

Executive Board
19 July 2022

Subject:	Financial Reserves Policy
Corporate Director(s)/Director(s):	Clive Heaphy, Interim Corporate Director for Finance and Resources and Section 151 Officer
Portfolio Holder(s):	Councillor Adele Williams, Portfolio Holder for Finance
Report author and contact details:	Debbie Middleton, Interim Director for Finance and Deputy Section 151 Officer debbie.middleton@nottinghamcity.gov.uk
Other colleagues who have provided input:	Jo Worster, Team Leader – Strategic Finance Aisha Bapu – Strategic Housing Finance Lead
Subject to call-in: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Key Decision: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Criteria for Key Decision:	
(a) <input type="checkbox"/> Expenditure <input type="checkbox"/> Income <input type="checkbox"/> Savings of £750,000 or more taking account of the overall impact of the decision	
and/or	
(b) Significant impact on communities living or working in two or more wards in the City <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Type of expenditure: <input type="checkbox"/> Revenue <input type="checkbox"/> Capital	
Total value of the decision: Nil	
Wards affected: All	
Date of consultation with Portfolio Holder(s): June and July 2022	
Relevant Council Plan Key Outcome:	
Clean and Connected Communities	<input type="checkbox"/>
Keeping Nottingham Working	<input type="checkbox"/>
Carbon Neutral by 2028	<input type="checkbox"/>
Safer Nottingham	<input type="checkbox"/>
Child-Friendly Nottingham	<input type="checkbox"/>
Healthy and Inclusive	<input type="checkbox"/>
Keeping Nottingham Moving	<input type="checkbox"/>
Improve the City Centre	<input type="checkbox"/>
Better Housing	<input type="checkbox"/>
Financial Stability	<input checked="" type="checkbox"/>
Serving People Well	<input type="checkbox"/>

Summary of issues (including benefits to citizens/service users):

This report sets out the Council's policy for the management and governance of its financial reserves, including the general fund balance, general fund earmarked reserves and Housing Revenue Account (HRA) reserves. The report covers the principles for when reserves will be held, the appropriate categories for reserves, the Section 151 recommended minimum levels of reserves and criteria for the release of reserves. The S151 Officer has a statutory requirement to report on the adequacy of the Council's financial reserves as part of the budget process and this assessment is part of the Medium Term Financial Plan (MTFP) report (Annex 5 – Robustness of the Budget and Adequacy of Reserves).

Reserves are an important part of the Council's financial strategy and are held to create long-term financial resilience and stability. All movements in reserves will continue to require Section 151 Officer approval and are subject to a quarterly review. The outcomes of this quarterly review are then presented to the Executive Board for noting as part of the quarterly budget monitoring reports and are included within the annual MTFP.

As at 31 March 2022, the Council's earmarked reserves are **£190.4 million**. The general fund balance at 31 March 2022 is **£12.6 million**. The MTFP assumes a **£1 million** per annum contribution and, therefore, the general fund balance in 2022/23 will be **£13.6 million**.

The balance on HRA Revenue Reserves at 31 March 2022 totals **£46.1 million**, and this includes earmarked reserves of **£0.6 million**. The HRA Major Repairs Reserve balance at 31 March 2022 is **£38.8 million**. The HRA thereby holds a total reserves balance **£84.9 million** at the end of 2021/22.

Does this report contain any information that is exempt from publication?

No

Recommendation(s):

1. To approve and formally adopt the Council's policy on Financial Reserves.
2. To note that the policy will be subject to an annual review and will be updated to reflect any changes in risk and/or external standards that the Council needs to adhere to, or any changes to the Council's approach.
3. To note the balances on reserves as at 31 March 2022 (based on the draft 2021/22 outturn):
 - General Fund balance: **£12.6 million**
 - Earmarked reserves: **£190.4 million**
 - Housing Revenue Account revenue reserves: **£46.1 million**
 - Housing Revenue Account Major Repairs Reserve: **£38.8 million**
4. To note that, going forward, the reserves policy will form part of the annual Medium Term Financial Plan report to the Executive Board, which will then be subject to approval by Full Council.

