

## Appendix O: Reserves and Balances Policy

### 1. Background

- 1.1 Barnet Council is required to maintain adequate financial reserves as they play a vital part of prudential financial management of the authority, including the ongoing ability of the organisation to meet the balanced budget requirement. The purpose of this policy is to set out how the Council will determine the level and purpose of reserves.
- 1.2 Reserves are an integral part of sound financial management. They help the Council to manage with unpredictable financial pressures and plan for future spending commitments.
- 1.3 Councils are free to determine the type and level of reserves they hold. Barnet Council is responsible for ensuring that the level, purpose and planned use of reserves is appropriate when developing the Medium-Term Financial Strategy and setting the annual budget.
- 1.4 The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure then calculating the budget requirement. However, there is no specified minimum level of reserves that an authority should hold. It is the responsibility of the Chief Financial Officer and the Members of the Council to determine the level of reserves and to ensure that there are procedures for their formation and use.

### 2. Operation of Reserves

- 2.1 When reviewing the Medium-Term Financial Strategy and preparing annual budgets the Council should consider the establishment and maintenance of reserves. Reserves are sums of money held by the Council to meet future expenditure.
- 2.2 Reserves are generally held to do three things:
  - Create a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing. This forms a part of general reserves;
  - Create a contingency to cushion the impact of unexpected events or emergencies. This also forms part of general reserves.
  - Create a means of building up funds, often referred to as earmarked reserves, as defined above, to meet known or predicted liabilities.

### 3. Types of Reserves

- 3.1 Reserves are classified in specific categories to help distinguish between the type of reserve and their use.
  - i. **General Fund Balance** – to meet short term, unforeseeable expenditure arising from unexpected events or emergencies. To enable significant changes in resources or expenditure to be properly managed over the period of the Medium-Term Financial Strategy. The Chief Financial Officer's recommendation is that this remains at £15m across the MTF period;
  - ii. **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;

- iii. **Earmarked and Specific Reserves** – 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. The council has created three distinct classifications of its General Fund reserves, Capital Reserves, Non-Ringfenced Revenue Reserves and Ringfenced Revenue Reserves. The purpose of significant reserves within each classification is set out below:
- iv. **Unapplied Revenue Grants** – in late March 2020, the council received c£9m from Central Government in relation to funding for Covid-19. Due to the late timing of receipt and early stages of the pandemic, this was carried forward into 2021/22 to utilise against costs as they would emerge. During 2020/21, further funding for Covid-19 was received with £13.824m carried forward into 2021/22 to meet on-going Covid related pressures. Some of this funding was non-ringfenced and some have specified purposes. £44.274m was also carried forward into 2021/22 relating to the spreading of Business Rates relief payments over 3 years. This spreading of Business Rates Relief payments does not represent increased spending power for the council but are advanced payments received from central government to assist with cashflow.
- v. **Capital Reserves**
- Community Infrastructure Reserve: This reserve is likely to be required to support Community Infrastructure Capital projects and growth in Housing and Business.
  - Revenue implications of capital: This reserve has been established as a source of funding towards costs which do not meet the strict definition of capital expenditure but for which there was no revenue provision. An example of this type of cost would be feasibility work or for costs such as the decanting of staff contained within the costs of the Office Build project.
- vi. **Non-Ringfenced Revenue Reserves**
- MTFS Reserve: The Council will maintain an MTFS reserve to support the delivery of progressive reductions in expenditure over the coming years, manage increased uncertainty as a result of one year funding settlements and to fund the one-off costs of transformation needed to allow future savings and for capital investment supporting the Barnet Plan..
  - Costs of delivering the MTFS (Transformation Reserve): This reserve is to fund one-off costs in relation to the delivery of the savings required over the MTFS period and will be kept under review by the section 151 officer as savings and projects are implemented. The forecast balance is expected to be sufficient to support transformation across the MTFS period.
  - Services Specific Reserves: Includes funding where it has been agreed that such sums could be carried-forward for use in subsequent years on named, specific projects or initiatives.
- vii. **Ringfenced Reserves:**
- Public Health Reserve: The Council assumed responsibility for certain Public Health functions from April 2013 supported through a new Public Health grant; this reserve will be used to manage any over or underspends against this grant which is restricted to Public Health expenditure.
  - Special Parking Account Reserve: This account is to hold the additional income achieved above the agreed surplus transferred to the General Fund on annual basis.

The amount to be transferred to the General Fund is agreed annually but is subject to change in year. The reserve can be used for several activities such as; bus priority measures and improvements to bus stops, on-street measures to promote walking and cycling, road safety measures, traffic reduction and traffic management measures, environmental street improvement schemes in town centres and development of school travel plans and workplace travel plans.

