

APPENDIX F

North Northamptonshire Council Reserves Strategy 2021-22

Background

The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Act require Precepting Authorities (and Billing Authorities) in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

In England and Wales, earmarked reserves remain legally part of the General Reserve, although they are accounted for separately.

There are other safeguards in place that help to prevent local authorities over-committing themselves financially. These include:

- The balanced budget requirement (Local Government Act 1992 s32 and s43).
- Chief Finance Officers duty to report on the robustness of estimates and adequacy of reserves (Local Government Act 2003 s25) when the Council is considering the budget requirement.
- Legislative requirement for each council to make arrangements for the proper administration of their financial affairs and that the Chief Finance Officer has responsibility for the administration of those affairs (section 151 of the Local Government Act 1972).
- The requirements of the Prudential Code.
- External Auditors will consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based.

These requirements are reinforced by section 114 of the Local Government Finance Act 1988, which requires the Chief Finance Officer to report to the Council if there is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the Council will not have the resources to meet its expenditure in a particular financial year. The issue of a section 114 notice cannot be taken lightly and has serious operational implications. Indeed, the Council must consider the s114 notice within 21 days and during that period the Force is prohibited from entering into new agreements involving the incurring of expenditure.

Whilst it is primarily the responsibility of the Council and its Chief Finance Officer to maintain a sound financial position, external auditors will, as part of their wider responsibilities, consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based. However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves for individual authorities in general.

CIPFA's Prudential Code requires the Chief Finance Officers to have full regard to affordability when making recommendations about the Council's future capital programme. Such consideration includes the level of long-term revenue commitments. Indeed, in considering the affordability of its capital plans, the Council is required to consider all of the resources available to it and estimated for the future, together with the totality of its capital plans and revenue forecasts for the forthcoming year and the following two years. There is a requirement for three-year revenue forecasts across the public sector and this is achieved through the Medium Term Financial Plan (MTFP). The Spending Review (SR) has provided the Council with details of proposed revenue grant for one year and capital grant settlement has yet to be announced. This provides limited ability to focus on the levels of reserves and application of balances and reserves.

CIPFA and the Local Authority Accounting Panel do not accept that there is a case for introducing a generally acceptable minimum level of reserves. Councils, on the advice of their Chief Finance Officers, should make their own judgements on such matters taking into account all relevant local circumstances. Such circumstances will vary between local areas. A well-managed organisation, for example, with a prudent approach to budgeting should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. In assessing the appropriate level of reserves, a well-managed organisation will ensure that the reserves are not only adequate, but also are necessary.

Section 26 of the Local Government Act 2003 gives Ministers in England and Wales a general power to set a minimum level of reserves for authorities. However, the government has undertaken to apply this only to individual authorities in the circumstances where the authority does not act prudently, disregards the advice of its Chief Finance Officer and is heading for serious financial difficulty.

National Context

The UK's economy faces a number of uncertainties, risks and challenges. The primary ones are the response to the global Covid-19 pandemic, the exit from the European Union and the impact of these on the public finances.

In recognition of these uncertainties HM Treasury has provided significant support for the UK economy. In November 2020 the Chancellor announced a one year Spending Review covering the financial year 2021/22, with a further Budget and Spending Review expected during 2021 which is likely to set out government funding over the medium term.

In line with the Spending Review 2020 Local Government has received a one year financial settlement for 2021/22. In addition to uncertainty over the total funding available for the local government sector from 2022/23 there are plans to implement changes to the way in which resources are allocated to councils. It is expected that consultation on changes arising from the Fair Funding Review, Business Rates Retention and New Homes Bonus will be announced during 2021.

Local Context

North Northamptonshire Council is a new Council, commencing services from 1st April 2021. It has been created by amalgamating the former council areas of Corby, East Northamptonshire, Kettering and Wellingborough together with the proportion of Northamptonshire County Council covering the North of Northamptonshire.

The new Council will continue to face financial pressures. As noted above it is recognised nationally that there are significant budget pressures for local government, not only from the longer-term impact of COVID-19 on costs and income, but also Social Care demand and other cost pressures which pre-date the pandemic.

