

## Reserves Strategy & Policy

### 1. Background and Context

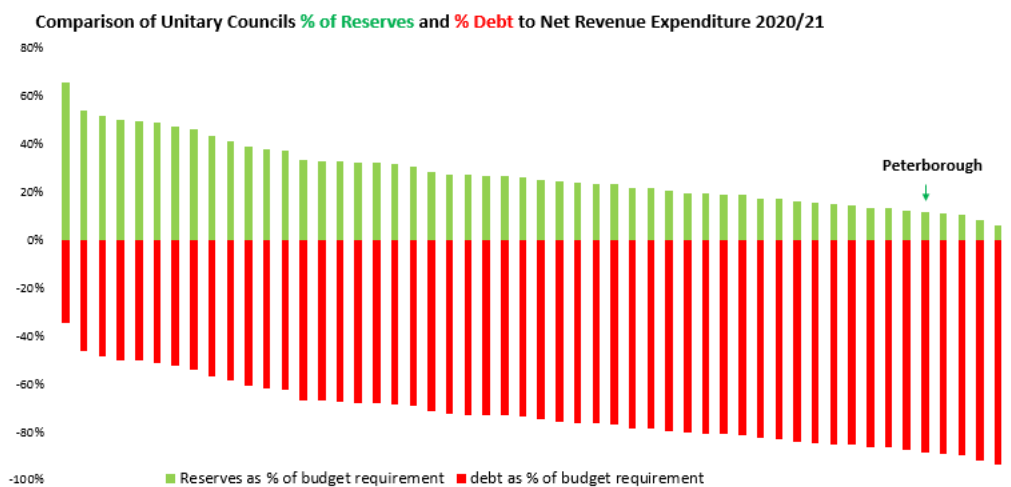
- 1.1. Sections 32 and 43 of the Local Government Finance Act 1992 require councils to consider the level of reserves when setting a budget requirement. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Section 151 Officer) to report formally on the adequacy of proposed reserves when setting a budget requirement. This is completed at the Council through the Robustness Statement. 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. 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 strategy 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. All reserves will be categorised as per the Local Authority Accounting Practice guidance, into appropriate groupings.
- 1.4. Within the Statement of Accounts for General Fund Earmarked Reserves, all individual reserves are reported and will include a description of the purpose of the reserve.
- 1.5. Earmarked reserves will be reviewed regularly as part of the in year monitoring process and annually as part of the budget setting process, 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 two-year period, other than the General Fund, for further detail see Section 4 Management and governance.

### 2. Overview

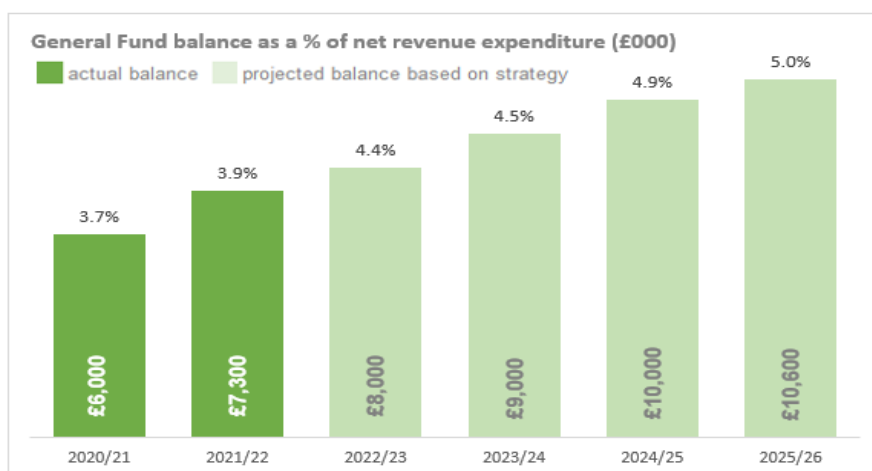
- 2.1. The Council will maintain:
  - a general fund reserve
  - a number of earmarked reserves
- 2.2. The level of the general reserve is a matter for the Council to determine having had regard to the advice of the S151 Officer. Due to the fragile state of PCC finances, the S151 Officer is recommending an increase in the General Reserve over the next three years.
- 2.3. The Chartered Institute of Public Finance and Accountancy (CIPFA) recommend that the following factors should be taken into account when considering the level of reserves and balances:
  1. Assumptions regarding inflation and interest rates
  2. Estimates of the level and timing of capital receipts
  3. The capacity to manage in-year demand led pressures
  4. Ability to activate contingency plans if planned savings cannot be delivered
  5. Risks inherent in any new partnerships
  6. Financial standing of the authority (level of borrowing, debt outstanding etc.)

