

# APPENDIX 1

## Reserves Policy 2023/24

### Middlesbrough Council

#### 1. Background and Context

- 1.1. The Council is required to maintain adequate financial reserves. Reserves are an integral part of sound financial management, they help the Council plan for future spending commitments, balance the budget and manage unpredictable financial pressures.
- 1.2. 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 to Council on the adequacy of proposed reserves when setting the budget and council tax 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.
- 1.3. CIPFA issued [Local Authority Accounting Panel \(LAAP\) Bulletin No.99](#), Guidance Note on Local Authority Reserves and Balances in July 2014. CIPFA also issued [CIPFA Bulletin 13 Local Authority Reserves and Balances](#) on 28 March 2023. 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.
- 1.4. All reserves will be categorised as per the Local Authority Accounting Practice guidance, into groupings.
- 1.5. 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.
- 1.6. Earmarked reserves will be reviewed regularly as part of the in-year monitoring and accounts closure 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.
- 1.7. 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 Balance and a number of sub reserves of the General Fund known as 'earmarked reserves' which will be held for three main purposes:

- **General Fund Balance** – a minimum balance which is a contingency to cushion the impact of unexpected events or emergencies. This is the fund of last resort.
- **Earmarked reserves:**
  - to support financial sustainability which are used to help cushion the impact of uneven cash flows, avoid unnecessary temporary borrowing manage the impact of unexpected adverse impacts upon the general fund budget (e.g., a financial resilience reserve).
  - to meet known or predicted requirements or established by statute. The purpose of these reserves is to enable sums to be set aside for specific purposes or in respect of potential or contingent liabilities where the creation of a provision is not required or permitted.
- **Unusable reserves** - these arise out of a requirement under legislation and proper accounting practice either to accumulate revaluation gains or as adjustment accounts to comply with statutory accounting requirements. These reserves are not backed by resources and therefore cannot be used for any other purpose. Hence, these reserves are not available to fund expenditure. These will generally be excluded from any discussion where the council talks about its level of reserves.

2.2. The level of the **General Fund Balance** is a matter for the Council to determine having had regard to the advice of the S151 Officer. A general assumption over many years was to allow for a balance of 5% of Net Revenue Expenditure. However, due to the increasing financial risks and uncertainties facing local authorities over the period since austerity in 2008/09, the minimum average balance recommended by S151 Officers has tended to increase. It is dependent upon the level of other earmarked reserves held and the assessment of risks facing individual authorities.

2.3 The Council's minimum General Fund Balance for 2023/24 is set at £12.041m which represents 9.5% of the 2023/24 Net Revenue Budget of £126.354m and reflects the risk assessed minimum balance determined by the S151 Officer in February 2023. The S151 Officer recommends that this level is maintained during 2023/24 and will be reassessed as part of the 2024/25 budget setting process.

The calculation of the level of General Fund Reserve for 2023/24 was set out in the budget report to Council in February 2023 and this assessment is outlined in Appendix C - Risk Based Assessment of Risk Reserve Balances.

2.4. 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:

- Assumptions regarding inflation and interest rates.
- Estimates of the level and timing of capital receipts.
- The capacity to manage in-year demand led pressures.
- Ability to activate contingency plans if planned savings cannot be delivered.
- Risks inherent in any new partnerships.
- Financial standing of the authority (level of borrowing, debt outstanding etc.)
- The authority's record of budget management and ability to manage in year budget pressures.
- Virement and year-end procedures in relation to under and overspends.
- The general financial climate.
- The adequacy of insurance arrangements.

2.5. Each local authority must make their own decisions about the level of reserves they hold, taking into account all of the issues referred to above. 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 and will consider the budget assumptions outlined in paragraph 2.3. This assessment is outlined in Appendix C - Risk Based Assessment of Risk Reserve Balances.

2.6. The level will be expressed as a cash sum over the period of the Medium Term Financial Plan (MTFP). The level will also be expressed as a percentage of Net Revenue Expenditure (to provide an indication of financial context).