Whilst the creation of the new Unitary Council creates a number of opportunities to benefit the region, it is also recognised that there are some risks and costs, both upfront and legacy, associated with the implementation of local government reform. Specific risks for the 2021-22 budget include the disaggregation of the County Council's service delivery budgets and balance sheet between North and West Northamptonshire, which could give rise to significant budget pressures and the Council's transformation programme. Whilst the Council has prepared a balanced financial position for 2021/22 it faces forecast funding shortfalls over the period of the medium term which must be addressed.

Types of Reserve

The Council holds reserves for specific reasons that are included within the Medium Term Financial Plan. These include a working balance to cover unexpected events and to meet forthcoming events where the precise event, date and amount required cannot accurately be predicted. In addition the Council is required to hold non-cash backed reserves to adhere to proper accounting requirements when preparing its annual Statement of Accounts. There are four types of reserves, each of which are explored in more detail below:

- General Reserves and Minimum Level of Reserves
- Earmarked Reserves
- Earmarked Reserves – Capital
- Non-Cash Backed Reserves for Statement of Accounts

General Reserves & Minimum Level of Reserves

The Council will hold a general reserve which sets out the minimum amount of reserves the council is required to hold for the following purposes:

- To meet forthcoming events where the precise date and amount required cannot be accurately predicted.
- A contingency to cushion the impact of unexpected events or emergencies.

- A reasonable amount to meet peaks and troughs in revenue and capital expenditure requirements.
- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.

The general reserves which include a minimum level of reserves will be based on a risk assessment.

Earmarked Reserves

The Council will hold earmarked reserves for the following purposes:

- A means of building up funds often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the general reserve.
- To mitigate specific risks in relation to the economic climate and the safety of the Council's financial assets. This would link closely with the Treasury Management and Prudential Code Strategy.
- To meet forthcoming capital expenditure needs where major capital schemes are being planned and the reserve will be utilised to reduce the cost of borrowing and capital charges to the revenue account.
- To meet smaller projects where expenditure is only met from this reserve and which meets specific policy requirements.

Earmarked Reserve – Capital

The Council will hold a Capital Receipts Reserve. This reserve holds the proceeds from the sale of assets and can only be used for capital purposes in accordance with the regulations.

Protocols for Establishing & Reviewing Earmarked Reserves

For each earmarked reserve held by the Council there should be a clear protocol setting out:

- The reason for/purpose of the reserve.
- How and when the reserve can be used.
- Procedures for the reserves management and control.
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

When establishing reserves, the Council needs to ensure compliance with the Code of Practice on Local Authority Accounting and in particular the need to distinguish between reserves and provisions. It will also need to pay due regard to the Council's Constitution and Financial Regulations.

When reviewing the Medium Term Financial Plan, preparing the annual budgets and during the end of year accounts process the Council should consider the establishment and maintenance of reserves.

Non-Cash Backed Reserves for Statement of Accounts

The Council also holds other reserves that arise out of the interaction of legislation and proper accounting practice. These reserves are technical in nature and are not cash-backed and cannot be used for any other purpose, are described below:

- The Pensions Reserve – this is a specific accounting mechanism used to reconcile the payments made for the year to various statutory pension schemes.
- The Revaluation Reserve – this is a reserve that records unrealised gains in the value of fixed assets. The reserve increases when assets are revalued upwards, and decreases as assets are depreciated or revalued downwards or disposed of.
- The Capital Adjustment Account – this is a specific accounting mechanism used to reconcile the different rates at which assets are depreciated under proper accounting practice and are financed through the capital controls system.
- The Available-for-Sale Financial Instruments Reserve – this is a reserve that records unrealised revaluation gains arising from holding available-for-sale investments, plus any unrealised losses that have not arisen from impairment of the assets. *Currently none.*
- The Financial Instruments Adjustment Reserve – this is a specific accounting mechanism used to reconcile the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under proper accounting practice and are required by statute to be met from the General Fund. *Currently none.*
- The Unequal Pay Back Pay Account – this is a specific accounting mechanism used to reconcile the different rates at which payments in relation to compensation for previous unequal pay are recognised under proper accounting practice and are required by statute to be met from the general fund. *Currently none.*
- Collection Fund Adjustment account – this is specific to the changes in accounting entries relating to the Collection Fund Accounts held by the Billing Authorities.
- Accumulated Absences Account – this account represents the value of outstanding annual leave and time off in lieu as at 31st March each year.

