Meeting: CRMG 7 September 2021

2021/22 RESERVES POLICY

Report of the Deputy Chief Executive (Section 151 Officer) 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 2020/21 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 2020/21 Reserves Policy was approved by Cabinet at its meeting on 6 October 2020. 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 an 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 and mitigation of the financial scarring impacts as a result of the pandemic over the medium term period is the 2021/22 Reserves Policy. As the financial scarring impact 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 also recognised that there is a balance between mitigating the impact on the Council by using resources held in earmarked reserves 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;

AGENDA ITEM

- 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 2021/22 Reserves Policy is included in Appendix 1.

2. 2020/21 Council Outturn Position

2.1 The Council had a balance of £133.795m of earmarked reserves as at 31 March 2021. As reported in the outturn report, this included £41.508m of grants received from Government to compensate the council for the Business Rates extended retail relief given to Stockport businesses to support them through the pandemic. These grants have now been released during Quarter 1 and along with other use of reserves, the revised balance as at Quarter 1 is £84.830m.

2.2 In addition, the 2020/21 outturn position was a surplus of £1.022m and this has been considered as part of this year's Reserves Policy review.

3. Financial Resilience

3.1 The future of local government funding is still uncertain; changes as a result of the fairer funding review are still expected but implementation dates are still unclear, we are still expecting government policy with regards to the sustainable funding of social care and we are awaiting the Comprehensive Spending Review in the hope of a more sustainable and medium term settlement for local government in order that we can plan for the future. In this context the reserve policy is crucial in helping the Council deal with the risk, uncertainty and complexity of this policy context.

3.2 The past twelve months have illustrated the importance of the Council's financial resilience to the impact of unplanned/unforeseen events. Inevitably the pandemic has tested the Council's financial resilience. As already highlighted the financial impact of the pandemic has been unprecedented and is expected to have financial scarring impact over the medium-term period meaning the Council's financial resilience will continue to be tested. The Council's strong financial management has ensured its robustness and resilience to the many challenges during 2020/21 evidenced by the Council's ability to mitigate the financial impact and set a balanced budget in 2021/22. It is important that the Council continues to build on this to address and mitigate the financial challenges ahead.

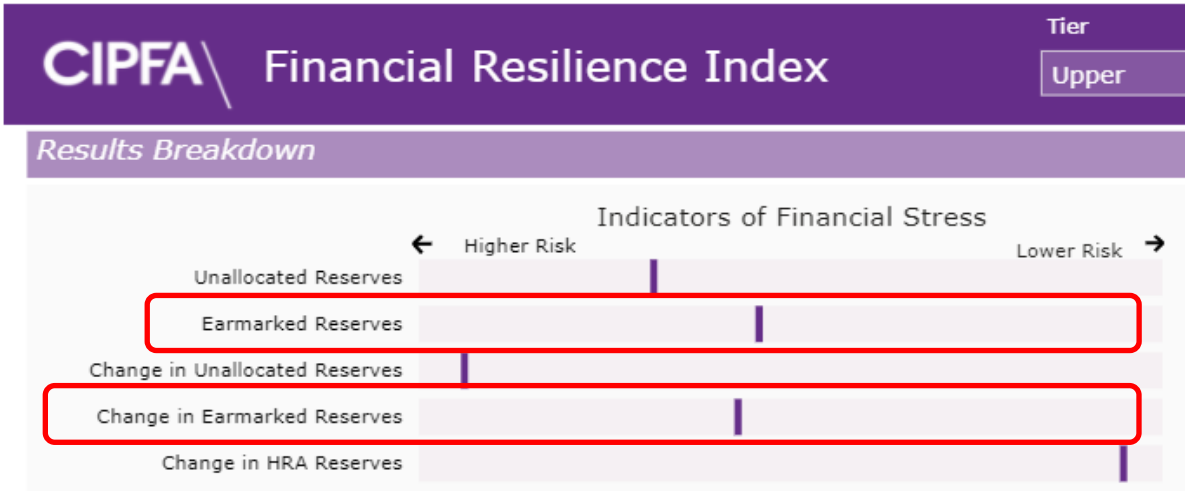
3.3 There are a number of ways the Council demonstrates its financial resilience to Council Members and Stockport residents:

- **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. An internal audit of the Council's financial governance and financial resilience will be completed in 2021/22.

