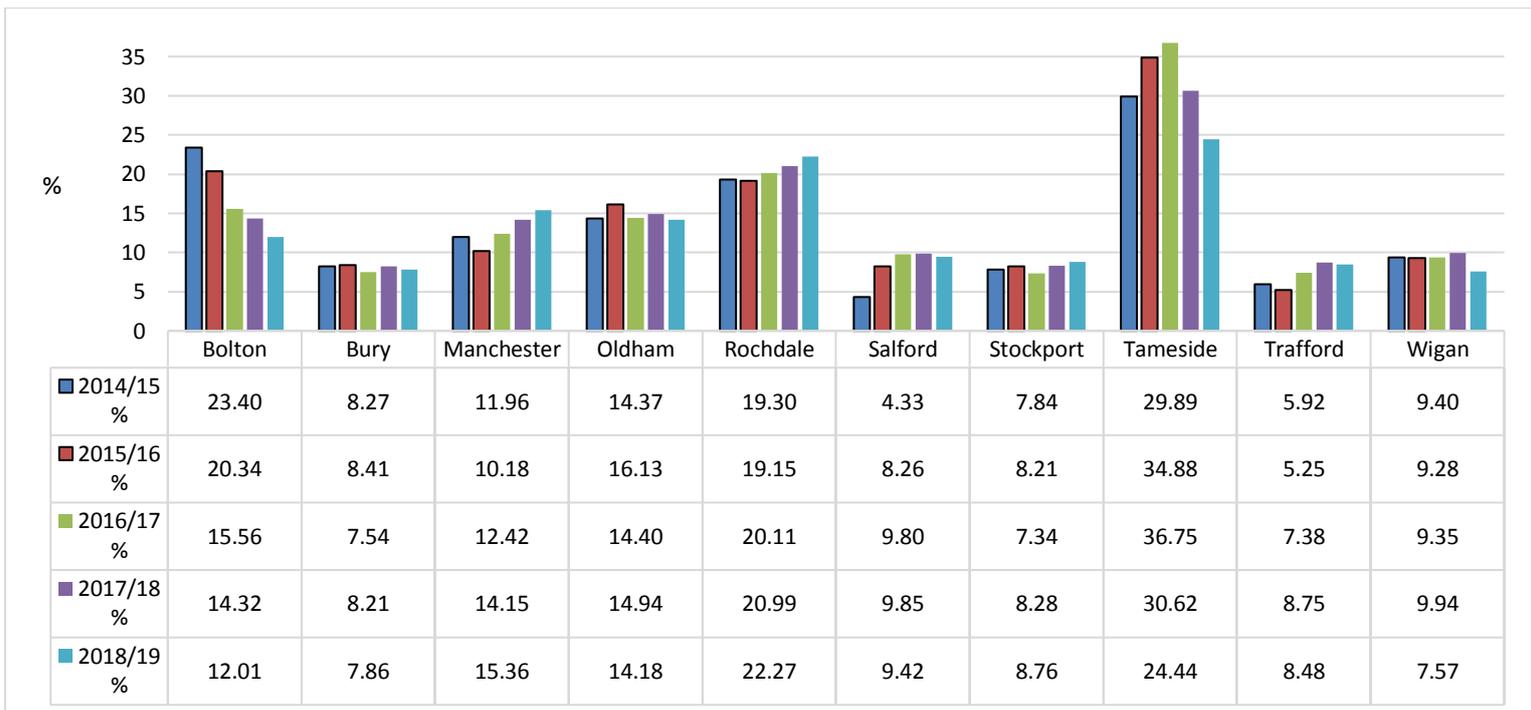
**Indicators of Financial Stress**

- Reserves Depletion Time ⓘ
- Level of Reserves ⓘ
- Change in Reserves ⓘ
- Unallocated Reserves ⓘ
- Earmarked Reserves ⓘ
- Change in Unallocated Reserves ⓘ
- Change in Earmarked Reserves ⓘ
- Council Budget Flexibility ⓘ

