BCP Council

10 February 2021

RESERVES

Background

A local authority must decide the level of general reserves it wishes to maintain before it can decide the level of the council tax it sets. The purpose of general reserves is to manage the risk to the council's financial standing from the impact of excesses to the budget provision and unforeseen events.

In setting the budget the Director of Finance as the Councils section 151 (s151) officer is required under section 25 of the Local Government Act 2003 to report on **the robustness of the budget** and the **adequacy of reserves** supporting the budget. The requirement on the s151 officer is to ensure that the **budget recommended to council is balanced** (i.e. expenditure matches income), is robust and therefore deliverable and has an adequate level of reserves. The s151 officer is required to ensure that the council's approved budget addresses these three issues.

Ultimately, council will determine the level of reserves and balances formally in setting the annual budget. The advice of the Chief Finance Officer must be formally recorded.

Guidelines

There is no set formula for deciding what level of reserves is adequate. Councils are free to determine the reserves they hold. Councillors are responsible for ensuring that their reserves are appropriate to local circumstances and are accountable to taxpayers for the decisions they make.

It should be stressed that there is no theoretically "correct" level of reserves because the issues that affect an authority's need for reserves will vary over time and between authorities. Reserves should not be seen in a short-term context. They should be placed in the context of the uncertainty caused by the global public health emergency, long-term government funding reductions since 2010, the uncertainty caused by the lack of three year government spending review, service delivery problems within its Children's Directorate, and cost pressures that the council is exposed to. It is however legitimate for the council to call on reserves to mitigate short term pressures, smooth out the impact of extraordinary one-off demands and/or otherwise meet the costs of unforeseen events.

Comparative information

The Chartered Institute of Public Finance and Accountancy (CIPFA) have carried out some benchmarking on the level of reserves held by most unitary authorities and identified that they tend to maintain unearmarked reserves between 5% and 10% of net revenue expenditure. For BCP this would mean maintaining such reserves at between £14.1 million and £28.2 million.

(Net revenue expenditure = £281.922 million, which is our 2021/22 projected net revenue expenditure before reserve movements, revenue support grant, business rates and collection fund surpluses / deficits).

Attached at appendix 3a is comparative information on **unearmarked reserves** against our statistical nearest neighbours based on published financial information. The appendix highlights that our position, based on 1 April 2020 reported positions, should be robust and within the CIPFA range.

APPENDIX 3

It should be emphasised that Councils can and do experience significant financial difficulties as recent high-profile cases such as those at Northamptonshire County Council, Croydon Council and Birmingham City Council's demonstrates.

Chief Financial Officer advice

Reserves are an essential part of good financial management. They help councils to cope with unpredictable financial pressures and plan for their future spending commitments. The level, purpose and planned use of reserves are important factors for elected members and council officers to consider in developing medium term financial plans and setting annual budgets. Having the right level of reserves is incredibly important. Where councils hold very low reserves there may be little resilience to financial shocks and sustained financial challenges, where reserves are high then councils may be holding more than they need.

In advising councillors on the appropriate level of reserves there is a need to consider the potential financial impact of all strategic, operational and financial risks facing the authority, together with the current overall financial standing of the council including any third-party assessments of this position. The management of reserves will be fundamental to ensuring BCP has a sound financial base on which to deliver its ambitions moving forward.

Organisational and change risk associated with the council's ambitions also need to be seen in the context of local authorities continuing to face some of the most significant financial challenges for a generation. These included the almost the near complete removal of government's un-ringfenced core funding to the relevant councils, constrained council tax increases, a decline in other sources of income, rising costs and growing demand for many services the consequences of which will test the council's financial management and resilience well into the future. All these at the time of a global public health emergency and its legacy impact.