3.4 As part of the wider focus on Local Authority financial resilience particularly following the past twelve months, CIPFA's Financial Management Code of Practice is now expected to come into effect from April 2022. The Financial Management Code is based on six principles supporting financial resilience, which the Council will need to demonstrate it complies with:

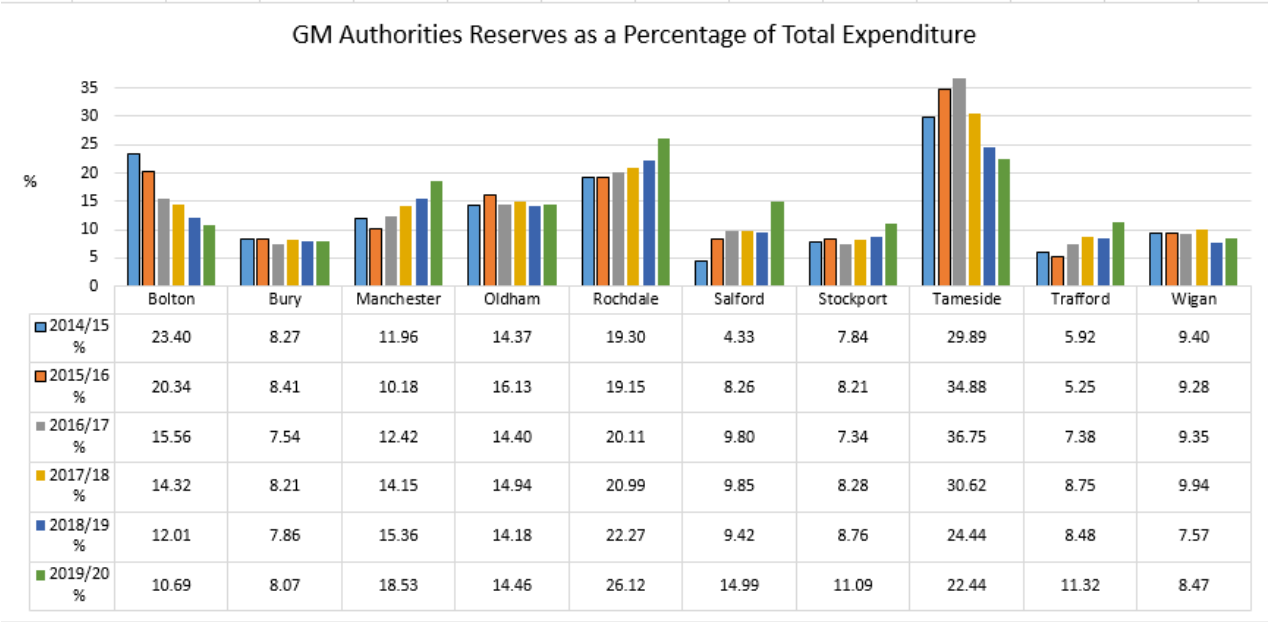
- **Organisational leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to **professional standards** is promoted by the leadership team and is evidenced.
- **Sources of assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The **long-term sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

3.5 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 2020) were considered to be robust in comparison to other Metropolitan Districts. The change in unallocated reserves reflects the General Fund Balance over the last 3 years (2017/18 – 2019/20). The indicator is a slight anomaly (indicating higher risk) as outturn surpluses are temporarily held here at year end and are reviewed and re-aligned to Earmarked Reserves through the reserves policy. Members will be aware that when the 2021/22 budget was set the General Fund balance was increased by £4.983m to the recommended £15.183m following the Section 151 Officer's risk assessment of the budget.