1. Reasons for recommendations

- 1.1 Section 25 of the Local Government Act (Part II) 2003 requires the Chief Financial Officer (Section 151 Officer) to report formally on the adequacy of proposed reserves when setting a budget requirement. The accounting treatment for reserves is set out in the Code of Practice on Local Authority Accounting.
- 1.2 CIPFA issued Local Authority Accounting Panel (LAAP) Bulletin No.99, Guidance Note on Local Authority Reserves and Balances in July 2014, which updated previous Bulletins to reflect the new requirements of the International Financial Reporting Standards (IFRS) Code of Practice. In addition, during the period of financial austerity for the public sector, the Local Authority Accounting Panel considered it necessary to update the guidance on local authority reserves and balances. Compliance with the guidance is recommended in CIPFA's Statement on the Role of the Chief Financial Officer in Local Government. In response to the above requirements, this policy sets out the Council's approach for compliance with the statutory regime and relevant non-statutory guidance for the Council's cash backed usable reserves.
- 1.3 The Council continues to face a shortfall in funding compared to spending demands and must annually review its priorities in order to address the shortfall. Reserves are one-off monies and can only be spent once. Therefore, the Council aims to avoid using reserves to meet ongoing financial commitments, other than as part of a sustainable budget plan. One of the Council's financial principles is to stop the use of one-off funding to support the base budget. The Council has to balance the opportunity cost of holding reserves in terms of the impact upon Council Tax against the importance of interest earning and planning for long-term financial resilience.

2. Background

- 2.1 Reserves are an important part of the Council's financial strategy and are held to create long term financial resilience and stability. The MTFP 2022/23 to 2025/26 report approved at the Executive Board meeting on 22 February 2022 included the removal of significant corporate budgets. This consequently reduces the Council's in year budget flexibility, therefore, leading to a greater reliance on financial resilience reserves to manage any risks that cannot be managed within existing departmental budgets.
- 2.2 Reserves enable the Council to manage its business and its change agenda without undue impact on the annual Council Tax and they are a key element of ensuring the Council's strong financial standing and resilience over the medium to long-term. The Council operates in an uncertain and volatile environment and its main sources of funding face an uncertain future. The Council therefore holds earmarked reserves and a General Fund balance in order to mitigate against future financial risks.

General Fund Reserves

- 2.3 The Council's earmarked reserves are currently categorised and reported in the Statement of Accounts in the following way:

Restricted Reserves

- **Capital** - Sums that have been set aside in previous years to provide additional funding for the capital programme or to manage the impact of new capital schemes that have not yet been included in the capital programme.
- **Schools** - This represents funds that have been allocated to schools under Local Management of Schools legislation, and which remains unspent at the year end. This reserve is not available to support other General Fund expenditure.

Other Reserves

- **Asset Maintenance** - These reserves are available to help maintain the Council's properties and other assets, particularly where there are significant and/or periodic requirements to ensure the Council's assets are adequately maintained.
- **Contingency and Risk** - Certain areas of expenditure are subject to volatility. Reserves are therefore set aside to help manage the impact on the General Fund revenue budget of significant changes in costs year on year in specific areas. These reserves reflect the potential future liabilities in relation to insurance claims, Housing Benefits and Business Rates and provide resources to help reduce or deal with risk management issues that arise.
- **Information Technology** - These reserves are set aside to provide a source of funding for any major changes to information technology that may be required.
- **Local Economy** - The Council has set aside reserves that will allow investment in the local economy. These are generally used to help local businesses and residents.
- **Private Finance Initiatives (PFI)** - PFI reserves exist for a number of schemes as a result of Government funding received in advance to finance future years' liabilities. This income is therefore set aside to ensure sufficient funds are available to cover the cost of contracts over the contract life.
- **Services** - Where services have identified one-off items of revenue expenditure that are likely to be incurred in future years.
- **Transformation** - These reserves are available to help meet costs incurred when implementing business and service efficiencies within the Council and to pump prime activities that will lead to recurring efficiency savings that will support the achievement of the Council's MTFP.
- **Treasury Management** – To provide some resilience to manage the impact of economic or financial market volatility and compliance with IFRS 9 impairment losses, which are subject to annual review.
- **Workforce** - This reserve is primarily available to fund redundancy and pension costs.