Other such reserves may be created in future where developments in local authority accounting result in timing differences between the recognition of income and expenditure under proper accounting practice and under statute or regulation, such as the Capital Grants Unapplied where grants have been received and are held in anti but have not yet been set against relevant spend.

North Northamptonshire Council's Reserves

This document aims to provide an over-arching strategy that defines the boundaries within which the approved budget and Medium Term Financial Plan (MTFP) operate.

The General Reserve & Minimum Level of Reserves

It has previously been established that General Reserves will be maintained at a level above the **minimum of 5.0% of the total net revenue budget**.

The purpose of this reserve is to provide for any unexpected expenditure that cannot be managed within existing budgets. Such expenditure would be one-off and resulting from an extraordinary event.

Similarly the General Reserve should be set at a prudent and not excessive level, as holding a high level of reserves can impact on resources and performance. As such the **maximum** level of General Reserves is set at **10.0% of the total net revenue budget**.

Authorisation to finance such expenditure must be obtained in advance from the Council's Chief Finance Officer, in accordance with the scheme of delegation. The request should be supported by a business case unless there is clear and necessary reason for urgency.

As the net budget position changes and risks are reviewed the level of General Reserve must be monitored to ensure that a minimum level is maintained.

Appendix A provides a comparison of North Northamptonshire's general and earmarked reserves to other similar sized councils and groups of councils.

Earmarked Reserves

Unlike General Reserves earmarked reserves have been identified for specific areas of expenditure where there are anticipated costs that can only be estimated. It is therefore prudent for the Council to identify such areas of expenditure and set aside amounts that limit future risk exposure.

Such expenditure usually arises out of changes in policy or where the organisation is working in collaboration with others to provide a specific service.

Expenditure relating to earmarked reserves has to specifically relate to the purpose of the reserve. There is no set limit to an earmarked reserve as it is to reflect the level of need required.

Appendix B details for each of the earmarked reserves the forecast balances for North Northamptonshire Council in 2021/22 financial year and estimated commitments against these reserves over the medium term.

Procedure for Use of Reserves

The use of reserves requires approval of the Council's Chief Finance Officer.

All requests should be supported by a business case unless there is an approved process for use.

On occasion where an urgent request is being made this should comply with the Council's Constitution and Financial Regulations.

Monitoring

The level of reserves is kept under continuous review. The Chief Finance Officer reports on the levels of reserves as part of the Medium Term Financial Strategy updates together with the Reserves Strategy as part of the budget setting and outturn reports.

The current level of forecast reserves is not significant and if called upon will impact negatively on the financial viability and resilience of the Council. Reserves and their usage is carefully planned for and monitored throughout the year.

Risk Analysis

Any recommendations that change the planned use of reserves reported within the Annual Budget and Outturn Reports will take account of the need for operational service delivery of the Council balanced against the need to retain prudent levels of reserves.

However, there are significant risks, which affect the level of reserves to be maintained, and it is for this reason that a minimum level of 5% of total net revenue budget has been set for the General Reserve.

The significant risks that have been considered, but which will also be kept under review are:

- Significant unforeseen legal costs.
- The budget monitoring report highlights potential risks in being able to achieve the required efficiencies and savings during the year.
- The ability to seek financial assistance from the MHCLG for major incidents has been diminished and can no longer be relied upon.
- The need to finance organisational change and redundancies may have an impact on the use of reserves.
- The ability to recover significant overspends by directorates and services would be very difficult in the current financial climate.
- The instability of the Financial Markets means that the investments we make with balances are currently exposed to greater risk. This is negated by the

Treasury Management Strategy, but returns on investment have reduced significantly

- Should the Council be faced with two or more of the above issues at the same time then the reserves may be needed in full
- Once utilised reserves have limited scope for replenishment. This is usually achieved through a budget underspend or planned as part of the annual budget process.
- There may be exceptional levels of insurance claims that cannot be met from the usual provisions.

