

## Report to Cabinet



Date of Meeting	25 <sup>th</sup> February 2021
Portfolio	Cabinet Member for Corporate Delivery
Report Author	Samantha Smith
Public/Private Document	Public

### Reserves Policy

#### Executive Summary

- 1.1 The report outlines the Reserves Policy including the premise for holding the policy.

#### Recommendation

- 2.1 Cabinet approves the Policy at Appendix 1.

#### Reason for Recommendation

- 3.1 The Council is bound to demonstrate sound financial management and deliver a balanced budget by 11<sup>th</sup> March 2021.
- 3.2 Having a strategic approach to setting the required level of reserves for future resilience of the Council is a key part of setting a balanced budget and ensuring longer term sound financial management.

#### Key Points for Consideration

- 4.1 There is a need to have a strategic approach to the creation and maintenance of the earmarked reserves by the Council to ensure long term financial sustainability. This is due to reducing resources and any money set aside needs to both support the priorities of the Council and prevent unforeseen expenditure / events impacting on year on year budgets.
- 4.2 The level of reserves maintained by Local Authorities collectively have in the past attracted comment from Ministry for Housing, Communities and Local Government (MHCLG) indicating they are excessive.
- 4.3 Although, CIPFA CEO, Rob Whiteman, published a paper in April 2020 stating the importance of reserves and how councils should not use reserves for day to day spending and reserves should look to replenish / build reserves for the longer term.
- 4.4 The Audit Commission report of 2012 sets out advice but recognising that there is no set formula for deciding the appropriate level of reserves. It stated that having the right level of reserves was important and where reserves were low there could be little resilience to financial shocks and sustained financial challenges. It also stated that where reserves are high, there is a risk that some councils may utilise one off reserves to address budget pressures instead of having savings programmes to ensure ongoing sustainability.
- 4.5 The report was that councils need to consider the following when establishing and utilising reserves:
  - Undertake an annual review to ensure reserves align with the Medium Term Financial Plan (MTFS).
  - Have clarity about what all earmarked reserves are for.
  - Ensure earmarked reserves held to mitigate financial risk reflect an up to date assessment of risk.
  - Monitor the level and use of reserves over recent years, and compare the Council's approach to other organisations facing similar circumstances where appropriate.
  - Accurate budget monitoring and forecasting to give Elected Members greater awareness of likely movements on reserves at year end.
  - Ensure significant or unexpected variations to budget are dealt with.
- 4.6 Members can be assured that the Council already meets the criteria detailed above through the regular review of reserves, periodic Budget Monitoring reports presented to Cabinet, the Robustness of Estimates statement and the MTFS.
- 4.7 Most recently the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code for Local Government (FM Code) will become effective from 1<sup>st</sup> April 2021. The Code is to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

4.8 The FM Code is based on a series of principles supported by specific standards and statements of practice, in order to provide the strong foundation within local authorities to enable them to:

- Financially manage the short, medium and long-term finances.
- Manage financial resilience to meet foreseen demands on services.
- Financially manage unexpected shocks in their financial circumstances.

4.9 Appropriate management of reserves is a significant part of compliance with the FM Code. The Council has completed a self assessment of its standing against the principles within the FM Code which has demonstrated full compliance and strong financial management, including long term financial sustainability due to the management of reserves.

### **Reserves Policy for 2020/21 to 2021/22**

The total level of earmarked reserves at 31<sup>st</sup> March 2020 was £158.2m. The balance is made up of 18 specific earmarked reserves. These are included in the Policy. The balance does include Schools Balances held at £11.1m, therefore the total reserves held for use by the Council at the end of the financial year was £147.1m.

This policy document also sets out the rationale for the creation of the reserves, the arrangements for their management and the approval process for use. The Policy is detailed at Appendix 1.

<b>Costs and Budget Summary</b>
---------------------------------

5.1 As stated in the body of the report, the balance of earmarked reserves at 31<sup>st</sup> March 2020 was £158.2m including £11.1m of School Balances.

5.2 The Policy in Appendix 1 gives transparency to the Council on these reserves, their use and continuous monitoring. These ensure long term financial sustainability.

<b>Risk and Policy Implications</b>
-------------------------------------

- 6.1 It is important to manage the risks of the Council which holding an agreed level of reserves does. Achieving a balance of both setting aside earmarked reserves which are appropriate and support Corporate Priorities, including the drawn down of these reserve, whilst retaining financial resilience to secure its medium and long term financial stability are key.
- 6.2 Section 151 of the Local Government Act 1972 places a general duty on local authorities to make arrangements for 'the proper administration of their financial affairs'. Section 25 of the Local Government Act 2003 requires Chief Financial Officers to report to their authorities about the robustness of estimates and the adequacy of reserves when determining their precepts, and authorities are required to take the Chief Financial Officer's report into account when setting the Council Tax.

<b>Consultation</b>
---------------------

- 7.1 Corporate Overview and Scrutiny Committee have been consulted.

<b>Background Papers</b>	<b>Place of Inspection</b>
8. Not applicable	

<b>For Further Information Contact:</b>	Sam Smith, 4198, samantha.smith@rochdale.gov.uk
---	--