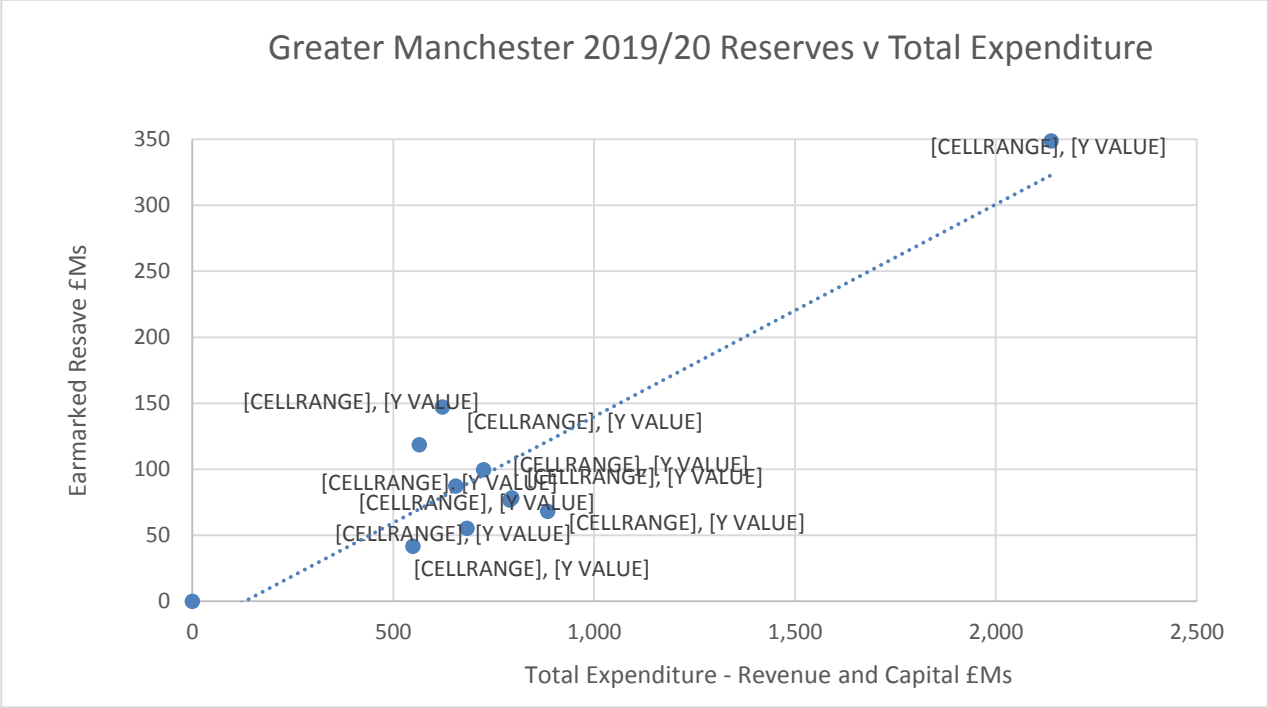
The charts below shows how the Council's level of reserves relative to total expenditure (gross revenue expenditure and capital expenditure as per the Council's 2019/20 Statement of Accounts) compares to the other Greater Manchester Authorities.

Earmarked Reserves as a Percentage of Total Expenditure



	Bolton	Bury	Manchester	Oldham	Rochdale	Salford	Stockport	Tameside	Trafford	Wigan
2014/15 %	23.40	8.27	11.96	14.37	19.30	4.33	7.84	29.89	5.92	9.40
2015/16 %	20.34	8.41	10.18	16.13	19.15	8.26	8.21	34.88	5.25	9.28
2016/17 %	15.56	7.54	12.42	14.40	20.11	9.80	7.34	36.75	7.38	9.35
2017/18 %	14.32	8.21	14.15	14.94	20.99	9.85	8.28	30.62	8.75	9.94
2018/19 %	12.01	7.86	15.36	14.18	22.27	9.42	8.76	24.44	8.48	7.57
2019/20 %	10.69	8.07	18.53	14.46	26.12	14.99	11.09	22.44	11.32	8.47

2019/20 Earmarked Reserves Compared to Total Expenditure



4. 2021/22 RESERVES POLICY

4.1 The 2021/22 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. The Council's 2020/21 outturn surplus of £1.022m has been allocated to the new MTFP Resilience and Smoothing Reserve in 2021/22 as recommended by the Section 151 officer following the annual review of reserves and balances.

4.3 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 the creation of 3 new reserves as set out below:

- **MTFP Resilience and Smoothing Reserve *New*** – A new reserve created within the Reserves Linked To Budget category to support the MTFP as the Council continues its recovery from the financial scarring impacts of the

pandemic. This reserve has been disaggregated from the Cabinet one-off investments/MTFP reserve and therefore Cabinet one-off investments are held exclusively within its own reserve. The MTFP Resilience and Smoothing Reserve will hold £4.337m of resources to help meet the financial challenge this presents the Council over the medium term period.

- **Climate Action Now Reserve *New*** – This is a newly created reserve set up to help support the Council's ambitions around climate change. Resources of £1.131m have been realigned to this reserve.

- **Contain Outbreak Management Reserve *New*** - A new reserve has been created to earmark resources to support the council's outbreak management action and recovery plans. £0.530m has been aligned to this reserve.

4.4 In addition to the newly created reserves, the following highlights a number of reserves that have **increased** following the review:

- **Airport Reserve** – £7.386m of resources have been realigned to mitigate the financial scarring of Covid-19. This provides a total reserve of £12.816m to cover commercial income losses linked to the Airport in the short to medium term and mitigates the impact on the budget and MTFP.

- **Legislative and Statutory Requirements Reserve** - £0.513m of resources have been realigned to this reserve to bring the recommended minimum balance to £1.500m of which £0.750m has been committed to support the acceleration of delivery of the ONE Stockport Local Plan.