### **viii. Housing Revenue Account**

- Major Repairs Reserve (Within the HRA): The balance on this reserve represents the amount unspent of the major repairs allocation (MRA) and will be used to meet housing capital expenditure in future years.

## **4. Establishing a new Reserve**

- 4.1 New reserves may be created at any time but must be approved by the Chief Finance Officer. New reserves must state:
- a. Purpose – the reason for creating the reserve should be clearly stated.
  - b. Usage – there should be a clear statement of how and when the reserve can be used.
  - c. Basis of transactions – delegated authority for approval of expenditure from the reserve.
  - d. Management and control – a member of Council Management Team must have responsibility for the reserve, although day to day management of the reserve may be delegated to a specific officer.
- 4.2 Allocation to and from the balances and reserves is the responsibility of the Chief Finance Officer in line with the principles that Full Council have agreed.
- 4.3 Policy and Resources Committee need to approve the following any significant change in the planned use of a reserve.

## **5. Reporting Reserves**

- 5.1 The Chief Financial Officer has a fiduciary duty to local tax-payers and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.
- 5.2 The overall level of balances will be reported quarterly as part of the CFO's report to the Financial Performance and Contracts Committee.
- 5.3 The budget report to Council will include a forecast of the level of reserves over the MTFS period.

## **6. Reviewing Reserves**

- 6.1 The level of reserves for the next five years will be reviewed at least annually as part of the Medium-Term Financial Strategy process. The Council Management Team (CMT), together with other responsible officers, will review the Council's earmarked reserves for relevance of purpose and sustainability. A profile of income to and expenditure from the reserves will be produced for inclusion within the Medium-Term Financial Strategy (MTFS).
- 6.2 All reserves are reviewed as part of the budget preparation, financial management and closing processes.

- 6.3 Any amendments to earmarked reserves should be reported to Policy and Resources Committee for approval.
- 6.4 Once a reserve has fulfilled the purpose for which it was established, the balance should be reallocated to another similar purpose earmarked reserve or General Fund Balance.
- 6.5 It is the responsibility of the Chief Financial Officer to advise the Council about the level of reserves that it should hold and to ensure that there are clear procedures for their establishment and use and to report on the appropriateness of reserves.

## **7. Reserve Balances**

- 7.1 Over the life of the current Medium-Term Financial Strategy, the Council intends to maintain the level of the General Fund Working Balances at or above £15m.
- 7.2 The level of earmarked reserves is set out in the Medium-Term Financial Strategy and is linked into individual service delivery plans. The Chief Financial Officer assesses that the level of non-ringfenced revenue reserves should not fall below £40m during the MTFS period.

## **8. Reserves and the management of risks**

- 8.1 Councils are facing significant financial challenges both now and in the future. The unprecedented reduction in government funding since 2010/11 and a decline in a number of other income sources. As well as the rising demand and increased costs for many services all pose a significant rising pressure and long-term risk for the Council. Uncertainty caused by Covid mean that ongoing trends are difficult to predict.
- 8.2 The Council may consider using reserves to manage these risks. Certain earmarked reserves are set aside to deal with specific risks (as outlined in section 3).
- 8.3 The Council also manages unexpected financial shocks by maintaining the General Fund Working Balances. The level of this Working Balance is kept under review and it is the responsibility of the Chief Financial Officer to ensure it is at a level that is appropriate and reasonable as part of the budget setting process.
- 8.4 The Council is facing the following risks in the medium to long-term which are all to be managed as part of the MTFS process:

### **8.4.1 On-Going Risks**

- a. The implementation of the Council's budget savings programme
- b. Service Budgetary control
- c. Service spending pressures such as the unavoidable increase in demand for Social Care Services (such as children in care) coupled with the increased cost of complex packages and investment required to improve the service
- d. Inflationary pressures on Pay and Contracts
- e. Changing demographics and growing population particularly among the very young and very old, and with more people moving to London Borough of Barnet further increasing the pressure on our Services such as schools, housing and social infrastructure.
- f. Localisation of Business rates does always present a collection rate risk and an economic downturn risk
- g. Reductions in Government funding following the implementation of the Fair Funding Review, Spending Review and the review of Business Rates.

#### **8.4.2 New Risks**

- h. Economic Stability as the country adjusts to the impact of Covid-19 on service delivery and outcomes. .
- i. Central Government has indicated the possibility of further devolution of services/responsibilities to local authorities and these may not be sufficiently funded and impact may not be fully quantifiable.
- j. Welfare Reforms and the full roll out of Universal Credit which could impact on rent collection and potentially increase the number of homeless and vulnerable people seeking support and accommodation in the borough.

#### **9. Delegated Authority**

- 9.1 Authority to approve reserve contributions and drawdowns is with the Council's Section 151 Officer unless explicitly agreed by the Policy and Resources Committee. Examples of where this delegation may be to other officers is when the funding is legally ringfenced for a specific purpose.