

## **Reserves Strategy**

### **Introduction**

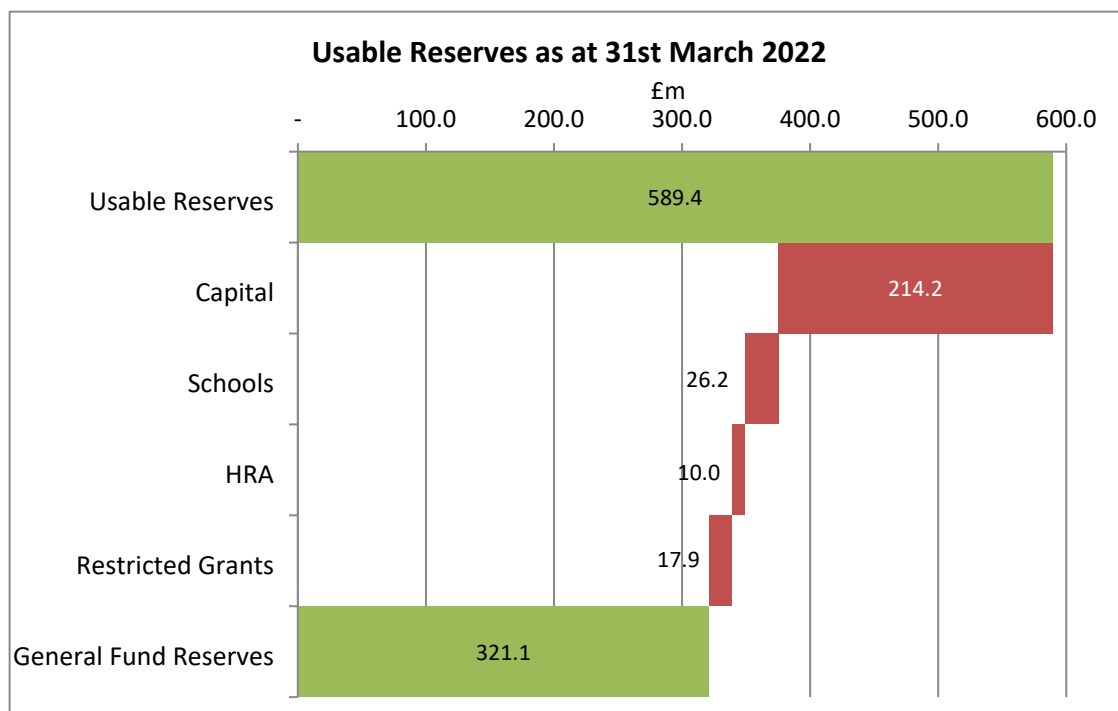
1. This report analyses the latest position in relation to the level of the Council's reserves. Section 25 of the Local Government Act 2003 requires the statutory Chief Finance Officer (the Executive Director of Resources) to present to the authority a report assessing the adequacy of unallocated reserves in the context of corporate and financial risks facing the Council.
2. The Council needs to balance the necessity for reserves against the immediate impact on council taxpayers and arrive at a level it considers adequate and prudent, but not excessive.
3. Reserves can be used temporarily to fund services, and this approach is reviewed as part of the budget strategy. However, they are:
  - one off funds and using them in the budget will only delay the need to make savings. Once used, they are not available to support future years.
  - most suited to covering one off, unexpected costs and emergencies or costs that are likely to be incurred in the future, but the timing is uncertain.

### **Total Reserves at 31<sup>st</sup> March 2022**

4. The [Council's Un-Audited Statement of Accounts for 2021-22](#) shows a figure for "usable" reserves in the balance sheet on page 33 of £589.4m as at 31<sup>st</sup> March 2022. However, this figure is a technical accounting one and is not relevant for the purposes of setting the General Fund revenue budget.
5. The Council's total spending and reserves is separated in to five main blocks:
  - Capital - Sums set aside to provide funding for the capital programme or to manage the impact of new capital schemes.
  - Schools - funds that have been allocated to, and held in trust for, schools, and which remains unspent at the year end. This reserve is only available to support schools expenditure.
  - Housing Revenue Account (HRA) - amounts specifically required by statute to be set aside and ring-fenced for future investment in HRA;
  - Restricted Grants – funding received for specific projects;

- General Fund - spend on all other services not in the above four categories, funded from government grants, the local share of business rates and council tax.