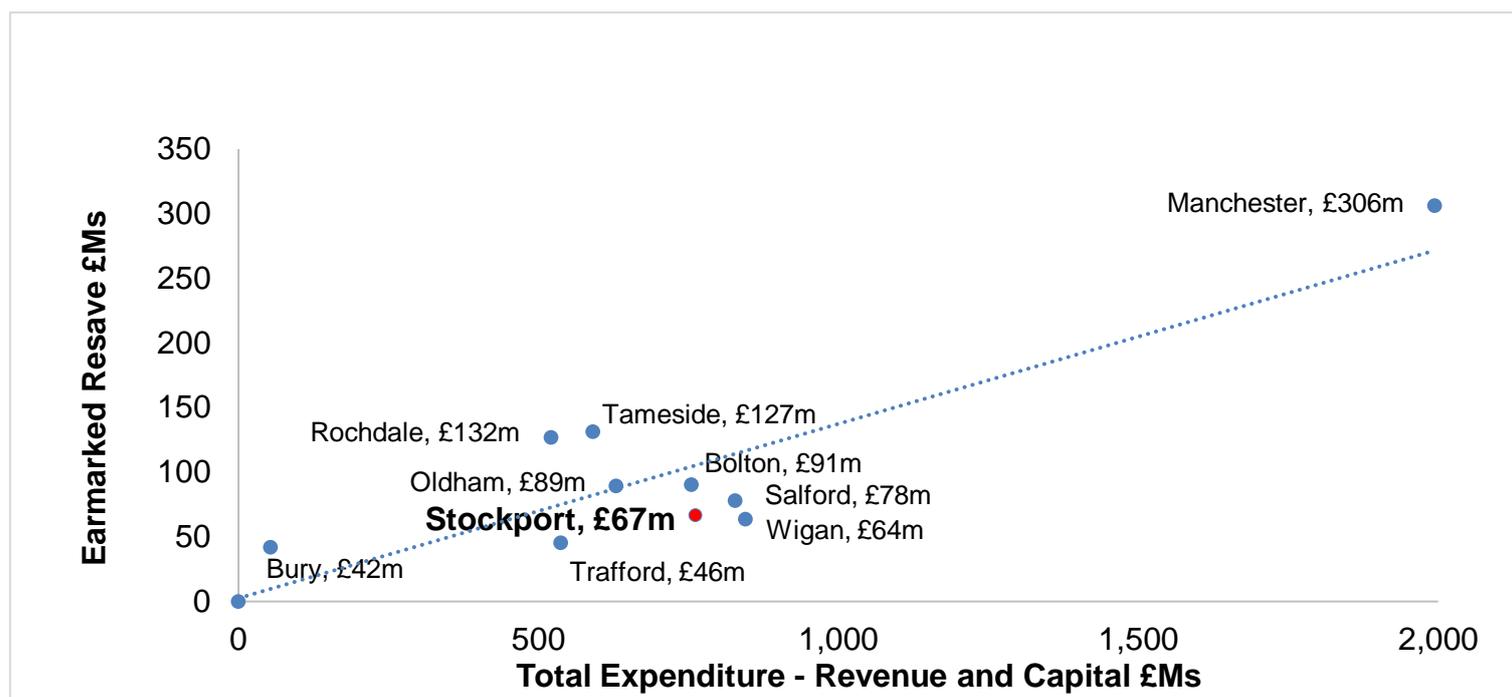


The charts below shows how the Council's level of reserves relative to total expenditure (gross revenue expenditure and capital expenditure as per the Council's 2018/19 Statement of Accounts) compares to the other Greater Manchester Authorities.

**Earmarked Reserves as a Percentage of Total Expenditure**



## 2018/19 Earmarked Reserves Compared to Total Expenditure



### 4. 2020/21 RESERVES POLICY

4.1 The 2020/21 Reserves Policy sets out the four categories of earmarked reserves that are recommended to be held with individual risk based earmarked reserves linked to each category. The four categories identified are:

- **Reserves Linked to Budget** – earmarked reserves linked to the Council’s transformational change priorities;
- **Strategic Priority Reserves** – earmarked reserves linked to the Council’s priorities over the medium term financial plan;
- **Reserves Linked to Budget Resilience Issues** – earmarked reserves linked to the financial resilience of the Council, for example being able to respond to unexpected demand pressures; and
- **Corporate Reserves** – statutory and ringfenced reserves.

4.2 The annual review of the Policy has considered the appropriate level of earmarked reserves held within each of these categories to mitigate the impact of the risks and financial challenges the Council faces over the medium term period. As part of the annual review of earmarked reserves, the following adjustments and reclassifications have been actioned to ensure monies held continue to be aligned to the Council’s corporate and strategic priorities as well as addressing immediate financial pressures as a result of the COVID19 pandemic.

- **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 June 2020.
- **Directorate Reserve** – the Place Directorate reserve has been topped up by £0.162m to the recommended level of £0.250m. As a result, each Directorate will have £0.250m of one-off 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 in 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.

