

Finance Sub-Committee

Date of Meeting:	7 September 2022
Report Title:	Review the Medium-Term Financial Strategy Reserve
Report of:	Alex Thompson, Director of Finance and Customer Services
Report Reference No:	FSC/15/22-23
Ward(s) Affected:	All

1. Purpose of Report

- 1.1. To consider the use of the Medium-Term Financial Strategy (MTFS) reserve to date and its forecast use within the MTFS 2022 to 2026.
- 1.2. To improve awareness of the approach to managing the Council's MTFS Reserve, including its creation and ongoing governance.

2. Executive Summary

- 2.1. The Council's Medium Term Financial Strategy (MTFS) includes inter-related annexes covering different elements of the Council's approach to financial management. Revenue and Capital income and expenditure as well as treasury management are included in such annexes. One strategy, contained within the over-arching MTFS annexes, is the Reserves Strategy that, when approved by Council, sets out the approach to managing reserves balances over the period of the MTFS.
- 2.2. Under Section 25(1) of the Local Government Act 2003, as part of the budget setting process, the Chief Finance Officer is required to report on the robustness of the estimates in the budget which includes the adequacy of the proposed reserves. The report reflects on the approach to holding reserves for planned, specific, purposes and those held to manage risks. In approving the MTFS members have regard to the s.25 Report.

- 2.3. The MTFS reserve is an earmarked reserve that forms part of the overall useable reserves held by the authority. It provides single use sources of funding that are increased and decreased based on a planned approach within the period of the MTFS. The reserve was approved as part of the statement of accounts reporting on the 2018/19 Financial Year.
- 2.4. The reserve is an important element of managing the MTFS alongside other key reserves such as the Financing Reserve, the Collection Fund Reserve and General Reserves. The Finance Sub-Committee reviewed the Reserves Strategy, and the purpose of each reserve, in January 2022 as part of the MTFS process for 2022 to 2026.
- 2.5. This report sets out the current and future forecast balances on the MTFS reserve. This allows the Committee to review and gain an understanding of how the current balance has been accumulated and what future commitments are currently planned.

3. Recommendations

The Sub-Committee is asked to:

- 3.1. Note the reporting to date in respect of the MTFS reserve.
- 3.2. Note the forecast movements within the reserve over the next four years.
- 3.3. Comment on the level of the reserve as part of the overall Reserves Strategy having regard to the s.25 Report of the Chief Financial Officer (Annex A).

4. Reasons for Recommendations

- 4.1. Members are responsible for setting the Council's budget, which includes having regard to reserves levels. The Sub-Committee requested additional transparency and understanding on where the MTFS reserve has come from and what it is held for. Members are therefore being asked to note the important transactions within the process to manage the reserve to articulate the past and future planned use of the reserve.
- 4.2. Members are also being asked to comment on the approach to the MTFS reserve in the context of the Council's finances as articulated in the s.25 report of the Chief Financial Officer.

5. Other Options Considered

- 5.1. Other options were not considered necessary as this report was requested by members of the Sub-Committee as part of their work programme development.

6. Background

- 6.1. Outturn reporting, in April to June 2019, for the 2018/19 financial year led to the setting up of the MTFS (Medium-Term Financial Strategy) Reserve. This timing meant it was not a feature of the 2019/20 MTFS that had already been approved in February 2019.
- 6.2. A net nil outturn was reported to Cabinet on 11th June 2019. During outturn reporting for 2018/19 it was clear that significant levels of earmarked reserves remained unspent, but there were financial pressures over the period of the MTFS that exceeded £10m+ per annum. It was also recognised that growth approved in the MTFS, particularly in Corporate Services, would be temporary in nature and required funding from reserves.
- 6.3. Officers therefore recommended that available reserves were combined to present an MTFS reserve to mitigate the future financial pressure and strategically plan the required use of reserves over time.
- 6.4. The 2018/19 Statement of Accounts confirmed how the recommendation of officers is presented. The accounts articulated that within the net outturn position there was movement between reserves including the MTFS Reserve being set up at £6.426m. The complete movement in reserves is set out in Annex B – extract from 2018/19 accounts. Transfers to create the MTFS reserve balance were predominantly from ASC Transformation, Enabling Transformation and Service Manager Carry-Forward reserves.
- 6.5. The original value of the reserve, and therefore potential purpose of this funding, was aligned to items within the MTFS, as well as carry-forward requests from services. The main items are set out in the table below (see Annex C for full list):