Some of the key risks facing the council at this time can be summarised as;

a) Assumed levels of financial support due to the Council from the Government comprehensive package of support measures including the £13.3 million 2020/21 sales, fees and charges compensation claim which will not be verified by the government until after the 2020/21 financial year end.

b) Actual sales, fees and charges income receipts due to the council in the final quarter of 2020/21 and throughout 2021/22 with specific reference to car parking income, seafront trading activity and commercial waste income.

c) Increasing deficit on the Dedicated Schools Grant with specific regard to the high needs block. The 2021/22 budget report forecasts the deficit to grow from £10.6 million as at the 31 March 2021 to £20.3 million as at the 31 March 2022.

d) Impact on the costs of the Adult Social Care service in both the current 2020/21 financial year, 2021/22 and future years in supporting the NHS achieve rapid hospital discharges of adults due to the pandemic. This involves securing and funding care placements prior to the financial assessments that normally take place being undertaken to determine how costs are to be met. Costs can be the responsibility of the council, the NHS or individuals themselves. Projections for the costs remaining with the council are based on activity levels and trend analysis.

e) The assessment of the councils Children's Service by Ofsted and the need to improve the service protecting the vulnerable younger members of our community.

f) Demand and costs associated with the council's housing / homelessness services including rough sleepers including temporary accommodation, subsistence and security arrangements.

g) Impact of the country's transition from the European Union. Particularly relevant to the Port of Poole and any specific European funding streams.

h) Reductions in council tax yield which lead to a 2.7 % reduction in the councils taxbase between 2020/21 and 2021/22. This included a £3.4 million increase in the cost of the local council tax support scheme (LCTSS) or a 13.1 % increase compared to last year and reflects a 13.5% increase in the cost of working age claimants.

i) Business Rates yield and the assumption of net collectable business rates for the BCP Council area for 2021/22 of £134.9 million (£135.0 million for 2020/21). There is significant risk with this estimate due to the potential for reductions in business rate income because of the pandemic, including decline in the number of businesses, losses in collection rates and appeals for reduced rateable values by businesses. What makes the risk particularly acute is that businesses within the BCP Council area received retail, hospitality and leisure relief from business rates to the value of £80.6 million in 2020/21 as part of the governments Covid19 mitigation strategy and this relief is due to end on the 31 March 2021.

j) Financial planning risk associated with the lack of a three-year government spending review and the delayed local government funding reforms which were planned for introduction from April 2021 (i.e. Fair Funding, 75% Business Rates Retention and the full reset of the business rates baseline).

k) Transformation programme and both;
- the inclusion of an unitemised savings target of £7.5 million for 2021/22.
- the requirement to deliver, as a minimum, £13.8 million in capital receipts in 2021/22.

l) Lack of a capital contingency which will require the council to take on extra borrowing to finance any unforeseen or unprovided for capital expenditure.

m) Redundancy cost provision. As part of the budget framework £12.9 million has been set aside for redundancy costs across the four years of the transformation programme. This can be compared to the often-cited need for the council to reduce its establishment by up to 600 posts which would cost £29 million based on the average current BCP Council redundancy cost of £48,284.

Summary of reserve movement

	Balance 1 Apr 2019 £m	Balance 1 Apr 2020 £m	Balance 31 Mar 2021 £m	Balance 31 Mar 2022 £m
Un-earmarked Reserves	17.4	15.4	15.4	15.4
Earmarked Reserves	52.7	53.8	66.7	26.2
Total revenue reserves	**70.1**	**69.2**	**82.1**	**41.6**

Dedicated Schools Grant (deficit)	**(3.6)**	**(4.6)**	**(10.6)**	**(20.3)**

In relation to earmarked reserves position as shown;

- The £11.1m tranche one unringfenced grant provided by the government to support the council address the consequences of the pandemic has been excluded from the 1 April 2020 position as it was paid to the council just before the year end date.
- The balance as at 31 March 2021 includes £25.1million from the workstream to fundamentally refinance the capital programme which will be applied in support of the 2021/22 revenue budget. The balance as at the 31

March 2021 excludes £40.5 million of government grants to support the 2020/21 business rates and council tax deficits carried forward into 2021/22 alongside associated accounting adjustments.

- The balance as at 31 March 2022 reflects the normal annual level of government grants paid in advance of the associated expenditure, reserves held on behalf of third parties, and the earmarked reserves set aside to support the 2022/23 budget.

