

2023/24 RESERVES POLICY**Report of the Deputy Chief Executive (Section 151 Officer)****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 2022/23 outturn position.
- 1.2 Reserves play an essential role in the robust 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 and support investment to deliver the Council's ambitions and priorities over the medium term.
- 1.3 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.
- 1.4 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.
- 1.5 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 ambitions and priorities over the medium-term period.

1.6 The Council's proposed 2023/24 Reserves Policy is included in Appendix 1 and Appendix 2.

2. 2022/23 COUNCIL OUTTURN POSITION

2.1 The Council has a balance of £78.277m of earmarked reserves as at 31 March 2023. These reserves are held on the Council's balance sheet for specific purposes such as to mitigate financial risk and support investment linked to the Council's Council Plan ambitions and priorities.

2.2 The Council's 2022/23 outturn position was a deficit of £0.267m. This was funded by a corresponding use of the General Fund Balance at year end as required by legislation for Local Government accounting. As a result, the Council has a General Fund Balance of £14.916m as at 31 March 2023. The Section 151 Officer's risk assessment for 2023/24 identified a required General Fund Balance of £15.183m. The increase needed to the General Fund Balance to align resources held to the risk assessed amount has been reflected in the annual review.

2.3 Members are asked to note that the General Fund Balance is an unallocated reserve which is required by legislation for Local Government accounting to be held by the Council. The balance is risk assessed annually by the Council's Section 151 Officer and provides the Council with available unallocated resource to mitigate unplanned costs, uneven cash flows and unforeseen financial risk. The use of this balance would only be considered once the use of earmarked reserves has been exhausted (see Section 6).

3. 2023/24 RESERVES POLICY

3.1 The 2023/24 Reserves Policy sets out four categories of earmarked reserves recommended to be held:

- **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.

3.2 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 financial risks and challenges the Council faces over the medium-term period and support the delivery of the Council's ambitions and priorities.

3.3 At the start of 2023/24, the Council budgeted for an expected benefit of £6.274m being retained from the Greater Manchester 100% Business Rates retention. In previous years the benefit has been taken a year in arrears and used to support the Council's budget setting process and MTFP. However, greater certainty of Business Rates income retention as

part of the Greater Manchester Trailblazer Deal, announced alongside the Local Government Finance Settlement in December 2022, means the Council can prudently consider use of the expected benefit in the year it is achieved rather than in arrears. Collection Fund forecasts indicate that this is expected to be achieved at year end. However, recognising the volatility of Business Rates income forecasts which can be subject to rateable value appeals by businesses and changing taxbase during the year, it is recommended that the £4.705m (75%) of the expected benefit for 2023/24 is used to support the Reserves Policy annual review. The balance £1.569m will be held to mitigate forecast risk during the year and considered as part of the Council 2024/25 budget setting process.

3.4 Below highlights the reserves that have **increased** following the review:

- **Workforce Investment/Change Reserve** - £0.704m of resources have been realigned to this reserve following the annual review. This results in a balance of £2.860m to support costs of workforce investment and change over the medium-term period. This includes funding any pay inflation over and above amounts assumed in the MTFP. Members are reminded that the employer pay award offer for 2023/24 is still being considered by Trade Unions and at the time of writing it yet to be agreed.
- **MTFP Resilience and Smoothing Reserve** – the previously held Airport Reserve has been reclassified to this reserve following the annual review. £7.118m has been realigned to this reserve resulting in a revised balance of £13.068m to support the MTFP and to mitigate financial risk and challenges over the medium term. The reserve has been recategorised as a Reserve Linked to Budget Resilience Issues (see Section 6).
- **Waste Smoothing Reserve** – £0.013m of resources have been realigned to this reserve to bring to the recommended balance of £0.412m. This reflects a 2% increase on the current year waste levy.
- **Children’s Reserve** – £1.169m of resources have been realigned to this reserve to bring to the recommended balance of £4.073m.
- **Adults Reserve** – £1.436m of resources have been realigned to this reserve from the Health and Social Care Integration Reserve as commitments relate to service demand. This brings the recommended balance of £2.936m.
- **Collection Fund** – The reserve has had a net increase of £1.523m reflecting the inclusion of £4.705m forecast Business Rates benefit (see paragraph 3.3) with £3.182m being realigned to support the Reserves Policy annual review. The reserve is held to support the smoothing of the forecast risk linked to the volatility of Council Tax and Business Rates income.
- **Legislative and Statutory Requirements Reserve** – £0.240m of resources have been realigned to fund increased commitments on the reserve. This brings the recommended balance to £2.463m.