- 2.4 Within the existing categories, there are a number of earmarked reserves that are established for a specific purpose. During 2022/23 a review of earmarked reserves will be undertaken in order to:
- increase the visibility and transparency of reserves;
 - clearly define the purpose and intended use of reserves;
 - review the justification for continuation of all reserves, including a review of the level of reserve that is justified;
 - identify those reserves that are subject to statutory regulations governing their use, e.g. grants; and
 - update the categorisation of reserves.

Progress on this review and the outcomes of the updated categorisation will be reported to the Executive Board as part of the Quarterly Budget Monitoring reports and next MTFP report.

- 2.5 **Table 1** below details the earmarked reserves and general fund balance as at 31 March 2022, based on the draft outturn report. **Appendix A** details the full listing of reserves as at 31 March 2022.

Table 1: Draft Earmarked reserves and General Fund balance as at 31 March 2022	
Reserve Category	31 March 2022 balance £m
Capital	(5.757)
Schools	(23.713)
Total Restricted Reserves	(29.470)
Private Finance Initiatives	(49.502)
Asset Maintenance	(3.922)
Contingency and Risk	(40.727)
Information Technology	(8.848)
Local Economy	(3.533)
Services	(13.317)
Transformation	(7.632)
Treasury Management	(25.639)
Workforce	(7.775)
Total Other Reserves	(160.895)
Total Earmarked Reserves	(190.365)
General Fund Balance	(12.643)

- 2.6 The general fund balance at 31 March 2022 is **£12.6 million**. The MTFP assumes a **£1 million** per annum contribution.

Housing Revenue Account (HRA) reserves

- 2.7 HRA Reserves are amounts specifically required by statute to be set aside and ring-fenced for future investment in HRA. The Council must ensure that there are adequate reserves in the HRA.
- 2.8 The Council's HRA General Reserve balance at 31 March 2022 is **£45.5 million**, the HRA also holds earmarked reserves for lift replacement (**£0.3 million**) and pre-start site investigation works (**£0.3 million**).
- 2.9 In addition to these revenue reserves, councils with HRAs are required to maintain a Major Repairs Reserve (MRR), for the purpose of financing future capital works to the housing stock. The amounts that may be debited / credited to the MRR are specified by statutory regulation (Item 8 Debit and Credit, in Parts 1 and 2 of Schedule 4 to the Local Government and Housing Act 1989). The most significant item is an annual charge to the HRA for depreciation of the stock. The Council's MRR balance at 31 March 2022 is **£38.8 million**.

3. Reserves Policy

- 3.1 The Council will maintain a general reserve and a number of earmarked reserves.

General Fund balance

- 3.2 The level of the general reserve is a matter for the full Council to determine, having had regard to the advice of the Section 151 Officer. The level of the reserve will be a matter of judgement which will take account of the specific risks identified through the various corporate processes. This is considered on an annual basis as part of the Robustness of Reserves assessment, which forms part of the annual budget setting process. It will also take account of the extent to which specific risks are supported through earmarked reserves.
- 3.3 **Table 2** shows the assumed general fund opening balance for each year of the current MTFP and the percentage of net budget. The percentage of net budget ranges from **5.6%** to **6.1%** across the period of the MTFP. The Council's Section 151 Officer recommends that the Council should work towards increasing this percentage to **7.5%** in future MTFPs to reflect the heightened financial risk that the Council is facing.