4.3 A summary of the risk based earmarked reserves held in each category and the recommended level they are held at is included in Appendix 2. Approved commitments against each reserve are shown, it is assumed that approved commitments will not require re-approval. It is recommended that the amount available shown for each reserve is used for the purpose it has been earmarked against (for example the use of the insurance reserve is to be used to fund insurance related costs).

4.4 The Reserves Policy also details the approval required in order to draw down from or transfer into each reserve during the year (see Appendix 3). This will ensure that the use of the resources held in the Council's earmarked reserves are used to maximum effect in line with the Council's corporate and strategic priorities, and if needed in its financial response to the COVID19 pandemic allowing a corporate approach to be taken to their use.

## 5. RATIONALE FOR THE PRIORITY AREAS IDENTIFIED

5.1 The annual review has concluded that the total level of earmarked reserves held by the Council (following the realignment of resources detailed above) of £76.362m was appropriate to provide the Council with the financial resilience against the impact of risks and financial challenges over the medium term period prior to the COVID19 pandemic. It is also noted that in line with the Council's Section 151 Officer risk assessment included in the 2020/21 Budget, a General Fund Balance of £10.200m will be held during the financial year.

- 5.2 However, Section 6 of this report provides further detail on the sufficiency of the resources held in addition to resources to be received during the year to support the Council's financial response to the COVID19 pandemic over the medium term period. It is recognised that resources held in earmarked reserves can be made available (uncommitted) to support the Council's financial response to the COVID19 pandemic, but this would present an opportunity cost in the use of the resources, and severely impact the Council's financial resilience and robustness and its ability to deliver the MTFP whilst delivering on its growth and reform ambitions.
- 5.3 The following paragraphs provide detail on the rationale for the priority areas identified in the Reserves Policy and the level of balances held.

### **Reserves Linked to Budget**

- 5.4 A total of £13.315m (£1.947m approved commitments) is recommended to be set aside in the identified reserves linked to the Council's budget. The following individual reserves were identified in this category:
- Transformation – Invest to Save Reserve
  - Transformation – Double Running Reserve
  - Workforce Investment/Change Reserve
  - Airport Reserve
- 5.5 The rationale for these reserves is to provide funding to deliver the Council's transformational change projects over the medium term period. The MTFP approved at the Budget Council meeting in February identified a £8.743m savings requirement in 2021/22 rising to £17.031m by 2022/23. To achieve these savings it is acknowledged that the Council will need to make significant transformational changes over the medium term period. Changes to service operating models often require an initial financial investment to initiate and implement the change needed which these reserves can be used to fund and support (double running). The recognition of the requirement to double run services undergoing complex transformation mitigates against the risks of timing and phasing delays of the benefits expected to accrue.
- 5.6 The Council's average cost of redundancies over the last three years has been circa £0.760m per year. Monies set aside for future workforce changes need to be sufficient to meet these costs in addition to providing funds for workforce investment going forward. It is recognised that transformational change of service delivery models is needed going forward to meet the significant financial challenge faced by the Council. This reserve will ensure the costs of transformational change relating to workforce changes can be met whilst supporting the achievement of savings. In addition, it is recognised that the Council's workforce needs investment in training and development as service delivery models transform and the Council ensures it has the right skills and competencies within its workforce to adapt to the challenges ahead.
- 5.7 A key risk within the budget is the expectation of external income being received each year. The Manchester Airport dividend payment is an example of this. For 2020/21 the Council has an Airport dividend budget of £6.408m linked to the current investment being made to improve the Airport's terminals and increase capacity. It should be noted that the payment of dividends is outside of the Council's control and not contractually binding like other strategic investments made by the Council.

5.8 Using a reserve to mitigate the risk of the timing of future dividend payments and the possibility they could be less than the amount budgeted for (or even cease) over the medium term period is considered a prudent approach. The COVID19 pandemic has seen the realisation of this risk and the need to bolster the reserve. Clearly unprecedented events such as a global health pandemic impacts organisations like the Airport and the sustainability of its dividend payments. Setting a reserve aside to meet the expected non-payment of dividend in 2020/21 provides the Council with a buffer to assess the financial impact of COVID19, and further Government support funding particularly linked to commercial losses and put in place a funding option which bridges the funding gap and smooths the impact of the income loss. It is considered prudent to set aside monies in reserve to provide this buffer in 2020/21. This will need to be continually reviewed to reflect the Council's and Airport's COVID19 financial response and recovery.