- **Income and Interest Rate Risk Mitigation Reserve** – £2.444m of resources have been realigned to bring the recommended balance to £5m. This reflects the need to mitigate the impact of the adverse national and local economic conditions on the Council's Investment and Development Account as the ambitions of the Council's economic plan and investments across the borough crystallise.
- **Directorate Flexibility Reserve - People** - £0.109m of resources have been realigned to bring back up to the recommended balance of £0.250m.
- **Directorate Flexibility Reserve – Place** - £0.045m of resources have been realigned to bring the balance back up to the recommended level of £0.250m.
- **Directorate Flexibility Reserve – Corporate and Support Services (CSS)** - £0.038m of resources have been realigned to bring the balance back up to the recommended level of £0.250m.
- **General Fund Balance** – This has increased by £0.267m resulting in a balance of £15.183m which is the minimum General Fund Balance required following the Section 151 Officers risk assessment of the Council's 2023/24 Budget.

3.5 Below highlights the reserves that have **decreased** following the review:

- **Airport Reserve** – The reserve has been realigned to the MTFP Resilience and Smoothing Reserve. Whilst there continues to be financial risk linked to airport commercial losses and continued recovery, the impact of this will be mitigated alongside the other budget resilience reserves included in the Reserves Policy.
- **Capital Investment Reserve – Interchange** – The reserve was used at year end to fund the approved patient equity investment, funding the Interchange capital scheme.
- **Health and Social Care Integration Reserve** – This reserve has been reduced by £2.936m following a review of the commitments against the reserve. This leaves a revised reserve balance of £11.692m which has been assessed as sufficient and reflects agreed contributions and investment requirements in the locality health and care system that are held in Council reserves due to accounting and timing differences in the profile of the system investments.
- **Insurance Reserve** – The reserve has been reduced by £0.422m, leaving the recommended balance of £7.500m remaining. This balance reflects the Actuary's review of the insurance fund and required insurance provision and reserve to mitigate the risk of known and potential insurance claims. In addition, the insurance includes resources to support its self-insurance approach to managing insurance premiums and risk.

- **Revenue Grants Reserve** – The reserve has been reduced by £0.617m, leaving a balance of unspent grant funding of £2.894m. The balance relates to revenue grant received by the Council where grant funding conditions have been met but costs relating to the grant funding have yet to be incurred.

3.6 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. Approved commitments will not require re-approval.

3.7 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). The caveat to this is where earmarked reserves are needed to support the Council's financial robustness and resilience over the medium term (see Section 6).

3.8 The Reserves Policy also details the approval required in order to draw down from or transfer into each reserve during the year, there has been a technical change to reflect the new Cabinet Portfolio arrangements (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.

4. **RATIONALE FOR THE PRIORITY AREAS IDENTIFIED**

4.1 The annual review has concluded that the total level of earmarked and unallocated reserves held by the Council (following the realignment of resources detailed above) of £82.697m (including the £4.705m expected Business Rates benefit resources) is appropriate to provide the Council with the financial robustness and 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 2023/24 Budget, a General Fund Balance of £15.183m will be held during the financial year.

4.2 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

4.3 A total of £8.748m (£3.985m 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

4.4 The rationale for these reserves is to provide funding to deliver the Council's transformational change projects over the medium-term period.