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
1 April general fund balance assumption	13.643	14.643	15.643	16.643
Net Budget	227.649	262.509	268.045	271.048
General Fund % of net budget	6.0%	5.6%	5.8%	6.1%

- 3.4 The Section 151 Officer is responsible for managing the general reserve and use of the General Fund balance can only be made on the recommendation of the Section 151 Officer to the Executive Board. An assessment of the adequacy of the General Fund reserve will continue to be carried out on an annual basis.

Earmarked Reserves

- 3.5 The Council's controllable reserves will be held corporately and the use of is subject to a prioritisation process and assessment of the use of the reserve for the approved purpose. Approval of the Section 151 Officer or Deputy Section 151 Officer is required in order to apply the use of earmarked reserves to support revenue expenditure. Each application will require a robust justification and will be assessed based on the planned and approved legitimate use of the reserve and the financial situation of the Council at that time and may result in earlier decisions for funding being revisited and amended.
- 3.6 All reserves since the 2020/21 Interim Budget have been subject to a quarterly Section 151 / Deputy Section 151 approval prior to movements being actioned and are part of the monitoring and budget process. Reserves are to be reviewed annually to determine whether the original purpose for the creation of the reserve still exists and whether or not the reserves should be released in full or in part or require topping up based on known/expected calls upon them. Particular attention will be paid in the annual review to those reserves whose balances have not moved over a twelve-month period.

4. Management and Governance

- 4.1 Approval arrangements to be as follows:
- Executive Board approval is required for the creation of new earmarked reserves, upon recommendation from the Section 151 Officer.
 - Corporate Directors are required to apply to the Section 151 Officer to establish a new reserve and to specify the intended use and to demonstrate their plans for use of such a reserve over the period of the MTFs. The planned use shall be reflected in the development of the annual budget process.
 - Corporate Directors are required to apply to the Section 151 Officer / Deputy Section 151 Officer in order to draw down from the reserves.
 - The Section 151 Officer / Deputy Section 151 Officer shall approve the use of all earmarked reserves provided that the intended use is in accordance with the purpose for which the reserve was established and approved. Intended use outside the defined purpose will require Executive Board approval upon recommendation of the Section 151 Officer.
 - Section 151 Officer / Deputy Section 151 Officer approval is required for all contributions to reserves.
 - The quarterly timetable for movements in reserves is aligned to the quarterly budget monitoring, which is reported to Executive Board.
 - Corporate Directors will be the designated officer in each Directorate responsible for submitting requests to the Section 151 Officer for any contributions to or from earmarked reserves via their relevant Finance Business Partner.
 - Movements in reserves will be reported to Executive Board quarterly for noting as part of the budget monitoring process.
- 4.2 Each earmarked reserve must be supported by a standard proforma to maintain an audit trail. The proforma will be set by the S151 officer and will contain:
- the named individual in the Directorate/Division (usually the Corporate Director) and the Finance Business Partner;