6. For the purposes of setting the budget and this reserves strategy, £268.3m of the “usable reserves” are irrelevant as below:



7. This leaves around £321.1m of General Fund reserves as at 31<sup>st</sup> March 2022. However, £308.3m of this is “earmarked” i.e. committed to cover liabilities for expenditure which is already committed but not yet paid for.

8. Just £12.8m is un-earmarked reserves. If the reserve is used, it will be replenished to the stated minimum level as soon as practically possible; the Council will always need a minimum level of emergency reserves.

9. The Council continually assesses its reserves position, balancing the need to retain sufficient reserves to meet future risks, with a plan to utilise any reserves that are not needed. Any future over spends will require further un-earmarking of reserves, leaving the Council at far greater risk of future unfunded expenditure.

### **Estimate of reserves going forward**

10. The table below highlights the split of earmarked and un-earmarked reserves forecast at 31<sup>st</sup> March 2022 and 31<sup>st</sup> March 2023.

## **Estimate of reserves at 31 March 2022 & 31 March 2023**

<b>Description</b>	<b>Balance at 31/03/22 £000</b>	<b>Movement in 2022/23 £000</b>	<b>Balance at 31/03/23 £000</b>
<b>Un-earmarked Reserves</b>			
General Fund Reserve	12,851	0	12,851
	<b>12,851</b>	<b>0</b>	<b>12,851</b>
<b>Earmarked Reserves</b>			
Collection Fund	49,834	(11,904)	37,930
Major Sporting Facilities	43,228	536	43,764
PFI Reserve	28,850	(2,642)	26,208
Service Area Reserves	24,353	(1,892)	22,461
New Homes Bonus	21,134	(1,704)	19,430
Capital Charges	15,385	1,500	16,885
Insurance Fund	10,939	0	10,939
Public Health	6,130	(1,639)	4,491
Heart of the City II	5,980	0	5,980
Children's and Adults Social Care	5,837	(5,837)	0
Invest to Save	875	1,417	2,292
Other earmarked	95,707	(31,619)	64,088
<b>Total Earmarked Reserves</b>	<b>308,252</b>	<b>(53,784)</b>	<b>254,468</b>
<b>Total Revenue Reserves</b>	<b>321,103</b>	<b>(53,784)</b>	<b>267,319</b>

11. The forecast for 2022/23 shows a steep decline in reserves of £53.8m due mainly to the need to un-earmark reserves to cover ongoing overspends. This equates to 17% of all General Fund reserves.
12. £33.1m of the forecast drawdown comes from other earmarked reserves to cover the £14.5m used to fund the Council's 2022/23 budget gap and a further £18.6m forecast to be required for the 2022/23 overspend.
13. The £11.9m reduction in the Collection Fund Reserve is for the anticipated distribution of the retail discount grant from Government that was carried forward from the previous year.

### **General (non-earmarked) revenue reserves**

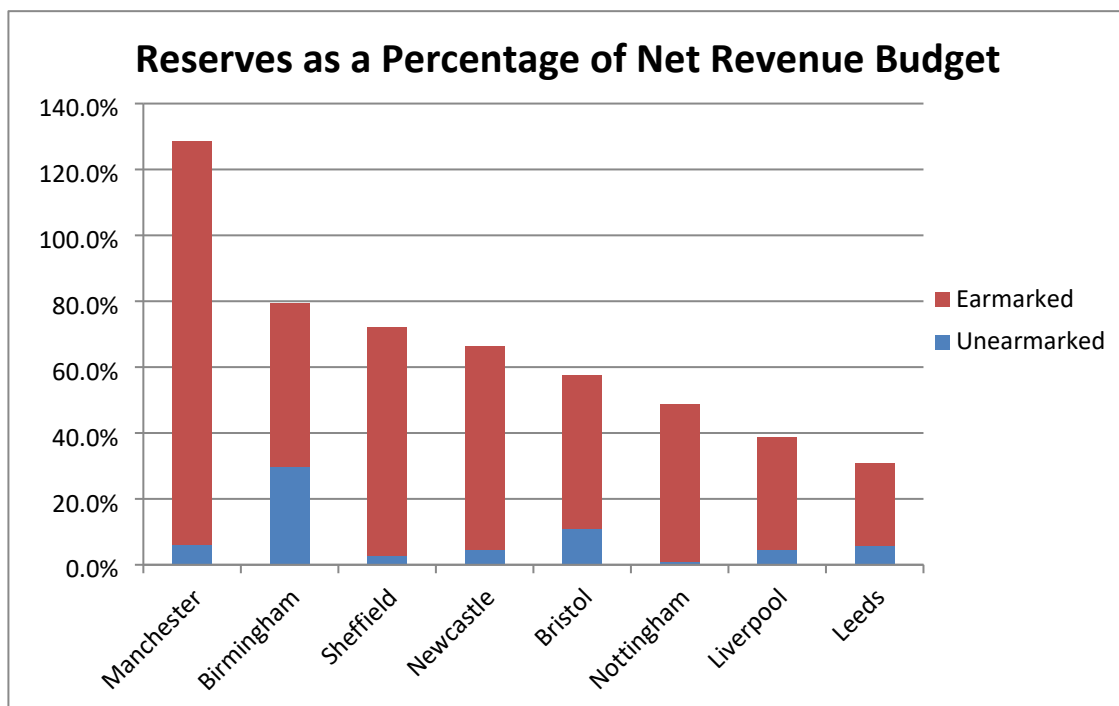
14. The purpose of general revenue reserves is to provide funding for any unforeseen risks and expenditure which may arise during the year. The Council will always