### **Strategic Priority Reserves**

5.9 A total of £34.088m (£29.521m approved commitments) is recommended to be set aside in the identified reserves supporting the Council's strategic priorities. The following individual reserves were identified in this category:

- Cabinet One-Off Investments/MTFP Reserve \*NEW\*
- Greater Manchester Bus Reform Reserve \*NEW\*
- Capital Investment Reserve - Projects
- Capital Investment Reserve – Stockport Interchange
- Capital Investment Reserve – Merseyway
- Capital Investment Reserve – Mayoral Development Corporation
- Capital Investment Reserve – Town Centre and District Schemes
- Corporate Property Reserve
- Infrastructure Investment Reserve
- Digital by Design Reserve/Radical Digital Authority
- Health and Social Care Integration Reserve
- Equipment Refresh Reserve
- Waste Smoothing Reserve
- Traded Services reserve
- Community Investment Reserve
- SEND Review

5.10 The rationale for these reserves is to provide sufficient funding to support the Council's corporate and strategic objectives over the medium term period. Ensuring that resources are available within reserves to support these priorities will enable the Council to be successful in delivering against these whilst meeting the saving requirements identified in the MTFP.

5.11 These reserves help the Council to mitigate the unforeseen and unknown costs of achieving its priorities avoiding additional cost pressure being passed to cash limit budgets. It is essential to ensure that the Council has reserves in place to mitigate these risks to ensure that any unforeseen and unknown costs and/or income phasing issues do not cause any shocks to the Council's cash limit budgets creating additional budget pressures.

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

5.12 A total of £3.979m (£0.044m approved commitments) is recommended to be set aside in the identified reserves linked to budget resilience issues to ensure the robustness of the Council's budget. The following individual reserves were identified in this category:

- Children's and Family Reserve
- Adults Reserve
- Demand Changes Reserve

5.13 The rationale for these reserves is to support those service areas which contain highly volatile cash limit budgets due to demand and inflationary pressures. This is particularly important for those Service Areas which deliver the Council's statutory obligations and support the most vulnerable residents. It is important that these resources are available to provide the Council with short term budget resilience against these pressures whilst a permanent solution is found. Without these reserves being available there is a risk that the Service Areas experiencing these budget pressure have a permanent deficit position going forward and impact on the Council's ability to set a balanced budget.

## **Corporate Reserves**

5.14 A total of £24.230m (£17.083m approved commitments) is recommended to be set aside in the identified corporate reserves. The following individual reserves were identified in this category:

- Insurance Reserve
- Collection Fund Reserve
- Legislative and Statutory Requirements Reserve
- Third Party Monies Reserve
- Area Committee Reserves
- Revenue Grants Reserve
- RCCO Reserve
- Income and Interest Rate Risk Mitigation Reserve

5.15 These reserves are required to ensure the Council is able to meet its legislative and accounting requirements, and to ringfence third party and grant monies for particular spending requirements that need to be phased over more than one year.

5.16 A significant reserve in this category is the £5.145m insurance reserve. The level of this reserve is determined on an annual basis following advice from the Council's professional insurance advisors who link the level of monies available in the Council's insurance reserve and insurance provision to its claims profile. The Council continues to reduce insurance premiums by accepting larger excesses, in plain terms insuring more risk itself. This reserve provides a level of self-insurance which helps to manage the costs of insurance policy premiums across the Council.

5.17 The Revenue Grant Reserve of £10.660m includes £8m of the first tranche of COVID19 Government support funding received at the end of March 2020. The reserve also holds monies held (including grants received from Central Government) to support the funding of costs linked to the UK leaving the EU are held within the Revenue Grants Reserve. These resources are ringfenced to the

mitigation of future costs following the conclusion of the negotiations on a trade deal and the end of the transition period on 31 December 2020. At the time of writing, the impact this will have on the Council remains unclear.

## **Directorate Reserves**

- 5.18 A total of £0.750m (£0.163m approved commitments) is recommended to be set aside to support Directorates in year spending and the mitigation of budget pressures. The rationale for these reserves is to provide each Directorate with resources that can be used, in consultation with Cabinet Members, to manage their in year budget position and provide additional funding to Services Areas where required. The balance reflects each Directorates' available (unused) balance.