- a clear rationale and description for the movement in the reserve;
 - details of any conditions associated with the reserve (e.g., grant, legal requirements, etc.); and
 - a profile of expected movements and an end date – at which point any balance should be transferred to the general reserve.
- 4.3 If there is a genuine reason for slippage, then the proforma will need to be updated at the next available quarterly review. An annual review of each earmarked reserve is to take place between the Section 151 Officer and relevant Corporate Director and Finance Business Partner to ensure that all reserves comply with legislative and accounting requirements. This review will ensure that the number and value of reserves is not unnecessarily increasing annually and will continue to be held corporately.
- 4.4 The Financial Resilience Reserve will be the Section 151 Officer's tool for managing and smoothing emerging financial pressures where:
- additional expenditure is required for business activities that are critical to delivering the Councils' improvement agenda; and
 - unavoidable pressures cannot be contained in year within approved departmental budgets.
- 4.5 A de-minimis level has been set to avoid small funds being set up that could be managed within existing budgets or declared as an overspend and then managed collectively with the express agreement of the Section 151 Officer. This has been set at **£0.250m**, the exception being where reserves have specific grant or legal conditions.
- 4.6 Each proforma will clearly identify contributions to and drawdowns from reserves, and these will be built into the MTFP and monitored on a quarterly basis. Accessing reserves will only be for significant unusual spend, more minor fluctuations will be managed or declared as budget variances. Ongoing recurring costs should not be funded from reserves. Any request contrary to this will only be considered during the annual budget-setting process.
- 4.7 The short-term use of reserves may be agreed by the Section 151 Officer to provide time to plan for a sustainable funding solution in the following financial year. Decisions on the use of reserves may be delayed until financial year end and will be dependent on the overall financial position of the council rather than the position of just one budget area.
- 4.8 All reserves are reviewed as part of the monitoring process, the budget preparation, financial management and closing of accounts processes. Executive Board is presented with the monitoring of reserves on a regular basis and in the outturn report and the Council will consider a report from the Section 151 Officer on the adequacy of the level of reserves in the annual budget-setting process. The report will contain estimates of reserves where necessary.
- 4.9 The following principles will be applied by the Section 151 officer:
- any in year use of the General Fund balance reserve will need to be approved by Executive Board and any planned use will be part of the budget setting process;
 - in considering the use of reserves, there will be no or minimal impairment to the Council's long term financial resilience unless there is no alternative; and

- the current MTFP has no annual contribution to the financial resilience reserve and therefore the general principle is that any in year underspends from the final outturn position should be used to contribute to the financial resilience reserve rather than the use of departmental carry forwards.

4.10 The Council will review the Reserves Policy on an annual basis and will form part of future MTFP reports to Executive, Board which will then be subject to Full Council approval in March annually. Reserves with no movement in 2 years will be returned to the centre to be held corporately.

5. Other options considered in making recommendations

5.1 To do nothing: is option is rejected as the reserves policy presented is the Section 151 and Deputy S 151 Officers' recommended approach for the Council.

6. Consideration of Risk

6.1 The policy presented is written with consideration of the Council's current financial risk.

7. Finance colleague comments

7.1 Financial comments are contained throughout the report.

8. Legal colleague comments

8.1 The legislative basis for the recommendations set out herein is contained in the body of the report. The adoption of a Financial Reserves Policy is considered both a prudent and rational step in terms of improving the Council's financial management processes and in itself raises no significant legal issues.

Comments provided by Malcolm R. Townroe, Director for Legal and Governance, on 6 July 2022.

9. Equality Impact Assessment (EIA)

9.1 An EIA is not required because the report does not contain proposals for a new or changing policy, service or function.

10. Data Protection Impact Assessment (DPIA)

10.1 A DPIA is not required because the report does not relate to the collection of data.

11. Carbon Impact Assessment (CIA)

11.1 A CIA is not required because the proposals do not have a carbon impact.

12. List of background papers relied upon in writing this report

12.1 Not applicable.

13. Published documents referred to in this report

- 13.1 Medium Term Financial Plan 2022/23 to 2025/26 – Executive Board, 22 February 2022
<https://committee.nottinghamcity.gov.uk/ieListDocuments.aspx?CId=177&MId=9114>
- 13.2 Pre-audit Corporate Financial Outturn 2021/22 – Executive Board 19 July 2022
<https://committee.nottinghamcity.gov.uk/ieListDocuments.aspx?CId=177&MId=9777>

