

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 2021/22, 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 £85.852m.
- 3.2 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.
- 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. Below highlights a number of reserves that have **increased** following the review:
 - **MTFP Resilience and Smoothing Reserve** – A new reserve created within the Reserves Linked To Budget category to support the MTFP as

the Council continues its recovery from 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.

- **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.
- **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.
- **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.

3.4 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 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.

3.5 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. 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 £2.283m 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 £1.500m 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 £2.523m 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 has been impacted by the loss of income from the Manchester Airport dividend. The purpose of this reserve was to mitigate that risk. This risk has now materialised and therefore it is prudent to ensure there is enough resources held to minimise the impact on the Council Budget. It is recommended that this reserve is held at £12.816m to support the Council's MTFP through the short to medium term.

MTFP Resilience and Smoothing Reserve - *New*

The impact of Covid-19 continues to put significant strain and uncertainty on Council resources and therefore a specific reserve has been established to help support the Council through the medium-term period. It is recommended that a reserve of £4.337m should be held to ensure it can continue to set a balanced budget each year.

4.2 Strategic Priority Reserves

Cabinet One-Off Investment Reserve

One-off resources set aside to fund the Cabinet's one-off investment projects approved in the Council's 2021/22 Budget. It is proposed that the reserve is reviewed annually in line with the Council's Strategic Priorities. It is recommended that a reserve of £2.400m is held.

Greater Manchester Bus Reform Contribution

£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.

Climate Action Now - *New*

This new reserve has been established to support the Council's ambition/priority to tackle climate change. Climate change is becoming increasingly significant given the impact seen across the globe and locally. Therefore, this reserve has been created with £1.131m resources available to support Stockport's contribution to climate change.

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.

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 £5.471m 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 £1.521m 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 £0.652m 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 £1.387m 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 £2.652m 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 £7.675m 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 £0.095m 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 £0.392m is held. This equates to 2% of the 2021/22 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 £0.623m 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 reviewed 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 £1.600m 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 £1.500m 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 £0.500m 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 no conditions attached or where conditions have been met but expenditure it yet to be incurred. This reserve includes balances of Government Covid-19 Grants received by the Council.

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 £3.805m

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.