7. The authority's record of budget management and ability to manage in year budget pressures
8. Virement and year-end procedures in relation to under and overspends
9. The general financial climate
10. The adequacy of insurance arrangements

2.4. Each Council must make their own decisions about the level of reserves they hold, taking into account all of the issues referred to above. As at 31 March 2021, which is the latest set of meaningful data comparisons, Peterborough is ranked 44 out of 52 Unitary Councils in terms of the percentage of reserves held as a proportion of their budget. The range of reserves held as a percentage of budget is wide; the lowest authority at 24%, up to the highest at 161%. Peterborough's figure is 32%. It is also worth looking at reserves alongside borrowing, as borrowing can be used to protect reserves, or reserves used to reduce borrowing. Unfortunately, Peterborough holds a high level of borrowing and therefore that 'trade -off' is not an option. The data referred to is captured in the chart below:



- 2.5. The level of the general fund reserve will be a matter of judgement which will take account of the specific risks identified through the various corporate processes. It will also take account of the extent to which specific risks are supported through earmarked reserves. A risk assessment of the General Fund will be made each year as part of the Robustness Statement and will consider the budget assumptions outlined in point 2.3.
- 2.6. The level will be expressed as a cash sum over the period of the medium-term financial strategy (MTFS). The level will also be expressed as a percentage of the general funding requirement (to provide an indication of financial context). The Council's aim is to hold, as a minimum general reserve equivalent to 5% of the Councils Net Revenue Expenditure, by no later than 1 April 2025.
- 2.7. At 1 April 2022 the Council holds £7.3m in General Fund. The forecast profile of achieving the target balance is set out in the following points, with the chart outlining the profile on the General Fund and estimated % against the net revenue expenditure:
  - 2022/23 forecast contribution £0.7m
  - 2023/24 forecast contribution £1.0m
  - 2024/25 forecast contribution £1.0m



2.8. This will be reviewed annually in February as part of the budget setting process.

### 3. Strategic context

3.1. The Council continues to face a shortfall in funding compared to expenditure demands and must annually review its priorities in order to address the shortfall. The current MTFS has some highly challenging saving targets, and in order to become financially sustainability further challenging and transformational change will be required over the medium to long term.

3.2. In order to achieve Financial Sustainability, the Council will need to invest in a range of innovative and transformational activities in order to reduce future costs of service delivery. An Innovation delivery Fund was created as part of the 2021/22 Outturn process to fund such activity. In the 2023/24 budget and beyond the balance on the innovation will be maintained in the region of £10-£15m, which will be drawn-down on the basis of business cases that either pay back the contribution, or result in significant service improvements or significantly reduced costs compared to the 'do-nothing' option. Innovation and transformation needs to be a constant and therefore any opportunity to replenish this reserve should be considered as part of each year's annual budget setting process, and any outturn opportunities offered by any underspends. As such, once the General Fund target is achieved, any additional funds through underspends should be placed in the Innovation Deliver Fund unless exceptional circumstances require alternative use.

3.3. The Council is in receipt of interest earned through investments of our cash balances to support its general spending plans, and is avoiding interest payments on borrowing by effectively internalising that borrowing requirement by use of cash balances, including sums held in reserves and general positive cash flows. Therefore the balances held in reserves will help reduce on-going revenue costs.