- **Workforce Investment/Change Reserve** - the reserve has been increased by £0.216m. This leaves an available balance of £2.523m to support costs of workforce investment and change over the medium term period to 2023/24 i.e. current year plus two further years. This includes funding any pay inflation over and above amounts assumed in the MTFP. A commitment of £1.648m has been put against the reserve to fund the cost of the pay inflation in 2021/22. The commitment reflects the cost of a 1.75% pay award but it is noted that employer negotiations with Trade Unions are ongoing.

- **Insurance Reserve** – the reserve has been increased by £0.080m to £6.225m. This reserve highlights the uncertainty of the impact from Covid-19 and therefore it is prudent to retain balances at this level.

- **Third Party Monies Reserve** – this reserve has increased by £0.079m following a reclassification of a commitment from the Legislative and Statutory Requirements Reserve. This balance is now £0.534m.

- **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 2021/22 Budget.

4.5 Below highlights a number of reserves that have **decreased** following the review:

- **Capital Investment Reserve – Merseyway** – this reserve has been reduced by £3.820m and realigned to the Airport Reserve due to the project being

awarded grant funding matching 100% of the funding bid from the Future High Street Fund (FHSF).

- **Cabinet One-Off Investments Reserve** – As stated above, the MTFP resources held here have been disaggregated and realigned to a new MTFP Resilience and Smoothing Reserve. This reserve is now held solely for the purpose of allocating Cabinet One-Off positive investments and holds £2.400m of investments approved as part of the 2021/22 budget in February 2021.

- **Health and Social Care Integration Reserve** – this reserve has reduced by £3.230m following a review of the commitments against this reserve. Resources have been realigned to support the increase in the Airport Reserve and the MTFP Resilience and Smoothing Reserve. This provides a total reserve of £7.675m which has been assessed as sufficient to support the Adult Social Care budget and ongoing transformation projects.

- **Revenue Grant Reserve** – this reserve has reduced by £0.943m following a review of commitments against this reserve. This reflects unconditional grants that have been spent within its allocation creating surplus resources that can be realigned.

4.6 The remaining adjustments have also been realigned to support the increase in the Airport Reserve and the MTFP Resilience and Smoothing Reserve. Each adjustment has been assessed to ensure the level of reserve held remains sufficient to support its intended purpose whilst recognising the need to realign resources to support the Council's MTFP in terms of commercial income losses and ongoing financial resilience and robustness:

- **Transformation Double Running Reserve** – the reserve has been reduced by £0.446m. This leaves an available balance of £1.500m to support transformational investment over the medium term period to 2023/24.

- **Transformation Invest to Save Reserve** – the reserve has been reduced by £0.370m. This leaves an available balance of £2.283m to support transformational investment over the medium term period to 2023/24.

- **Children's Reserve** – this reserve has been reduced by £0.239m leaving a recommended balance of £1.600m.

- **Waste Smoothing Reserve** – this has been reduced by £0.172m leaving a recommended balance of £0.392m available which represents a 2% variation to the 2021/22 Waste Levy.

- **Collection Fund Reserve** – this reserve has reduced by £0.101m leaving a recommended balance of £1.250m.

- **Demand Changes Reserve** – this reserve has reduced by £0.079m leaving a recommended balance of £0.500m.

- **Adults Reserve** – this reserve has reduced by £0.062m leaving a recommended balance of £1.500m

- **General Fund Balance** – this has reduced by £1.022m leaving a balance of £15.183m which is the minimum balance following the Section 151 Officers risk assessment of the Council's 2021/22 Budget.

4.7 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).

4.8 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 recovery response to the 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 £85.852m was appropriate to provide the Council with the financial resilience against the impact of risks and financial challenges over the medium term period. It is also noted that in line with the Council's Section 151 Officer risk assessment included in the 2021/22 Budget, a General Fund Balance of £15.183m will be held during the financial year.

5.2 Section 6 of the report provides further detail on how reserves will help support the Council's financial recovery from the financial scarring impacts of the pandemic over the medium term period. It is recognised that the financial scarring presents a significant risk to the revenue budget and resources held in earmarked reserves can help mitigate that risk to support the Council's financial recovery as it transitions to a post pandemic environment. It must be acknowledged that resources used for this purpose would present an opportunity cost in the use of the resources to deliver the council's 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 £23.459m (£18.801m risk related commitments and £0.656m 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
- MTFP Resilience and Smoothing Reserve *New*

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 £23.177m savings requirement in 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 £0.825m 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. A commitment has been added against the Workforce Investment/Change Reserve to fund any pay inflation over and above the amounts assumed in the MTFP. 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. Using reserves to mitigate the risk of the timing of future external income 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 pandemic has seen the realisation of this risk and the need to bolster the reserve. Clearly unprecedented events such as a global health pandemic has impacted on the travel and hospitality sectors. Setting a reserve aside to smooth the financial impact of the income loss over the medium term period provides the Council with a short term buffer. It is considered prudent to set aside monies in reserve to provide this buffer. This will need to be continually reviewed to reflect the Council's and Airport's Covid-19 financial response and recovery over the medium term period.