2.7. On 1 April 2023, the Council held £12.041m in General Fund Reserve. The forecast profile as a proportion of the Net Revenue Expenditure over the period of the MTFP is summarised below:

Year	Forecast Contribution*	Forecast balance	Forecast NRE	Reserve to NRE
	£m	£m	£m	%
2023/24	-	12.041	126.354	9.5
2024/25	-	12.041	134.448	9.0
2025/26	-	12.041	140.806	8.6
2026/27	-	12.041	147.443	8.2

*\*Contributions are to be determined via the identification of savings*

*The forecast balance assumes no draw on the Reserve each year*

*The forecast NRE assumes a balanced MTFP each year as per the updated MTFP*

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

2.9 The Council's unrestricted usable earmarked revenue reserves at 31 March 2023 stand at £2.788m which is critically low. These need to be replenished as part of the MTFP in order build the Council's financial resilience.

### 3. Strategic context

- 3.1. The Council is facing a shortfall in funding compared to its demands and must urgently review its priorities and redesign and transform its services over the period of the MTFP to deliver savings to achieve a budget that is financially sustainable over the medium term.
- 3.2. 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. The Council's earmarked revenue reserves are at a critically low level and therefore are not sufficient to fund this innovation and transformation.
- 3.3. It is therefore proposed that the Council urgently reviews its asset base within 2023/24 to identify opportunities for rationalisation of land and buildings to dispose of assets in order to generate a pipeline of capital receipts. The utilisation of these receipts can then be considered for use in funding a Transformation Programme under the Flexible Use of Capital Receipts Policy in line with government regulations.
- 3.4. Over the term of the MTFP, the Council will need to replenish its earmarked revenue reserves in order to provide increased resilience and to fund further innovation to deliver continuous improvement over the medium term. Any underspend at final outturn will be transferred into the Council's Financial Resilience Reserve unless otherwise recommended by the S151 Officer.
- 3.5. The Council earns interest on the investment of its cash balances through its Treasury Management operations. This revenue income supports its general spending plans. By holding cash balances, the Council effectively internalises some of its borrowing, therefore avoiding interest charges on external debt. Balances held in reserves therefore help to reduce on-going revenue expenditure.
- 3.6. Reserves represent finite funds that can only be used once and are therefore regarded as **one-off funding**. The Council will avoid using reserves to meet ongoing financial commitments other than as part of a sustainable budget plan. A fundamental principle to be adopted in the management of the Council's finances is to end its reliance upon the use of one-off funding to fund service overspends. Further, the Council will not plan to use reserves to support the base budget i.e. this reserves strategy will prevent reserves being applied merely to balance the budget.

### 4. Management and governance

- 4.1. New reserves may be created at any time and approved by the Executive upon recommendation by the S151 Officer.
- 4.2. For each of 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
  - A profile over which the reserve is intended to be utilised showing expected contributions to and from the reserve, with an end date for its existence.
- 4.3. The S151 Officer shall approve the draw down of reserves provided that they are for the purpose for which the reserve has been established. The use of reserves will be reported as part of the quarterly budget monitoring report to the Executive.

- 4.4 The S151 Officer will review the use of reserves in accordance with the planned profile periodically through the financial year and as a minimum at accounts closure and budget setting. Protocols will be updated as appropriate.
- 4.5 All protocols will 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 be updated and submitted through Financial Planning for agreement by the S151 Officer or referred to the Executive as appropriate.
- 4.6 Ongoing recurring costs should not be funded from reserves unless part of a smoothing reserve and approved as part of the MTFP. 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 service area or directorate.
- 4.7 Council will consider a report from the S151 Officer on the adequacy of the level of reserves as part of the annual budget-setting process.
- 4.8 The Council will review and update the Reserves Strategy and Policy annually as part of the budget setting process.

## **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 A.
- 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 minimum balance which is a contingency to cushion the impact of unexpected events or emergencies. This is the fund of last resort.</li></ul>	<ul style="list-style-type: none"><li>• Monies set aside for future events or liabilities or established by statute. To set monies aside for specific purposes in respect of potential or contingent liabilities where the creation of a provision is not required or permitted.</li><li>• Funds to support financial sustainability which are used to help cushion the impact of uneven cash flows, avoid unnecessary temporary borrowing manage the impact of unexpected adverse impacts upon the general fund budget (e.g. a financial resilience reserve).</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 B.