Mitigation of the stated risks and recognition of the difficulty of producing robust, reliable estimates is currently established through six key principle elements;

- Robust culture of financial management
- Unearmarked reserves
- Covid-19 mitigation financial resilience reserve
- Medium Term Financial Plan mitigation financial resilience reserve
- Transformation mitigation financial resilience reserve
- Base budget revenue contribution

In responding to the covid19 public health emergency the council took early and decisive preventive action to mitigate the potential financial challenge. Through reports to Cabinet in May and June 2020 consideration was given to the scale of the challenge and an action plan set out the strategy to provide resources, should they be required, to manage a financial pressure forecast to be up to £30 million. This included £13.4 million of in-year employee and expenditure cost base savings, a fundamental review of earmarked reserves, a review of capital projects, and the use of the base budget revenue contingency.

As part of the same reporting cycle the council agreed a £37.6 million budget to support the council's organisation redesign, its budget for the transformation programme. This included approximately £18 million in resources set aside up front (including £10 million from the financial liability earmarked reserves previously set aside as a counterweight to the deficit on the Dedicated Schools Grant), £2 million from the redirection of the 2020/21 revenue contribution to capital, and £4 million from the review of capital projects.

Since then through careful and diligent financial management the council is now able to identify that the 2020/21 financial in-year financial pressure has reduced to £6 million which includes a recognition of the governments comprehensive package of financial support to local authorities. At the same time the administration has extended further the fundamental review of the capital programme, refinancing the programme were possible by borrowing and in doing so better matching the cost of investment in infrastructure projects with the time period the asset will be used over. This review included the refinancing of the transformation programme releasing the previous set aside up-front resource.

The proposed budget for 2021/22 recognises the resources released through the 2020/21 in-year position, through the refinancing of the capital programme and through other workstreams such as a review of inherited resources. The resources are being used in support of the strategy to defer the 3% adult social care council tax precept into 2022/23, in support of the 2021/22 investment in services, in support of the additional financial resilience reserves, and in support of the higher 2021/22 revenue base budget contingency.

Two key risks with the position as set out are the fact that the 2021/22 budget includes £7.5 million of transportation programme savings that have not been itemised on a line by line basis and the delivery of £13.8 million in capital receipts. Direct assurance has been received from the leadership including the corporate management board that the work to ensure delivery of the transformation savings and capital receipts will be prioritised.

In forming a view of the adequacy of reserves councillors should also reflect on the Medium Term Financial Plan position. The plan is based on key assumptions such as the recovery of the majority of the councils sales, fees and charges income streams from the 1 April 2022, council tax increases of 4.99% in 2022/23 and 1.99% in 2023/24, and the delivery of £42.4 million in transformation savings over the three-year period. It also assumes the council will not be required to set aside resources to act as a counterweight for the growing deficit on the dedicated schools grants as it was required to do in setting the 2020/21 budget. The Medium-Term Financial Plan sets out that the council will need to identify £17 million to balance the 2022/23 budget which drops to £7.5 million for 2023/24.

The Chief Financial Officer (CFO) considers the level of reserves as proposed to be adequate for the purposes of the 2021/22 budget. The CFO also considers that in respect of the estimates used to prepare the budget that they provide a robust and reasonable basis upon which to derive such estimates.

This statement is supported on the basis that the budget as proposed includes;

- holding unearmarked reserve at £15.4 million which is the level they were at as at 31 March 2020.
- Increasing the council's financial resilience reserves from their £69 million position as at 31 March 2020 to their £82m forecast position 31 March 2021.
- Increasing the base revenue budget contingency from £1.2 million, which represented 0.5 per cent of the 2020/21 net revenue expenditure, to £3.6 million (1.3% of the 2021/22 net revenue expenditure). A separate £1.7m contingency is being held in respect of the ambiguity associated with the 2021/22 pay award.

The advice of the CFO is underpinned by an assumption of ongoing support from the government in helping the council manage the financial impact of the global public health emergency. It is also based on the assumption of ongoing support from councillors and officers;

a) to ensure a robust financial management culture continues to be implemented with constant vigilant financial management to ensure any variations from budget are actively managed.

b) in making any necessary decisions around savings, council tax and in managing the growing deficit on the dedicated schools' grants (high needs block).