- 4.5 To achieve savings linked to the MTFP 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.
- 4.6 Monies set aside for future workforce changes need to be sufficient to meet workforce costs linked to service investment and transformation to deliver savings. The 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. The reserve also provides resource to temporarily smooth the financial impact of ongoing pay inflation negotiations in excess of the pay inflation contingency budget built into the MTFP.

Strategic Priority Reserves

- 4.7 A total of £26.463m (£3.039m risk related commitments and £19.522m 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
- Greater Manchester Bus Reform Contribution
- Climate Action Now
- Post-Covid Investment Reserve
- 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 Reserve

- 4.8 The rationale for these reserves is to provide sufficient funding to support the Council's ambitions and priorities over the medium term. 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

4.9 A total of £21.077m (£6.077m 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:

- MTFP Resilience and Smoothing Reserve
- Children's and Family Reserve
- Adults Reserve
- Demand Changes Reserve

4.10 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 has a permanent deficit position going forward and impact on the Council's ability to set a balanced budget.

Corporate Reserves

4.11 A total of £25.659m (£12.500m risk related commitments and £11.382m 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
- Revenue Contribution to Capital Outlay (RCCO)
- Income and Interest Rate Risk Mitigation Reserve

4.12 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.

4.13 A significant reserve in this category is the £7.500m 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 managing risk and 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.

4.14 The Revenue Grant Reserve of £2.894m includes grants received in 2022/23 brought forward to be spent in 2023/24.

Directorate Reserves

4.15 A total of £0.750m (£0.368m 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 Service Areas where required. The balance reflects each Directorates' available (unused) balance.

5. FINANCIAL RESILIENCE

5.1 There continues to be significant uncertainty, volatility and risk within the financial landscape. The uncertainty of Local Government funding arrangements beyond 2024/25 and increasing spending pressures due to increasing service demand and inflationary costs exacerbated by the cost of living crisis impacting Stockport residents and businesses is increasingly challenging. Financial robustness and resilience of the Council's financial management is key to addressing this challenge over the medium term.

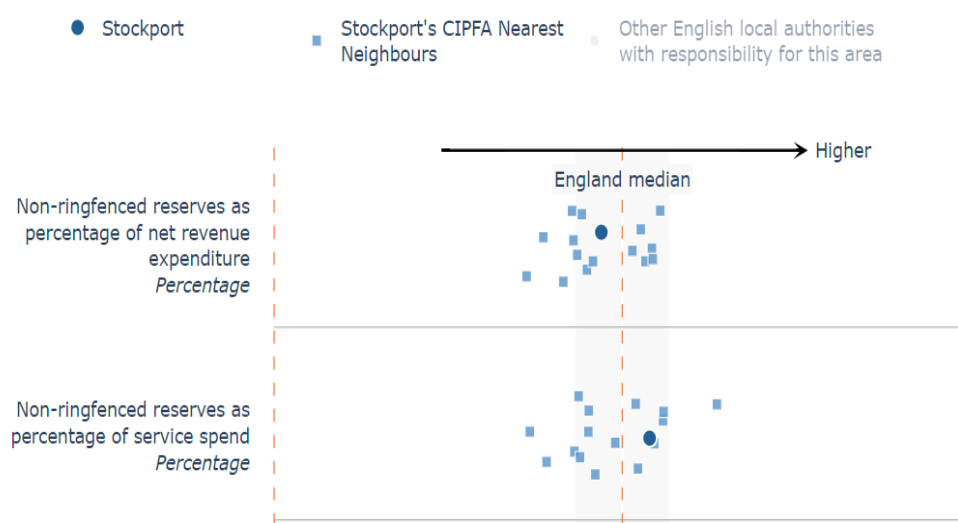
5.2 There are several ways the Council demonstrates its financial resilience to Members, residents and businesses. As detailed below the Reserves Policy is a key part of this assurance framework.

