

Revision to Reserves Strategy 2022/23 9 November 2022

Report of Cabinet

PURPOSE OF REPORT

To note the s151 Officers assessment of the minimum level of reserves and approved revisions to the governance arrangement for future reserve funded expenditure.

This report is public.

RECOMMENDATIONS OF CABINET

- (1) That Council notes the Section 151 Officer's advice regarding the increase in the Council's minimum level of General Fund balance from £3.5M to £5M, to provide for added uncertainty
- (2) That Council amend the Budget & Policy Framework to incorporate the revised governance arrangements to the Reserves Strategy.

1.0 INTRODUCTION

At its meeting on 25 October 2022, Cabinet considered the report attached at **Appendix A** (minute 38), approving the transfer of £5.913M from a number of the Council's allocated reserves to the General Fund unallocated balances in order to increase financial resilience. Referrals were made to Full Council in regard to the s151 officers' advice on increased level of unallocated reserves, as well as revisions to the governance arrangements for approval of reserve funded expenditure within the Council's Reserve Strategy

- 1.1 As the revisions fall outside of the Budget and Policy Framework, they have been referred to Full Council for approval.

2.0 PROPOSAL DETAILS

- 2.1 Cabinet resolved:

Resolved unanimously:

- (1): That Cabinet approve the transfer of £5.913M from the Council's allocated reserves to the General Fund unallocated reserve.
- (2) That Cabinet recommend that Full Council amend the Budget & Policy Framework to incorporate the amendment to the Reserves Strategy.
- (3) That Cabinet recommend that Full Council notes the s151 Officer revised minimum level of unallocated reserves. (

- 2.2 All documentation considered by Cabinet in regard to the revisions to Reserves Strategy 2022/23 including the governance arrangements and accompanying bid pro-forma is attached at **Appendix A**

2.3 Council is **not** asked to consider matters in relation to the transfer to unallocated reserves as in accordance the Budget & Policy Framework agreed by Council 23 February 2022 this is responsibility rests with Cabinet. A revised Reserves Strategy will be presented to Council for approval as part of the annual budget setting process

Revised Assessment of Reserves Levels (Council to Note)

2.4 The Section 151 Officer's annual review of the adequacy of reserve balances is a statutory requirement. Although usable revenue reserve levels have increased in the last two years, the Council faces significant inescapable inflationary pressures resulting from the cost of living crisis. Continuing uncertainties in respect of BREXIT, Local Government Funding levels and the results of the Council's OBR process also remain. **Taking all of these risks into account, the Section 151 Officer's advice is that the minimum level of balances held in the General Fund should be increased from £3.5M to £5M.**

2.5 The Section 151 Officer's latest advice on the adequacy of balances is based on the following observations:

- The General Fund Balance at 31/03/22 was £6.032M, Quarter 1 revenue budget monitoring forecasts an overspend of £3.181M in 2022/23. Preliminary indications from Quarter 2 monitoring suggest a further increase in the overspent position. This will need to be met from unallocated reserves.
- The Council's current MTFs suggests a structural budget gap in 2023/24 onwards of approximately £2.165M raising to £3.997M. If this is not closed, then balances will be required to make up the difference.
- There is continuing uncertainty in respect of levels of local government funding, the ongoing impact of Covid 19 & BREXIT and measures to address the Council's structural budget issues.
- Although Business rates retention volatility remains a risk to the Council in particularly the timing of the decommissioning of the Heysham nuclear reactors. This is managed via the Business Rates Retention Reserve, therefore, should not impact directly on the General Fund balance.

2.6 In calculating the minimum level of General Fund balance, an assessment of the risks that give rise to unanticipated expenditure or loss of income has been made and these are shown in Table 1 below.