## Appendix A – General Fund & Earmarked Reserves

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

Reserve	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.</p> <p>This is a minimum balance which is a contingency to cushion the impact of unexpected events or emergencies. This is the fund of last resort.</p> <p>This reserve ultimately smooths the financial impact of unexpected events, major incidents or emerging risks, including:</p> <ul style="list-style-type: none"> <li>• Inflation and pay awards increases above that budgeted</li> <li>• Further demand led pressures (mainly Adults and Childrens Care)</li> <li>• Non achievement of required budget savings and cost reductions</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 from fees and charges</li> <li>○ Impact on income from commercial developments</li> <li>○ Impact on Council Tax and Business Rates income</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>
Capital Receipts Reserve	<p>This reserve holds amounts received from the disposal of assets and is only available to fund future capital projects.</p>
Capital Grants and Contributions Unapplied Reserves	<p>These reserves hold amounts from Capital Grants and Contributions that have been recognised in the Comprehensive Income and Expenditure Statement in line with the accounting code of practice, but for which the associated capital expenditure has not yet been incurred.</p>

## Earmarked Reserves

Reserve	Description
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 differences in service delivery.
Insurance Fund	The internal Insurance Fund was set up to cover all the Council's insurable risks. Only a limited amount of external insurance cover is provided for catastrophe or special risk incidents. The nature of the risks covered by the insurance reserve include fidelity guarantee, personal accident, employers' liability, fire, motor, marine, engineers, public liability and money losses.
Better Care Fund	<p>The Better Care Fund (BCF) has been established by the Government to provide funds to local areas to support the introduction of a fully integrated health and social care system. It is a requirement of the BCF that the Clinical Commissioning Group (CCG) and the Council establish a pooled fund for this purpose.</p> <p>Section 75 of the National Health Service Act 2006 gives powers to local authorities and CCGs to establish and maintain pooled funds to support the outcomes of the BCF.</p> <p>The Council has entered into a pooled budget arrangement with NHS Tees Valley Clinical Commissioning Group for the provision of health and social care services to meet the needs of the population of Middlesbrough. The services being commissioned or provided by the Council or Tees Valley Clinical Commissioning Group (TVCCG) depend upon the needs of the service recipient. The Council and TVCCG have an ongoing section 75 agreement in place for funding these services and this is reviewed annually. The Council is the host for this pooled budget and each partner's contribution is set out in the Better Care Fund section 75 agreement.</p> <p>This reserve is to hold balances from the pooled budget.</p>
Marton Library Section 106	This reserve is held for the purpose set out in the Section 106 agreement.
Housing Rental Sinking Fund	This reserve is for the replacement of major capital expenditure, e.g. replacement windows and boilers, for properties owned by the Council and rented out.
Financial Resilience Reserve	The purpose of the Reserve is to meet unforeseen financial pressures that cannot ultimately be managed within directorate budgets.
Change Fund	The reserve has been set up to pay for the one-off costs associated with implementing change within services including the funding of invest to save projects, early retirements / voluntary redundancies and altering the way services are commissioned.
Car Parking Reserve	This reserve was created from other reserves to cover potential pressures relating to car parking income arising in future years due to the on-going impact of Covid.



Elections Costs	This reserve covers the cost of elections which occur every four years, The reserve is built up with a contribution from the elections budget each year, and then drawn down in the fourth year when local elections take place.
Revenue Grants Unapplied	In situations where there are no grant conditions or that conditions have already been met and expenditure has not yet taken place, any unspent grants/contributions are transferred to the Revenue Grants Unapplied at year-end. These have been recognised as income in prior years in the Comprehensive Income & Expenditure Statement.
Schools Balances	This reserve holds the accumulated balances and the differences between the school budget and actual expenditure incurred in the year for all the Middlesbrough Council schools. In accordance with Government regulations and the Council's scheme of delegation for schools, these funds are carried forward and specifically earmarked for use by schools in future years.