STRATEGY REVIEW

This strategy will be reviewed annually as part of the budget process. During the year changes may occur in the MTFs, which affect this strategy. Such changes will be monitored by the Chief Finance Officer and reported through the financial reporting process.

Janice Gotts
Executive Director Finance and Section 151 Officer

APPENDIX A

Comparison of North Northamptonshire's general and earmarked reserves to other similar sized councils and groups of councils

	Population	Net Revenue Budget £000	Unallocated Reserves £000	Earmarked Reserves £000	% Unallocated Reserves as proportion of Net Revenue Budget	% Earmarked Reserves as proportion of Net Revenue Budget
Total England		59,317,712	3,649,308	17,417,862	6.2%	29.4%
Total Unitary		10,283,344	688,702	3,032,220	6.7%	29.5%
Selected Unitary Councils						
Bournemouth, Christchurch and Poole	395,331	284,665	15,350	32,680	5.4%	11.5%
Cheshire East	384,152	280,131	10,316	21,428	3.7%	7.6%
Dorset	378,508	301,289	27,557	117,477	9.1%	39.0%
Cheshire West and Chester	343,071	270,837	23,700	82,828	8.8%	30.6%
East Riding of Yorkshire	341,173	274,138	8,425	126,814	3.1%	46.3%
Northumberland	322,434	270,803	57,434	106,420	21.2%	39.3%
Central Bedfordshire	288,648	200,464	15,733	55,862	7.8%	27.9%
North Northamptonshire	365,000	292,505	21,911	103,544	7.5%	35.4%

Source: <https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2020-to-2021-budget-individual-local-authority-data>

[RA Form 2020/21]

General Fund Reserves Forecast

APPENDIX B

	Forecast Balance 01/04/2021 £'000	Transfer to Reserve 2021-22 £'000	Transfer from Reserve 2021-22 £'000	Forecast Balance 31/03/2022 £'000	Transfer to Reserve 2022-23 £'000	Transfer from Reserve 2022-23 £'000	Forecast Balance 31/03/2023 £'000	PURPOSE OF RESERVE
GENERAL FUND BALANCE	(21,911)	(115)	0	(22,026)	0	0	(22,026)	To meet forthcoming events where the precise date and amount required cannot be accurately predicted, including sufficient contingency to cushion the impact of unexpected events or emergencies, a reasonable amount to meet peaks and troughs in revenue and capital expenditure requirements and a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
EARMARKED RESERVES								
Smoothing Reserves								
Regeneration and Economic Investments	(2,250)	0	0	(2,250)	0	0	(2,250)	To provide protection in relation to fluctuations in income or other costs relating to regeneration and economic investments.
Investment Income	(3,550)	0	0	(3,550)	0	0	(3,550)	To provide protection in relation to fluctuations in income from the Council's investment portfolio due to market uncertainty or uncertain future events and protect against investment income losses.
Welfare Reform	(1,498)	0	0	(1,498)	0	0	(1,498)	To offset any revenue costs associated with changes to welfare reform.
Recycling Commodities	(1,931)	0	0	(1,931)	0	0	(1,931)	To provide protection in relation to fluctuations in market prices for recycling commodities.
Homelessness	(1,542)	0	0	(1,542)	0	0	(1,542)	To provide protection in relation to uncertain demand for the service following legislative changes.
Budget Delivery	(7,105)	0	450	(6,655)	0	0	(6,655)	Smoothing reserve to assist in medium term delivery of budget plans.
Covid-19 Related Risks	(6,593)	0	0	(6,593)	0	0	(6,593)	Reserve established to recognise the significant risk and uncertainty around the cost of future Covid related commitments and funding.
Business Rates Retention Reserves								
Business Rates Retention Risks	(41,418)	0	21,445	(19,973)	0	0	(19,973)	To manage smoothing and timing effects of business rates. Includes grants under s.31 of the Local Government Finance Act 2003 totalling £21.445m forecast for 2020/21. Section 31 grants are awarded to offset the reduction in business rates yield due to the changes announced by the government. This includes grants to facilitate the extension and enhancement of the 100% Small Business Rates Relief, and in 2020/21 Extended Retail Relief which applied 100% relief to retail, hospitality and leisure properties in response to the pandemic for one year only.
Transformation Reserves								
Transformation Reserves	(10,569)	0	4,175	(6,394)	0	2,300	(4,094)	Disaggregated transformation reserve to support continued delivery of transformation activities.
Other Efficiency and Transformation	(2,351)	0	0	(2,351)	0	0	(2,351)	To support efficiency and transformation activities.
Building Maintenance Reserves								
Building Repairs and Investment	(1,325)	0	0	(1,325)	0	0	(1,325)	To manage property repairs and maintenance issues.