- **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 2022/23 an internal audit of the Council's financial governance and financial resilience gave the Council assurance on the strength of its financial management and financial resilience.
- **CIPFA Financial Management Code** – a self-assessment has been completed against the requirements of the code which provides guidance for good and sustainable financial management in local authorities and

provides assurance that authorities are managing resources and risk effectively. This self-assessment has been reviewed by Internal Audit and reported to the Audit Committee.

5.3 Recent Local Government failings resulting in Section 114 (bankruptcy) notices have heightened the focus on councils' financial robustness and resilience by Government. This has resulted in the creation of the Office for Local Government (OfLOG) by Government to provide oversight of councils' performance and identify early warning signs of risk of failure. To support this a Local Authority Data Explorer is being developed by OfLOG, building on the CIPFA Financial Resilience Index to identify key metrics and performance measures, one of these being the level of earmarked reserves.

5.4 Below is a snapshot of the data produced by OfLOG and CIPFA using the 2021/22 published Local Authority financial data. The metrics show that the Council's earmarked reserves are within the median range when compared to its nearest CIPFA statistical neighbouring Authorities and all English Authorities. A higher percentage indicates that the Council has greater resources available in earmarked reserves to fund future projects, mitigate specific risks, and to cushion against unexpected expenditure. Lower percentages indicate that the Council has lower resources available to invest and less ability to absorb financial shocks.



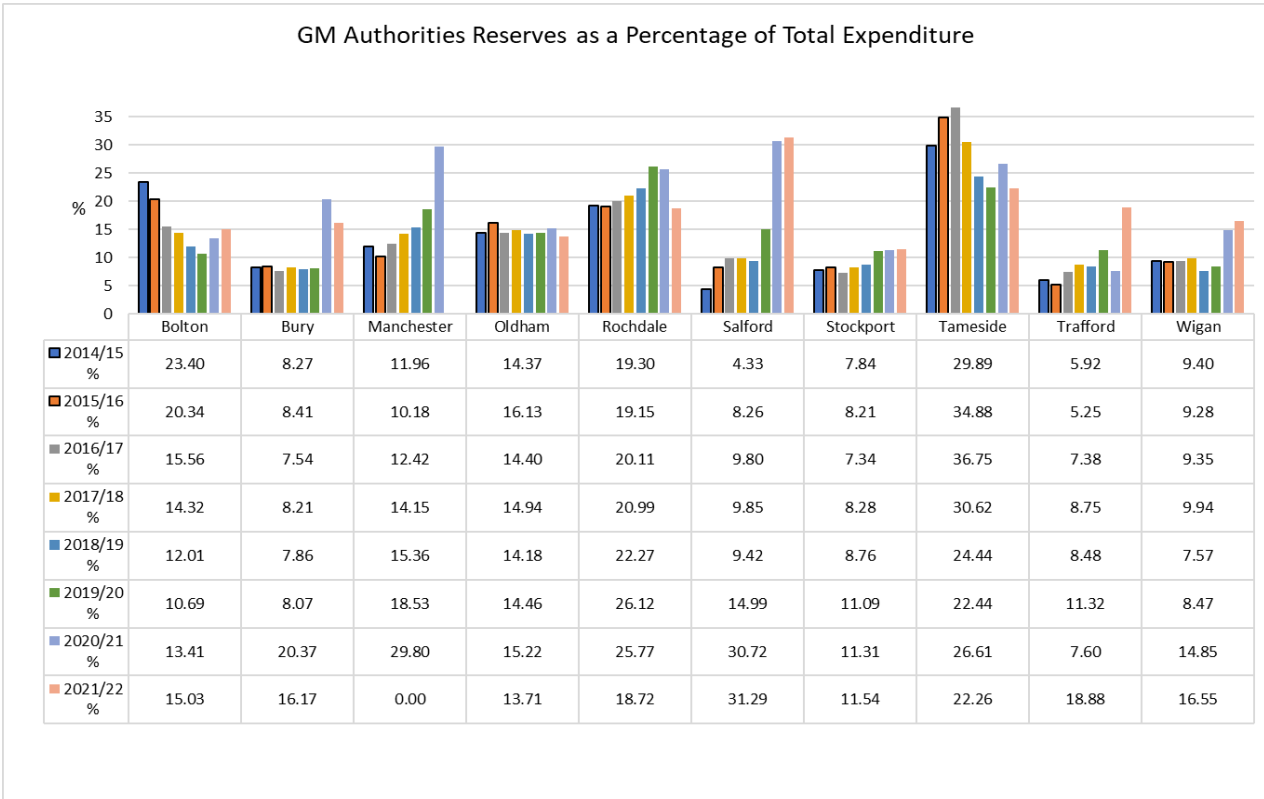
Indicator (click for source data)	Financial year	Stockport	Median of Stockport's CIPFA Nearest Neighbours	England median (Unitary, Metropolitan and London Boroughs)
Non-ringfenced reserves as percentage of net revenue expenditure	2021-22	47.2%	42.9%	54.9%
Non-ringfenced reserves as percentage of service spend	2021-22	52.9%	39.5%	44.6%

