

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, 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. Annual Reserves Policy Review

- 3.1 It is acknowledged that the level of reserves held and how these are earmarked to specific corporate and strategic 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 financial risks over the medium term. 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.
- 3.2 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 ambitions and priorities 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.
- 3.3 Existing approved commitments following the annual review will not require re-approval. Approved commitment balances more than a year old where there is no certainty about the profile of costs being incurred over the medium term will be released and the resource will become available as earmarked or realigned as part of the review.
- 3.4 Existing risk related commitments will continue to be held following the annual review to support the mitigation of potential financial risk over the medium-term.

4. Establishing the Priorities

4.1 Reserves Linked to Budget

Earmarked reserves linked to the Council's transformational change priorities as follows:

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. The balance shown in Appendix 2 will provide invest to save funding for the MTFP period. 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, the double running reserve allows time to embed new processes and new approaches to service delivery. This helps to fund the costs of dual running systems or services. The balance shown in Appendix 2 will provide funding for the MTFP period. 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. The balance shown in Appendix 2 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.

4.2 Strategic Priority Reserves

Earmarked reserves linked to the Council's priorities over the medium-term as follows:

Cabinet One-Off Investment Reserve

One-off resources set aside to fund the Cabinet's one-off investment projects approved in prior year budgets. It is proposed that the reserve is reviewed annually in line with the Council's Strategic Priorities.

Greater Manchester Bus Reform Contribution

Resources held are earmarked to fund the Council's contribution to the Greater Manchester Bus Reform. It is recommended that a reserve is reviewed annually informed by GMCA discussions on Greater Manchester bus reform and required contribution from the Council alongside the other Greater Manchester Council's.

Climate Action Now

Climate change is becoming increasingly significant given the impact seen across the globe and locally. Therefore, this reserve was created to make one-off resources available to support Stockport's ambition and priority to act against the impact of climate change across the borough.

Post-Covid Investment Reserve

This reserve has been renamed from Contain Outbreak Management (COMF) Reserve to Post-Covid Investment Reserve to reflect resources held are Council resource following the maximisation of the COMF funding in prior years. This reserve provides resources to support the council's post Covid recovery and investment plans.

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.

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.

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.

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.

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.

Digital by Design Reserve/Radical Digital Authority

Resources held to support the committed and planned costs of the Council's enabling programme delivering digital transformation. 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 across the borough.

Equipment Refresh Reserve

To ensure there are funds available for the replacement of equipment such as ICT (Information and Communications Technology), it is recommended that monies are set aside in reserve. Resources held will also support with funding costs linked Council core system upgrades and replacement such as the project looking at the Council's financial system.

Waste Smoothing Reserve

Resources set aside to mitigate the impact of increases to the waste levy. The finalisation of the contractual arrangements and the reduction in the risk of significant cost increase, it is recommended that a reserve which equates to 2% of the current year Waste Disposal Levy is held.

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.

SEND Review Reserve

Resources set aside for the Council's response to the SEND Review recommendations. The reserve will be reviewed annually in line with work being completed by Officers to respond to the review recommendations.

4.3 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 as follows:

MTFP Resilience and Smoothing Reserve

The impact of increasing service demand and inflation is putting significant strain and uncertainty on Council resources. Therefore, a specific reserve has been established to help support the Council through the medium-term. It is recommended that this reserve is reviewed annually alongside the Council's Medium Term Financial Plan (MTFP) to ensure it can mitigate in-year financial risk, continue to set a balanced budget each year and support the MTFP over the medium-term.

Children's Reserve

Children Services currently have a reserve to meet the costs of unexpected increases 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 is held to mitigate financial risk over the medium term. It is proposed that the reserve is reviewed annually and replenished to a level informed by the service position on expected demand and costs.

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 is held to support the service to manage these demand pressures over the medium-term period whilst permanent mitigations are identified. It is proposed that the reserve is reviewed annually and replenished on an annual basis to a level informed by the service position on expected demand and costs.

Demand Changes Reserve

Increases in service demand creates 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 whilst permanent mitigations are identified. It is proposed that the reserve is reviewed annually and replenished on an annual basis to a level informed by the service position on expected demand and costs.

4.4 Corporate Reserves

Statutory and ringfenced earmarked reserves as follows:

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 Council Tax and Business Rates income.

Legislative and Statutory Requirements Reserve

There are several 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. 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 is fully committed against existing approved spending priorities.

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.

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 the interest cost of 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 this reserve is reviewed annually in line with the Investment and Development Account forecasts.

4.5 Directorate Reserves

It is recommended that each Directorate holds a reserve to mitigate in year budget pressures across their services. It is proposed that the 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 (Housing Revenue Account) 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 Section 151 Officer before being sent for approval.

- **Reserves Linked to Budget** – Corporate Leadership team (CLT), Cabinet member for Finance & Resources, Council Leader or Council Deputy Leader.
- **Reserves Linked to Strategic Priorities** – CLT, Cabinet member for Finance & Resources, Council Leader or Council Deputy Leader.
- **Reserves Linked to Budget Resilience Issues** – Corporate Leadership team (CLT), Cabinet member for Finance & Resources, Council Leader or Council Deputy Leader.
- **Corporate Reserves** – Section 151 Officer in consultation with the Cabinet Member for Finance & Resources (except the Area Committee Reserve which will be approved by Cabinet Members and the Council Leader).

5.2 The use and creation of reserves during the year will be included within the finance monitoring reports presented to Scrutiny Committees and Cabinet during the financial year.

5.3 At the year end the Section 151 Officer will have discretion (within the boundaries of the Reserves Policy) to use and create reserves as appropriate in the context of the overall financial position of the Council.