Planning Reserves								
Planning Risks	(417)	0	0	(417)	0	0	(417)	To provide resources for revenue costs of the planning service to meet items such as legal costs, specialist advisors or consultants and other one off service costs required to meet statutory guidelines or regulations.
Regeneration Reserves								
Economic Development and Regeneration	(1,490)	0	0	(1,490)	0	0	(1,490)	To provide resources for the Council's planning service, assist with the Council's economic development strategy, provide funding for other one-off projects and to assist with the operation of the Council's asset management plan.
Voluntary Community and Social Enterprise	0	(600)	200	(400)	0	200	(200)	To provide resources to support the Voluntary Community and Social Enterprise sector.
Community Projects	(4,132)	0	342	(3,790)	0	0	(3,790)	Funding for community projects.
Specific Reserves								
LGSS Reserves	(591)	0	0	(591)	0	0	(591)	To provide resources to fund future expenditure associated with the Joint Planning Unit.
Burton Wold	(111)	0	0	(111)	0	0	(111)	The reserve has been created from contributions from the developers of the Burton Wold Wind Farm Project. The Council uses this contribution to award grants for energy efficiency and education works.
Joint Planning Unit	(288)	0	212	(76)	0	0	(76)	To provide resources to fund future expenditure associated with the Joint Planning Unit.
Capacity Fund	(191)	0	191	0	0	0	0	To provide resources to fund future expenditure associated with the Joint Delivery Unit, funded by external capacity funding.
COVID-19 Funding - Contain Outbreak Management Fund and Test & Trace funding	(6,593)	0	6,593	0	0	0	0	Contain Outbreak Management Fund (COMF) and Test & Trace funding.
Public Health Reserve	(4,463)	0	0	(4,463)	0	0	(4,463)	General Reserve comprising unspent Public Health grant to be to utilised in future years.
Adult Social Care Reserve	0	(3,200)	0	(3,200)	0	0	(3,200)	To mitigate risks related to the delivery of Adult Social Care.
Local Council Tax Support Reserve	0	(500)	0	(500)	0	0	(500)	To mitigate risks related to increases in Local Council tax Support claims.
Waste Management	0	(2,300)	0	(2,300)	0	0	(2,300)	To mitigate waste management risks.
Other Earmarked Reserves	(1,903)	0	449	(1,454)	0	0	(1,454)	Various other earmarked reserves.
Capital Reserves - General Fund								
Capital General Fund	(2,039)	0	0	(2,039)	0	0	(2,039)	To provide resources for the repair, replacement and acquisition of General Fund property
Insurance Reserves								
Insurance Risk Reserve	(1,195)	0	0	(1,195)	0	0	(1,195)	Reserve based on actuarial assessment of Insurance Fund.
TOTAL EARMARKED RESERVES	(103,544)	(6,600)	34,057	(76,087)	0	2,500	(73,587)	
TOTAL GENERAL FUND RESERVES AND BALANCES	(125,455)	(6,715)	34,057	(98,113)	0	2,500	(95,613)	

Note: Opening disaggregated balances for the Transformation Reserve and the Insurance Reserve are still subject to agreement with West Northamptonshire Council and are currently reflected on a 50:50 basis.