Results Breakdown

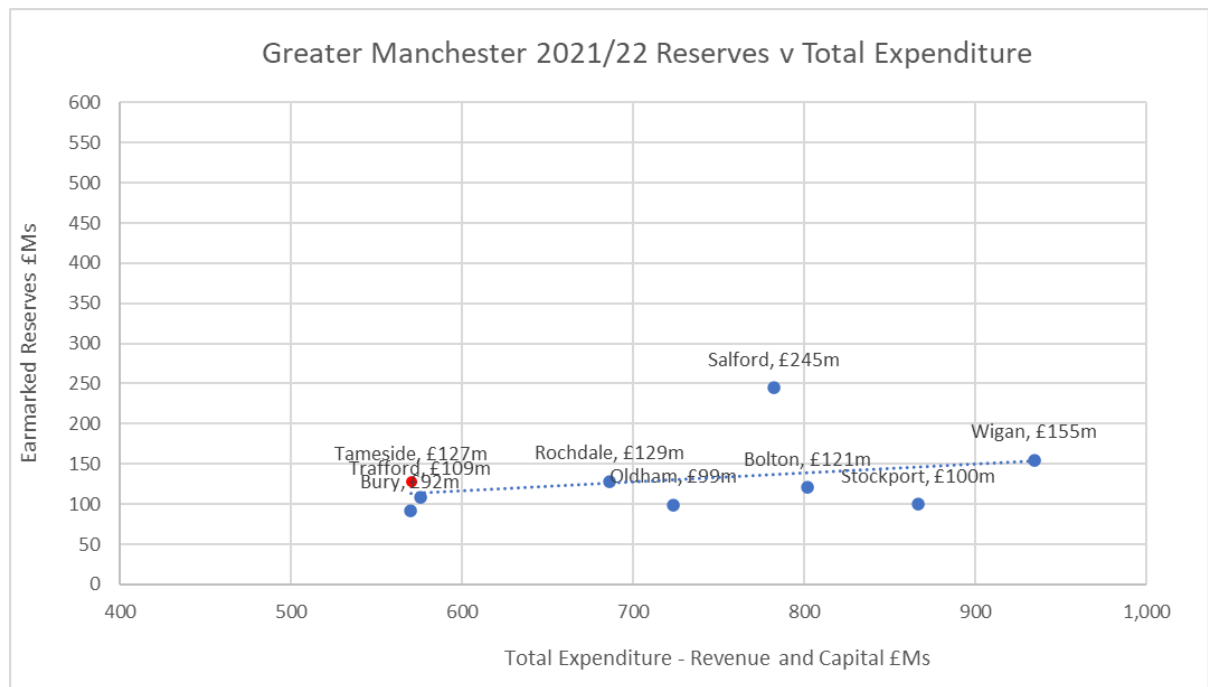
Indicators of Financial Stress		Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure		Reserves Sustainability Measure	100.00	100.00	100.00
Level of Reserves		Level of Reserves	19.27%	47.18%	123.78%
Change In Reserves		Change In Reserves	-2.27%	45.21%	239.34%