need a minimum level of emergency reserves. A good example being the Sheffield floods in 2007 and 2019, when we had to use reserves to fund spending on the recovery operation before reclaiming costs from insurance or the Government.

15. There is no overall formula that can calculate what the level of reserves should be; it is a matter of judgement based on the known risks, budgetary pressures and local factors.

16. The graph below shows a comparison of both earmarked and un-earmarked reserves as a percentage of Net Revenue Budget in relation to other major cities for the same period.

17. SCC has the second lowest un-earmarked reserves of all core cities at just 2.9% of Net Revenue Budget (NRB). Once Earmarked Reserves are added on SCC is 3<sup>rd</sup> of the 8 core cities with 72.2% of NRB. The expected decline in reserves for 2022/23 would drop SCC to 4<sup>th</sup>, all other things being equal.



N.B Reserve levels based on 2021-22 Statement of Accounts (un-audited) except for Nottingham whose latest published accounts are 2019/20. NRB data based on 2022-23 RA data.

## Earmarked Reserves

18. A list of earmarked reserves, their purpose and proposed use are set out below. Figures in brackets represent their balance at 31/3/22.

19. Earmarked reserves are set aside to meet known or predicted liabilities, but ones that are not certain enough to create an exact provision in the accounts. The

liabilities are, however, likely enough to say that the earmarked reserves are not normally available to fund the budget or other measures.

### **Collection Fund (£49.8m)**

20. This reserve is required to cover potential reductions in Business Rates and Council Tax income, ensuring any short-term fluctuations in collection rates don't have a direct impact on budget setting and/or cause additional financial pressures across portfolios. £11.9m of the remaining reserve is forecast to be used in 2022/23, largely for the anticipated distribution of the remaining retail relief funding from Government. Due to the accounting arrangements involved we were required to carry this forward in earmarked reserves.

### **Major Sporting Facilities (MSF) (£43.2m)**

21. The remaining funds are required for the future costs of the Major Sporting Facilities debt (Ponds Forge, Hillsborough Leisure Centre, etc.) and for investment in the leisure strategy.

### **Private Finance Initiative (PFI) Reserve (£28.9m)**

22. This PFI grant is a good example of why we have earmarked reserves – Government pays us money in advance to pay future years' liabilities, so we set these sums aside in a reserve until they are needed. If we did not do so, there would be insufficient funds to cover the cost of contracts in future years. These reserves are therefore firmly committed in the medium to long term.

23. The PFI reserve is expected to reduce by £2.6m over the course of 2022/23 in line with the established PFI spend profile.

### **Service Area Reserves (£24.4m)**

24. These are a variety of service specific reserves agreed by Cabinet in previous years set aside for long term projects / plans, examples include the Workplace Accommodation Strategy and the Flexible Development Fund.

### **New Homes Bonus / Corporate Investment Fund (£21.1m)**

25. The Government pays all Councils the New Homes Bonus to incentivise them to bring empty properties back into use or encourage new housing to be built. The Council intends to use the payments to promote housing development and to fund economic growth projects. This reserve sets aside the payments until required for agreed projects, which now form part of the wider Corporate Investment Fund.