3.4. Reserves are **one-off money**. The Council will avoid using reserves to meet ongoing financial commitments other than as part of a sustainable budget plan and one of the Council's financial principles is to stop the use of one-off funding to support the base budget ie this reserves strategy will prevent reserves being applied merely to balance the budget.

### 4. Management and governance

4.1. For each earmarked reserve held there will be a clear protocol setting out:

- The reason for/purpose of the reserve

- How and when the reserve can be used
  - Procedures for the reserve's management and control
  - A process and timescale for review of the reserve to ensure continuing relevance and adequacy.
- 4.2. All protocols should have an end date and at that point any balance will be transferred to the general reserve. If there is a genuine reason for slippage then the protocol will need to be updated. A questionnaire will be completed by the relevant budget holder and reviewed by Finance to ensure all reserves comply with legislative and accounting requirements.
- 4.3. Reserves protocols must be sent to Corporate Finance for review and will be approved by the S151 Officer, the Corporate Leadership Team (CLT), and by the Cabinet Member for Finance. Protocols should clearly identify contributions to and drawdowns from reserves across the lifetime of this MTFS, and these will be built into the Annual Budget. Ongoing recurring costs should not be funded from reserves, unless part of a smoothing reserve and approved as part of the MTFS. The short-term use of reserves may be agreed 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.
- 4.4. All earmarked reserves will be reviewed as part of the monitoring process, the budget preparation, financial management and closing of accounts processes. Cabinet will be presented with the monitoring of reserves on a regular basis and in the outturn report and the Council will consider a report from the S151 Officer on the adequacy of the level of reserves in the annual budget-setting process.
- 4.5. The following rules apply:
- Any in-year use of the General Reserve will need to be approved by Cabinet and any planned use will be part of the budget setting process.
  - In considering the use of reserves, there will be no, or immaterial, impairment to the Council's financial resilience unless there is simply no alternative.
- 4.6. The Council will review the Reserves Strategy and Policy on an annual basis through Audit Committee.

## **5. General Fund and Useable Reserves**

- 5.1. The General Fund Balance is the statutory fund into which all the receipts of the Council are required to be paid in, and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. The General Fund Balance summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.
- 5.2. Earmarked reserves are amounts set aside from the General Fund Balance to provide financing for future expenditure plans, see Appendix One.
- 5.3. Usable Reserves are those reserves that can be applied to fund expenditure or reduce local taxation, however the Council is restricted in the use of these as the schools balances are held by schools and can only be spent by schools. The Capital Grants Unapplied Account can only be used to finance the Capital Programme and the General Fund is used by the Council to maintain a prudent level of reserves.

5.4. In summary:

General Fund	Earmarked Reserves
<ul style="list-style-type: none"><li>• A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing</li><li>• As a contingency to cushion the impact of unexpected events, major incidents or emerging risks (covered in more detail in appendix one)</li></ul>	<ul style="list-style-type: none"><li>• Monies set aside for future events or liabilities</li></ul>

## 6. Unusable Reserves

6.1. Unusable Reserves are those reserves that absorb the timing differences arising from different accounting arrangements. Details of all other reserves and balances including information regarding purpose, how and when to use and possible release to revenue budget is set out in Appendix Two.

## Appendix One – General Fund & Usable Reserves

The Council holds a number of usable reserves, and these are listed below.

Reserve / Balance	Description
General Fund Balance	<p>This Fund is the statutory fund into which all the receipts of the Council are required to be paid in, and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. This reserve ultimately smooths the financial impact of unexpected events, major incidents or emerging risks, including:</p> <ul style="list-style-type: none"> <li>• Risks which exceed the other specific risk reserves (budget, inflation and local taxation reserves)</li> <li>• The capacity to manage in-year budget pressures in relation to demand led service delivery</li> <li>• The general financial climate and the impact the cost of living crisis or a recession may have on the council including: <ul style="list-style-type: none"> <li>○ Rising demand for Services</li> <li>○ A reduction in income generation</li> <li>○ Impact on Commercial and Property activities</li> <li>○ Exposure to rising Inflation and interest rates</li> <li>○ Ability to generate planned Capital receipts</li> </ul> </li> <li>• Financial risks arising as a result of new government legislation or new burdens</li> </ul>
School's Balances	As per the above explanation but in the School setting context.
Capital Receipts Reserve	This Reserve holds the proceeds from the disposal of land or other assets and repayment of loans and continues to be restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure.
Capital Grants Unapplied Account	This Account holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is not restricted by grant terms as to the capital expenditure against which it can be applied and / or the financial year in which this can take place.