Table 1: Risk Assessment

Risk	Symptom of Risk	Balance Required £M
Increased demand for services	3% increase in net revenue expenditure	0.600
Recession results in additional uncompensated reduction in fees and charges income than budget	5% reduction in major fees and charges income	0.850
Recession results in additional reduction in Council Tax collection rates than budget	3% reduction in collection rate	0.350
Budget savings not achieved	50% under achievement	0.200
Natural disaster such as flood etc	Additional unexpected expenditure	0.500
Additional uncertainty with respect to Cost of Living	Additional unexpected expenditure	2.500
Aggregate overspend if all of the above risks were to happen		5.000

- 2.7 The analysis shows that, in the event of a 'Perfect Storm' of risks happening all within the next year, there are sufficient balances to meet all these risks in the short term which would give the Council time to adapt in the longer term.
- 2.8 The minimum level of balances will be kept under review as part of the MTFs and reported to Cabinet on a regular basis.

Governance Arrangements on the Use of Reserves (Council to Approve)

- 2.9 Given the current financial pressures and the need for the prudent use of reserves revised arrangements for the approval of reserves expenditure is proposed:
- All applications will need to be supported by a bid document setting out how expenditure funded from Reserves will deliver corporate priorities with a clear costing statement schedule of specific outcome measures. Details of the bid proforma document is attached at appendix A
 - Reserve bids should be agreed by Portfolio Holder in consultation with relevant Director.
 - Once received bids will need to be formally agreed by the Leader of the Council, Chief Executive, Portfolio Holder for Finance and Resources, Monitoring Officer and the s151 Officer before expenditure is authorised and can be incurred.
- 2.10 As noted above these arrangements will be reviewed again as part of the annual revenue budget process

3.0 DETAILS OF CONSULTATION

- 3.1 Consultation has taken place with relevant officers and Cabinet members and was formally considered by Cabinet 25 October 2022 (minute 38).

4.0 OPTIONS AND OPTIONS ANALYSIS (including risk assessment)

Option 1: Adopt the Revisions to the Strategy
<p>Advantages</p> <ul style="list-style-type: none"> • Improved clarity with respect to the use of reserves whilst enabling the Council to retain its financial resilience
<p>Disadvantages</p> <ul style="list-style-type: none"> • None
<p>Risks</p> <ul style="list-style-type: none"> • The agreement for the use of reserves reduces the risk that reserves expenditure is not adequately controlled which in turn might result in reduced financial resilience.
Option 2: Do not adopt the Revisions to the Strategy
<p>Advantages</p> <ul style="list-style-type: none"> • None
<p>Disadvantages</p> <ul style="list-style-type: none"> • Lack of clarity with respect to using reserves and processes for authorisation
<p>Risks</p> <ul style="list-style-type: none"> • That reserves expenditure is not adequately controlled and impact the Council's financial sustainability

5.0 OFFICER PREFERRED OPTION

- 5.1 The officer preferred option is Option 1. This option is designed to clarify how reserves are managed and utilised in order to balance the delivery of Council priorities with securing financial resilience in light of the current pressures.

6.0 CONCLUSION

- 6.1 This report and appendices provide an update to the Council's Reserves Strategy which is part of the budget framework and so requires consideration and approval by Full Council

RELATIONSHIP TO POLICY FRAMEWORK

The Reserves Strategy is part of the budget and policy framework.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc)

None identified.

FINANCIAL IMPLICATIONS

The Reserves Strategy aims to ensure that the Council retains sufficient reserves to provide financial resilience but, at the same time, balances this with the prudent use of those reserves in order to support key outcomes

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has authored this and the accompanying Cabinet report and his comments are reflected within its contents however would formally request Members to note the following

The Local Government Act 2003 placed explicit requirements on the Section 151 Officer to report on the adequacy of the Council's reserves. Members are recommended to note formally the advice of the s151 Officer.

Unallocated balances of £5M for General Fund are reasonable levels to safeguard the Council's overall financial position, given other measures and safeguards proposed. This level assessment is an increase of £1.5M from that provided to Council 23rd February 2022 and reflects increased uncertainty with respect to the on-going COVID, Brexit and reflects the sensitivity of some of the underlying savings and income levels within the budget.

LEGAL IMPLICATIONS

No specific legal implications.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments

BACKGROUND PAPERS

Appendix A: Cabinet Report 25 October and accompanying reserves bid pro-forma

Cabinet 25 October 2022

[Agenda for Cabinet on Tuesday, 25th October 2022, 6.00 p.m.](#)

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