### **Capital Financing Charges (£15.4m)**

26. Funds required to support borrowing, Minimum Revenue Provisions (MRP) and other associated costs for capital programmes including the major sporting facilities, Heart of the City 2 project and Highways PFI.

### **Insurance Fund (£10.9m)**

27. This reserve was created in 2013/14 following the audit of the 2012/13 accounts. The External Auditor recommended that the difference between the Council's best estimate of actual losses and the maximum potential liability should be classified as an earmarked reserve.

### **Public Health (£6.1m)**

28. Public Health grant funding is given to the Council on a yearly basis and is restricted to spending on public health functions. The conditions of the grant specify that any surpluses must be carried to a reserve for use in future years. The balance on this reserve therefore represents underspends in prior years.

### **Heart of the City II (£6.0m)**

29. Funds set aside for future in costs in relation to the city's Heart of the City regeneration scheme.

### **Children's and Adult Social Care (£5.8m)**

30. Social Care reserves are held to deal with transforming Social Care in Sheffield to better meet the much-publicised challenges facing the sector and to deal with unforeseen costs. This is all expected to be required in 2022/23.

### **Invest to Save Projects (£0.9m)**

31. The Council has delivered a number of business transformation projects that are essential to the future success of the Council's operations and which have been used to help offset budget pressures over the last few years. This will continue with support to deliver future savings identified, including a number of strategic reviews. This reserve will be bolstered by £1.4m in 2022/23.

### **Other Earmarked Reserves (£95.7m)**

32. This includes various specific earmarked reserves. These include:

- contingencies for potential budget deficits
- redundancies
- pension deficit payments
- corporate energy reserve
- highways PFI contingency

33. As at March 2022 the contingency for budget deficits had been reduced from £70m to £50.5m due to the 2021/22 overspend. £14.5m of this remaining £50.5m is planned to be used to fund the Council's 2022/23 budget gap and a further £18.6m is forecast to be required for the 22/23 overspend, leaving just £17.4m specifically set aside for budget deficits.

## **Assessment of levels of reserves**

34. The Section 151 officer has carried out an assessment of the adequacy of the level of reserves held by the Council in light of the principal risks it faces. While the maximum total financial impact of these risks far exceeds the reserve held, the overall likelihood of all these risks being incurred in any one year is low and therefore, it is not deemed prudent, nor offers best value to hold sufficient reserves to cover all eventualities.
35. The Executive Director of Resources recommended during the 2022/23 budget process that:
- The General Fund Balance be maintained at around £12.9m, and broadly in line with the recommended level of 3% to 5% of the Council's net spending, regarded by most Chief Finance Officers in the Audit Commission's research as a prudent level for General Fund reserves.
  - There are currently significant external risks to Local Authorities budgets but those that were already an ongoing risk, for example, the cost pressures in social care have been exacerbated by the pandemic and the Cost of Living crisis driving inflation.
  - These have also brought significant other risks, such as impacts on the collection fund, primarily due to Business Rates pressures.
  - The position is not yet critical, but stringent monitoring will be essential to ensure that reserve levels are adequate to cover future expected pressures in the medium term.

## **Management and Governance**

36. Approving the in-year flow of money to and from reserves and creating or consolidating reserves is at the discretion of the Chief Financial Officer (CFO).
37. The condition for assessing requests for carry forwards is that the overall budget position of the requesting Portfolio cannot exceed its approved budget and therefore it is under spending.
38. Once reviewed by the Head of Accounting, carry forward requests will be presented to the Finance Sub-Committee as part of the quarterly Revenue Budget monitoring process. These should be submitted no later than the Month 8 forecast in December.
39. An annual Reserves Strategy is produced for approval in line with the Constitution. The Head of Finance & Commercial Business Partnering, or delegated officer, will then manage the need for transfers to and from reserves.

40. Where the proposed transfer does not relate to an approved strategy and is not a restricted grant then, subject to the urgency procedure, the decision may only be taken by Full Council.
41. The Head of Finance & Commercial Business Partnering, or delegated officer, can approve the transfer to reserves of a restricted grant where the expenditure is not expected to happen in the current financial year.
42. Restricted grants must be used for a specific activity/ purpose and any restricted grant balances carried forward at year end will be drawdown in full in M1 (April) of the following financial year.