## **6. COVID19 FINANCIAL IMPACT AND RESPONSE**

- 6.1 The financial challenge presented by the impact of the COVID19 pandemic is unprecedented. The Council's current forecast of the financial impact (cost and loss of income) was submitted to Government on 4 September showing an estimated adverse impact of £19.6m in 2020/21; this is net of the Government support funding received to date and taking account of favourable adjustments relating to core budget underspends and offsets, and accounting adjustments. In line with the accounting requirements for the Collection Fund and support provided by Government in this area, £10.2m of this impact can be deferred and spread over the next three financial years 2021/22 to 2023/24. As a result, the current 2020/21 forecast outturn deficit for the Council is £9.4m (this is the Council's overall financial position as at the end of August 2020). Members are asked to note that the forecast does not include estimates of the financial impact of a second wave of COVID19 and/or a further national/local lockdown scenario.
- 6.2 Whilst the Council took early assurances from the Government's stance that Local Government would be supported in its overriding aim to support residents and businesses to mitigate the impact of COVID19, it is clear that Government expect Local Authorities to share the burden. It is recognised the financial legacy of the pandemic will go beyond 2020/21 and is perhaps of greater concern. The impact is expected to be wide ranging including the financial scarring impacts of reduced income from local taxation, suppressed level of sales, fees and charges and commercial income, and increased cost of services operating in an 'new-normal' whilst dealing with increased levels of demand for example. It is important therefore that the Council's earmarked reserves are seen in a longer term context of any financial impact (not just 2020/21) to provide the required ability to mitigate and smooth any impact over the medium term period.
- 6.3 On this basis the Council is assessing the short, medium and long-term financial impact of the current situation in terms of expenditure pressures and income loss. The work on this is being progressed by the Finance Team as part of the in-year monitoring, review and update of the Council's MTFP and monthly iterations of the Government COVID19 financial impact return. It is already identified that at the very least the MTFP over the next three years will be adversely impacted by circa £9.8m as a result of the loss of the Airport dividend and spreading of the 2020/21 forecast Collection Fund deficit. In addition, there will be financial scarring impacts detailed in paragraph 6.2.

6.4 The Council's COVID19 return to Government has identified £6.746m of earmarked reserves and General Fund balances directly linked to areas of financial impact as a result of COVID19 pandemic. If needed these resources can be used to support the mitigation of the financial impact in 2020/21. It is noted that in the event these resources are needed, earmarked reserves and particularly General Fund Balances would need to be replenished as part of the Section 151 Officers risk assessment of the Council's 2021/22 Budget.

	£000	Replenish When
<b>Earmarked Reserves</b>		
Airport Reserve	750	2021/22
Income Risk and Interest Mitigation Reserve	2,067	2021/22
	<b>2,817</b>	
<b>General Fund Balance</b>		
Income - Yield Risk	748	2021/22
Income - 2020/21 Saving Proposals	209	2021/22
Public Health	472	2021/22
Major Disaster/Emergency	2,500	2021/22
	<b>3,929</b>	
<b>Total</b>	<b>6,746</b>	

6.5 The annual review of the Reserves Policy has considered the COVID19 financial impact and how, if needed, resources held in earmarked reserves could be uncommitted to meet any funding gap over the medium term period in the absence of further Government support funding. This part of the review provides assurance that further resources (in addition to those already identified above) held in earmarked reserves can be made available (uncommitted) to support the Council's financial response to the pandemic over the medium term period if needed. The options that can be considered include the following (noting for each option that there is an opportunity cost to the Council that will have a severe impact on the Council's financial resilience and robustness over the medium term period):

- Release of uncommitted resources held in earmarked reserves to support the Council's financial response to the pandemic. Consideration would need to be given to the consequence this would have on the achievement of the Council's growth a reform plans and the its ability to Build Back Better post COVID19;
- Release of resources held (including resources to be received in 2020/21) to fund the Cabinet one-off investments identified in the 2020/21 Budget to support the COVID19 financial response;
- Release of commitments that are funding transformation projects which could meet the legislation around the use of available capital receipts to fund revenue projects. Further detailed work would be needed to ensure the project meet the legislation requirements for the use of capital receipts to fund revenue costs. This would also require a change in legislation in relation to the use of housing capital receipts; and
- Release of commitments that are funding costs which could be capitalised and funded by additional borrowing. If the decision was taken to do this further detailed work would be needed to ensure costs meet the accounting requirements to be treated as capital. In addition, capital schemes affected would need to be reassessed to ensure they remain financially viable.