## Appendix B – Unusable Reserves

Unusable Reserves are those reserves held by the Council that cannot be utilised to provide services. This includes reserves that hold unrealised gains and losses and adjustment accounts which deal with situations where income and expenditure are recognised statutorily against the General Fund balance on a different basis from that expected by accounting standards as adopted by the Code. Unusable reserves cannot be used to fund expenditure e.g., cannot fund revenue spend on services or capital spend on projects.

Reserve	Description
Revaluation Reserve	The Revaluation Reserve contains the accumulated net gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The reserve only contains revaluation gains accumulated since 1 April 2007, the date when the Revaluation Reserve was constituted. Accumulated gains and losses accumulated before that date are consolidated into the Capital Adjustment Account. Amounts contained within this reserve will only become available to provide services (or limit resources in the case of losses) once the gains/losses are realised as the assets are disposed of.
Capital Adjustment Account	<p>The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction and enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with amounts set aside by the Council as finance for the costs of acquisition, construction, and enhancement.</p> <p>The Account also contains accumulated gains and losses on Investment Property and gains recognised on donated assets as well as revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.</p>
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	This reserve is used to reconcile the payments made for the year to various statutory pension schemes and the net change in the Council's recognised liability under IAS19 – Employee Benefits, for the same period.
Collection Fund Adjustment Account	The Collection Fund Adjustment Account holds the differences arising from the recognition of council tax and business rates income, in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.
Accumulating Compensated Absences Adjustment Account	The Accumulated Compensated Absences Adjustment Account reflects the value of compensated absences (employees time off with pay for holidays) earned but not taken in the year.
Dedicated Schools Grant Adjustment Account	From November 2020 The Local Authorities (Capital Finance and Accounting) Regulations (the 2003 Regulations) established new accounting practices in relation to the treatment of local authorities' schools budget deficits such that where a local authority has a deficit on its schools budget relating to its accounts for financial years from 1st April 2020, it must not charge the amount of that deficit to a revenue account. The local authority must record any such deficit in a separate account established solely for the purpose of recording deficits relating to its school's budget. The CIPFA local authority accounting code has determined this as the 'Dedicated Schools Grant Adjustment Account'. The new accounting practice has the effect of separating schools budget deficits from its General Fund revenue budget.

## Appendix C - Risk Based Assessment of Risk Reserve Balances

The calculation of the level of General Fund Reserve for 2023/24 was set out in the budget report to Council in February 2023 using established CIPFA criteria on the basis of identified risks and this assessment is outlined below.

The main high level factors affecting the assessment of the General Fund Reserve were uncertainty around the level of pay awards and inflation, the continued potential for increased demand and costs in Children's and Adults Social Care, non-achievement of required budget savings and cost reductions, and the degree of uncertainty in the financial and economic climate for local government due to a number of factors. The table below provides further details of this and shows that the calculation of the £12m level is made by using the mid-point of the following factors:

	<u>Low point</u> <u>£m</u>	<u>High point</u> <u>£m</u>	<u>Mid point</u> <u>£m</u>
Inflation (including pay awards) : to provide for an increase of 1%-2% for pay & 20%-30% for energy above that currently provided	2.0	3.6	<b>2.8</b>
Further demand-led pressures (mainly Adults and Children's Social Care): to provide for a realistic upturn in demand	0.5	4.0	<b>2.3</b>
Budget savings & Children's Services cost reductions : provide for non-achievement of 5% to 20% of full year budget savings	0.6	2.5	<b>1.6</b>
Local Government Finances : uncertainty post-24/25 around Government funding and business rates reform	0.5	1.5	<b>1.0</b>
General Economic Climate - mainly the effect on income including income from commercial developments, fees and charges, and Business Rates & Council Tax	0.5	3.0	<b>1.8</b>
DSG Deficit balance on Reserve : potential requirement to fund this from end of 2025/26 (assumed any requirement to repay would be over 3 years)	0.0	2.0	<b>1.0</b>
Adult Social Care reforms (Health and Social Care White Paper): costs of implementing the cap on personal care costs and changes to the means test within adult social care and moving to a fair cost of care being greater than funding provided by Government	0.0	1.0	<b>0.5</b>
Risk of potential future unknown emergencies not provided for	0.0	2.3	<b>1.2</b>
	<b>4.1</b>	<b>19.9</b>	<b>12.0</b>