5.5 In addition, the charts below show how the Council's level of reserves relative to total expenditure (gross revenue expenditure and capital expenditure as per the Council's 2021/22 Statement of Accounts) compares to the other Greater Manchester Authorities.

Earmarked Reserves as a Percentage of Total Expenditure



2021/22 Earmarked Reserves Compared to Total Expenditure



6. MITIGATING FINANCIAL RISK

- 6.1 Following the annual review, realignment of resources held has provided £15m of earmarked reserves to support the Council's financial robustness and resilience to mitigate financial risk over the medium term. In addition, £10.824m of earmarked reserves are not currently committed to funding identified costs within the intended purpose they have been earmarked against.
- 6.2 It is recognised that if needed resources held in earmarked reserves can be uncommitted to meet funding gaps over the medium-term period. This part of the annual 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 mitigation of financial risk over the medium-term period if needed. 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. Members need to be aware that there is an opportunity cost of uncommitting resources to support the mitigation of financial risk which could be detrimental to the Council's delivery of its ambitions and priorities; uncommitting resources will mean they are no longer available to support the planned investment intended when the resources were originally earmarked.
- 6.3 The options that can be considered include the following:

- Release of resources held to fund the Cabinet one-off investments identified in prior year budgets;
- Release of commitments that are funding transformation projects which could meet the legislation to use of available capital receipts to fund

revenue projects for example. Further detailed work would be needed to ensure the projects meet the legislation requirements. 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.

6.4 However, it is recognised that a sustained and significant short-term use of earmarked reserves to support the Council's financial robustness and resilience will have a severe impact on the Council and the Borough in terms of delivering its ambitions and priorities, as well as 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 to date;
- 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 Capital Programme; and
- Resources held in earmarked reserves are 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.

6.5 The Council remains in a strong financial position due to the robustness and resilience of its financial management despite the financial challenges. 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 increasing demand for services and inflationary costs will require the underpinning of the MTFP with the use of identified earmarked reserves. It is recommended that the use of earmarked reserves to support the Council financial resilience over the medium term is limited to £20m before requiring further approval.

6.6 The resources held in earmarked reserves will continue to be reviewed alongside the MTFP updates during the year. This will inform decision making on the use of resources to support the Council's MTFP with an understanding of the wider implications this would have on the Council and the achievement of its Council Plan ambitions and priorities. Whilst recognising the need to use earmarked reserves 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. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

7.1 Financial and risk assessment considerations are considered in the body of the report.

8. LEGAL CONSIDERATIONS

8.1 There are no legal considerations.

9. HUMAN RESOURCES IMPACT

9.1 There are no HR impacts as a result of the content of the report.

10. EQUALITIES IMPACT

10.1 There are no equalities impacts as a result of the content of the report.

11. ENVIRONMENTAL IMPACT

11.1 There are no environmental impacts as a result of the content of the report.

12. CONCLUSIONS

12.1 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. 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. However, the review has provided assurance that resources held in earmarked reserves can be made available if needed to mitigate financial risk linked to budget robustness and resilience. However, the review has also been clear to recognise the impact using resources for this purpose would have on the Council's ongoing financial resilience and the impact this would have on the Council's ambitions and priorities.

13. RECOMMENDATIONS

13.1 Cabinet is recommended to:

- Note the annual review of Council's 2023/24 Reserves Policy including the level and rationale for the reserves held;

- Approve the adjustments and reclassification of earmarked reserves held in line with the recommended amounts; and
- Approve the proposed 2023/24 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