Strategic Priority Reserves

5.8 A total of £31.559m (£27.147m 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 (previously included MTFP)
- Greater Manchester Bus Reform Reserve
- Climate Action Now Reserve *New*
- Contain Outbreak Management Reserve *New*
- 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

5.9 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.

5.10 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

5.11 A total of £3.600m (£0.100m 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

5.12 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

5.13 A total of £26.485m (£11.280 risk related commitments and £14.455m 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

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

5.15 A significant reserve in this category is the £6.225m 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.

5.16 The Revenue Grant Reserve of £10.387m includes £8.547m of Covid-19 related grants received from Government. This includes Local Restrictions Support Grant, Council Tax Hardship Grant and Clinically Extremely Vulnerable Grant that will be spent during 2021/22 to support businesses and residents affected by the pandemic.

Directorate Reserves

5.17 A total of £0.750m (£0.365m 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. COVID-19 FINANCIAL SCARRING IMPACT RECOVERY

6.1 The annual review of the Reserves Policy has considered the financial scarring impact of the pandemic and the Council's financial response and recovery over the medium term period. Whilst realignment of resources have provide additional resilience in terms of the Airport Reserve and the MTFP Resilience and Smoothing Reserve, it is recognised that if needed resources held in earmarked reserves could be uncommitted to meet any funding gap over the medium term period. 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 ongoing financial response and recovery over the medium term period if needed.

6.2 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 and recovery 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 ambitions going forward;

- Release of resources held to fund the Cabinet one-off investments identified in the 2021/22 Budget;
- 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 projects 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;
- 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; and
- Release of revenue resource held to fund the cost of capital schemes. Further detailed work would be needed to determine where these resources could be switched to other forms of capital funding i.e. borrowing and what the revenue cost implications of this would be.

6.3 However, it is recognised that a sustained and significant use of earmarked reserves will have a severe impact on the Council and the Borough in terms of it priorities and its ongoing resilience as follows:

- 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 will require alternative sources of funding to be identified (i.e. borrowing) to support these plans. 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 effect to the progress the Council had made through its investments and projects prior to pandemic;
- 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 and its Capital Strategy and Programme; and
- 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.

6.4 The Council remains in a strong financial position due to the robustness and resilience of its financial management despite the unprecedented uncertainty, volatility and risk it has faced and continues to face. A key 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 and has avoided any risk of Section 114 notices (declaring the Council's bankruptcy) and the request for Government support through capitalisation directives. However, it is recognised that the adverse financial legacy of the pandemic is significant and the

underpinning of the MTFP with the use of identified earmarked reserve will be needed. For this reason, it is recommended that the use of earmarked reserves to support the MTFP and smooth the financial impact over the medium term period is limited to £20m.

6.5 As the national and local economy continues to recover from the pandemic, and the financial scaring impacts crystallise, the resources held in earmarked reserves will continue to be reviewed. This will allow decisions to be made on the use of resources to support the Council's ongoing financial recovery with an understanding of the wider implications this would have on the Council and the achievement of it corporate and strategic objectives. Whilst recognising the need to use earmarked reserves of up to £20m to support the MTFP to smooth the financial impact, for the reasons detailed above, the significant use of these resources will be considered a last resort to limit the need to use earmarked reserves in this way.

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 are considered sufficient to provide the Council with the required level of financial resilience and robustness over the medium term period. The review has provided assurance that resources held in earmarked reserves can be made available if needed to support the Council's ongoing financial response and recovery from the financial scarring impacts of 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 ambitions and priorities. For this reason, it is recommended that the use of resources held in reserves are considered as a last resort and limited as set out in the report.

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.

8. RECOMMENDATIONS TO THE CABINET

8.1 Cabinet are recommended to:

- Note the annual review of Council's 2021/22 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; and
- Approve the proposed 2021/22 Reserves Policy.

9. RECOMMENDATIONS TO THE SCRUTINY COMMITTEE

The Scrutiny Committee is recommended to comment on and note the report.

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