Appendix A: Full Earmarked Reserves listing as at 31 March 2022

Title of Reserve	Balance 31 March 2022 £m
Invest to Save Energy Park	(0.248)
Castle Project Team Trans Funding	(0.443)
Revenue Implications of Capital Schemes	(0.640)
Rev Reserves for Capital	(0.983)
Capital Risk Reserve	(1.868)
Flexible Fitness Equipment	(1.490)
Allotment Improvement	(0.086)
Total Capital	(5.757)
Other Balances	(15.011)
SSR - School Balances	(8.702)
Total Schools	(23.713)
BSF Bigwood & Oakfield PFI	(4.903)
PFI Life Cycle	(3.216)
Street Lighting PFI	(9.515)
Farnborough PFI Project	(2.988)
NHS Local Imp Finance (LIFT)	(7.742)
NHS LIFT (Bulwell)	(4.192)
NET City Reserve Fund	(16.945)
Total Private Finance Initiatives	(49.502)
Schools Building Maintenance	(0.113)
LTA - Contribution Sinking Fund	(0.232)
Investment Property Maintenance Fund	(0.614)
Theatre & RCH Restoration Levy	(0.737)
Forest Rec Ground Sinking Fund	(0.261)
Mercury Filtr & Environmt	(0.106)
Ice Centre Sinking Fund	(0.834)
Southglade Food Park Sinking Fund	(0.199)
Southglade Food Park Phase 2	(0.187)
Southglade Football Pitch Sinking Fund	(0.481)
Broad Marsh CP&BS Lifecycle Sinking Fund	(0.158)
Total Asset Maintenance	(3.922)
Insurance Reserve	(3.919)
Housing Benefits	(4.615)
Collection Fund & Business Rates (excluding 22/23 planned usage)	(9.994)
Collection Fund & Business Rates (22/23 planned usage)	(15.647)
Resilience Reserve	(6.554)
Total Contingency & Risk	(40.727)
IT Investment Fund	(8.848)
Total Information Technology	(8.848)
Jobs Fund	(0.589)

Procurement Levy	(0.306)
Employer Hub Innovation Fund	(1.031)
Nottingham Investment Fund	(1.069)
Nottm Growth Plan 2015-18	(0.135)
ERDF Growth Hub	(0.125)
Growth Fund	(0.168)
Carrington Townsc Jul15EB	(0.109)
Total Local Economy	(3.533)
Bequest/Misc Funds - Heroism	(0.005)
St Anns Valley JSC	(0.447)
Flood Risk Management	(0.656)
Selective Licensing - Non Recoverable	(0.325)
Add Licensing Scheme Non Recoverable	(0.039)
Selective Licensing Fee Income	(3.184)
HMO Mandatory Licensing	(0.149)
Leicester Bus Lane Enforcement	(0.964)
ASC Contingency	(0.096)
Bequest/Misc Funds - FT Perry	(0.007)
Museum Projects & Collections	(0.034)
Archaeology Fund	(0.011)
Wollaton Hall Development Fund	(0.014)
Newstead Abbey Development Fund	(0.061)
Proceeds of Crime	(0.091)
The Nottingham Education Trust	(0.021)
East Midlands Council	(0.615)
Holiday Activity Fund	(0.090)
Children & Adults Safeguarding Board	(0.041)
Moving Traffic Enforcement	(1.409)
Enviroenergy	(2.431)
SALIX - Energy Savings Fund	0.394
Local Plan	(0.301)
ERDF Sneinton Market	(0.678)
ERDF Dakeyne Street	(0.388)
Future Parks Accelerator Funding	(0.242)
Hackney Carriages	(0.194)
Civil Penalties	(0.170)
Local Government Elections	(0.392)
Area Committees	(0.041)
HAZ Delivery Plan	(0.114)
Adult Social Care S117 Aftercare	(0.500)
Total Services	(13.317)
Public Health Transition	(2.001)
SEND Keyworker Service Reserve	(0.333)
Treasury Management MRP Transformation of Services	1.578
Transformation	(6.137)

Fit for the Future	(0.740)
Total Transformation	(7.632)
Treasury Management Reserve	(15.418)
Treasury Management/Capital	(4.370)
Capital Program Dept Prudential Borrowing Reserve	(5.851)
Total Treasury Management	(25.639)
Workforce Reserve	(5.221)
Pension Deficit Lump Sum	(2.555)
Total Workforce	(7.775)
Total Earmarked Reserves	(190.365)