- 6.6 As noted in previous reports, the Corporate Director – Corporate and Support Services remains cautiously hopeful that at this moment, with continued and additional Government support, the Council can meet these challenges using its robust financial management platform that has been built pre-COVID19. Part of this assurance is based on the robustness of the Reserves Policy and the certainty it provides about the level of resources it has available to mitigate the impact of unplanned and unexpected events over the medium term period. Whilst the COVID19 pandemic is such an event it must be recognised that the financial impact is unprecedented and the use of earmarked reserves to provide further support (in the absence of further Government support) would need to be significant and have a severe impact on the Council and the Borough.
- 6.7 The Council's planned projects and investments supporting its growth and reform ambitions for the Borough are underpinned by the resources held in earmarked reserves. Having to significantly use these resources to support the financial response to the pandemic would require alternative sources of funding to be identified (i.e. borrowing) to support these plan. In some cases, it will render the projects and investments no longer financially viable to proceed due to the borrowing costs and resulting financial risk. This would have a damaging affect to the progress the Council had made through its investments and projects prior to COVID19. Ultimately this could hamper the Council's ability to Build Back Better post COVID19.
- 6.8 In addition, the significant unplanned use of earmarked reserves will impact on the Council's financial resilience and robustness over the medium term period. Again, this will significantly impact on the Council's ability to achieve its transformation objectives underpinning the MTFP Strategy and its Capital Programme. The financial resilience of the Council is key to the affordability of capital schemes where funding through additional borrowing is needed. For these schemes, earmarked reserves provide the required mitigation of financial risk to the Council and support their financial viability. Without sufficient earmarked reserves these risks cannot be mitigated.
- 6.9 As the financial impact of COVID19 on the Council continues to be refined and crystallise, the resources held in earmarked reserves will be reviewed. This will allow decisions to be made on the use of resources to support the Council's financial response with an understanding of the wider implications this would have on the Council and the achievement of its corporate and strategic objectives. For the reasons detailed above, in all instances the use of reserves will be considered a last resort to limit the need to use earmarked reserves in this way. For this reason, the Council alongside other Local Authorities will continue to lobby Government for further support funding.

## **7. CONCLUSIONS**

- 7.1 Overall the rationale for the Council's Reserves Policy is to ensure the reserves continue to be held at an appropriate level and aligned to the Council's corporate and strategic priorities. Doing this provides the Council with a robust contingency of resources to mitigate risks associated with the financial challenges over the medium term period. This will ensure the Council is in the best financial position to successfully deliver on its priorities over the medium term period.

- 7.2 Following the annual review of the Reserves Policy the Council has resources which prior to COVID19 were considered sufficient to provide the Council with the required level of financial resilience and robustness. The review has provided assurance that resources held in earmarked reserves can be made available if needed (in the absence of further Government support funding) to support the Council's financial response to the pandemic. However, the review has also been clear to recognise the severe impact using resources for this purpose would have on the Council's financial resilience and robustness over the medium term period and the impact this would have on the Council's ambition and priorities. For this reason, it is recommended that the use of resources held in reserves are considered as a last resort.
- 7.3 The Reserves Policy is an important part of the Council's financial resilience and response to the financial challenges ahead, it is likely that there will need to be further iterations during the year to align the Reserves Policy and the use of resources to the Council's MTFP updates. This will provide assurance that the Council can mitigate the financial impact in the short term whilst permanent funding options are identified and implemented aligned to the MTFP updates.
- 7.4 On the above basis, the Corporate Director – Corporate and Support Services remains cautiously hopeful that at this moment, with continued and additional Government support, the Council can meet these challenges using its robust financial management platform that has been built pre-COVID19

## **8. RECOMMENDATIONS**

- 8.1 Cabinet are recommended to:
- Note the annual review of Council's 2020/21 Reserves Policy including the level and rationale for the reserves held;
  - Approve the creation and reclassification of earmarked reserves held in line with the recommended amounts;
  - Note the review of resources to support the Council's financial response to the COVID19 pandemic over the medium term period if needed and the opportunity cost to the Council of using the resources for this purpose rather than the purpose they were earmarked to be used for;
  - Note the recommendation to use resources held in earmarked reserves to support the Council financial response to the pandemic as a last resort to mitigate the impacts detailed in the report; and
  - Approve the proposed 2020/21 Reserves Policy.

## **BACKGROUND PAPERS**

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Jonathan Davies on Tel: 218 1025 or by email on [jonathan.davies@stockport.gov.uk](mailto:jonathan.davies@stockport.gov.uk)