

# Bournemouth, Christchurch and Poole

## Shadow Executive

12 February 2019

### MEDIUM TERM FINANCIAL PLAN 2019 to 2022

#### RESERVES & BALANCES

##### 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 S151 officer is required under S25 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. Elected members 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 long term grant cuts, service pressures and service delivery problems 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 £13.7m and £27.4m.

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 2018 reported positions, should be robust and within the CIPFA range.

### **Interim 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.

As part of the Financial Strategy, approved at its meeting on the 24 May 2018, the BCP Joint Committee proposed maintaining the absolute value of the unearmarked reserves passed across from Bournemouth, Christchurch and Poole councils in recognition of the risks related to the change process and the associated uncertainty. This approach recognised that the establishment of a new Unitary Council drawn from two existing Unitary Councils, a district council and part of a county council has never undertaken before. It also acknowledges that the budget has been drawn based on four existing council budgets, four financial systems using three finance teams, one of which only merged in April 2018.

This organisation and change risk also needs to be seen in the context of local authorities continuing to face some of the most significant financial challenges for a generation. These include the almost the complete removal of government's unringfenced funding to the relevant Councils, constrained council tax increases, a decline in other sources of income, rising costs and growing demand for many services that will test the council's financial management and resilience.

In advising members on the appropriate level of reserves there is also a need to take into account the potential financial impact of all strategic, operational and financial risks facing the authority, together with the current overall financial standing of the new 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 build going forward.

In developing a financial strategy to support the delivery of a balanced budget for 2019/20 the interim Chief Financial Officer undertook a review of all reserves as reported to the Shadow Executive in December. This review was particularly focused on the extent to which resources might be best applied to;

- a) Transition, transformation and one-off costs associated with creating the new council.
- b) Specific challenges faced by the new Council in creating a new single tier local government entity. An example of this is around setting a balanced budget on the High Needs element of its Dedicated Schools Grant.
- c) Supplementing the amount currently available for Welfare Reform which acts as a Hardship Fund.

The review also set out the approach to categorising earmarked reserves into ten broad headings, namely;

- Financial resilience reserves
- Transition and transformation reserves
- Asset investment strategy, rent, risk and repairs reserve
- Insurance reserve
- Reserves held in partnership for external organisations
- Reserves required by statute or legislation
- Planning related reserves
- Government grants held in reserves
- Maintenance reserves
- ICT development and improvement reserves
- Reserves held to support corporate priorities and service improvements

Details of the reserves held by the Council are included at Appendix 3b to this report. This also includes a schedule of the Earmarked Reserves that the Council is now forecast to hold on the 1 April 2019.

A summary of the Council's reserve policy is proposed as follows;

- a) An annual risk assessment should be undertaken to support the overall level of reserves, as set out within Appendix 3c.
- b) In the medium term reserves should be maintained to; -
  - support the Council's aims and objectives.
  - create a working balance to cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
  - mitigate the underlying operational risk associated with the operation of a Council and the management of service expenditure, income and other financing items.
  - mitigate the risk posed to the Council in terms of the current economic climate.
  - Smooth out the impact of Government Grant reductions and enable the necessary structural budget adjustments, as underpinned by the required business transformations, to be implemented in a measured and planned for way.
- c) For operational purposes unearmarked reserves should be around **£15.4m**. This represents around 5.6% of the estimated net revenue budget of the council.
- d) No assumption is made in regards to the value of reserves that will be transferred from Dorset County Council (DCC). BCP will inherit a fair and reasonable share of these based on the balance sheet position of DCC as at the 31 March 2019. Any such transferred reserves, not required for a specific purpose will be used to supplement the resources set aside by BCP for its Transition and Transformation.
- e) As part of the Council Budget Monitoring process, the level of reserves and balances will be reviewed annually to ensure that these are at an appropriate level and in accordance with the policy objectives.

The interim Chief Financial Officer (CFO) considers the level of reserves as proposed to be adequate for the purposes of the 2019/20 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.