### Earmarked Reserves

Reserve / Balance	Description
Departmental Reserves	These have been identified by Cabinet or Corporate Management Team and are incorporated within the Medium Term Financial Strategy for Departmental use.
Insurance	To provide for future claims (self-insurance). A number of risks, contingencies and financial losses are covered by the Council's Insurance Reserve. In general terms the Council self-insures against the risks of theft, subsidence and accidental damage to property. Additionally, the excess on external insurance arrangements, which range from £2,500 to £50,000 per loss, are also met by the Reserve.
Schools Capital	School revenue reserves put aside for funding future school capital schemes.
Innovation Fund Reserves	The balance of the sums set aside which can be utilised to fund one-off type expenditure such as to fund service transformation which will improve the longer term financial position of the Council as contained in the MTFS.

Public Health	The Public Health Grant received by the Council is ring-fenced for use on public health services only. This reserve is for any amounts of grant not spent in year due to timing difference in service delivery.
Local Tax Income Risk Reserve	To compensate the Council for the additional cost of providing the extended Business Rates retail and nursery relief. This reserve is funded by Section 31 grants and Tax Income Guarantee scheme.
Budget Risk Reserve	This reserve formed part of the 2022/23 Tactical Budget to mitigate some of the risks and issues with the very high and high risk on the deliverability of the savings contained within the budget.
Inflation Risk Reserve	This reserve is to mitigate some of the financial risk resulting from rising rates of inflation in the 2022/23 financial year.
Other	These include the Lease Consolidation, Hackney Carriage Accounts, and Parish Burial Reserves.

## Appendix Two – Unusable Reserves

The Council holds a number of unusable reserves which absorb the difference between the statutory arrangements for funding expenditure and accounting for the expenditure in line with regulations and proper accounting practice. Unusable reserves cannot be used to fund expenditure eg cannot fund revenue spend on services or capital spend on projects.

Reserve / Balance	Description
Revaluation Reserve	This reserve contains the net gains made from increases in the value of the Council's assets (Property, Plant, Equipment and Intangible Assets) not yet realised through sales. The gain will only be realised and shown as income in the Council's accounts following sale of the asset.
Capital Adjustment Account	A store of capital resources from Revenue, Capital Receipts and the provision for the payment of debt set aside to meet past expenditure.
Deferred Capital Receipts	Deferred Capital Receipts are amounts that are to be received in instalments over an agreed period of time. They arise from mortgages on the sale of Council Houses, or repayment terms from other asset sales. These can only be used for financing new capital expenditure when the actual receipt is received. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.
Financial Instrument Adjustment Account	This Account is held in accordance with the Code of Practice to write down over time the premiums paid on early debt repayment in order to spread the burden on Council Tax. This is a technical adjustment and has no impact on the overall financial position of the Council.
Pension Reserve	In line with International Accounting Standard 19 (IAS 19) Employee Benefits the Council's commitment to make future payments must be disclosed in the accounts at the time the employees earn their future entitlement to the benefits. The Pension liability balance reported in the balance sheet matches off exactly to the deficit balance held in the Pensions Reserve.
Collection Fund Adjustment Account	This adjustment account allows for differences between income included in the Income and Expenditure account and the amount required by regulation to be credited to the General Fund. The balance on the account deficit / surplus represents the Council's share of the Collection Fund deficit / surplus.
Accumulating Compensated Absences Adjustment Account	This account absorbs the differences that would otherwise arise on the general fund balance from accruing for compensated absences earned but not taken in the year eg annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.