Itemised Identified within MTFS opening balance	£m
Local Election Costs 2019 (as per MTFS)	0.450
Growth in HR Services (as per MTFS 3 yrs growth)	0.525
Growth in Legal Services (as per MTFS 3 yrs growth)	0.750
Corporate Services Restructure (as per MTFS 3 yrs growth)	0.840
Local Welfare Safety net (as per MTFS 3 yrs)	0.750
Adults Transformation Reserve	1.180
Other Items below £0.5m (inc. ASC digital development, Finance Structure, Winter Pressure)	1.931
Opening Balance of MTFS Reserve	6.426

Transactions within the MTFS Reserve

- 6.6. The MTFS Earmarked Reserve has been referred to as a 'smoothing' reserve as there is planned movement across the four year cycle of the

MTFS that removes the need for stepped change from one year to the next. This approach manages planned increases and decreases in the budget in individual years by topping up or drawing down on the reserve. This mitigates the need to disrupt service levels for a temporary period and separates it from the approach to General Reserves which are utilised to cover emerging risks.

- 6.7.** On an annual basis it is recognised that the approved Revenue Budget may be able to directly fund items originally earmarked as required from reserves. If this is the case, then the balance within the MTFS Reserve can be reviewed and an alternative use determined if appropriate. This approach ensures the annual revenue budget reflects how in-year costs are being managed from in-year funding, which is a more sustainable approach than using one-off reserves.
- 6.8.** **Annex C** shows the detailed transactions in and out of the reserve since its creation.
- 6.9.** The table below shows a summary of the funds that have been **credited** to the reserve since its creation. Detailed actual income and drawdowns to and from the reserve are set out in **Annex C**. The summary table below also sets out the estimated position on the reserve up to the end of 2025/26.

	2018/19 Actual £m	2019/20 Actual £m	2020/21 Actual £m	2021/22 Actual £m	2022/23 Est £m	2023/24 Est £m	2024/25 Est £m	2025/26 Est £m
Opening / Carry Fwd Balance	-	6.426	3.439	8.083	10.068	7.535	7.202	5.552
Creation of reserve (prev table)	6.426							
Unused NHB Community fund		1.000						
MTFS Budgeted increase (+) / decrease (-) in reserve			1.314	2.646	3.415	0.367	-1.250	0.877
Increase(+) /decrease(-) in reserve following outturn		-1.702	4.990	-0.411				
Use of reserve in year		-2.285	-1.660	-0.250	-3.628	-0.700	-0.400	
Transfer to General Reserves					-2.320*			
Closing Balance	6.426	3.439	8.083	10.068	7.535	7.202	5.552	6.429

*see 6.10 below

- 6.10.** In response to the outturn for the 2021/22 financial year Council approved the transfer of £2.3m from the MTFS reserve to General Reserves. This recommendation reflected the improvement in the outturn position compared to the year-end position that was forecast when Council approved the MTFS in February 2022. This approach recognised that emerging risks should be managed via General Reserves, and that planned use of reserves should be managed via the MTFS reserve.
- 6.11.** The Reserves Strategy is reviewed on an annual basis as part of setting the MTFS. The Finance Sub-Committee takes the lead on making recommendations for changes to the Reserves Strategy to Council. The Sub-Committee fulfils this role by reviewing the forecast reserves balances in January each year and considering how emerging risks and current spending levels may influence requirements.

Comparator Authorities

- 6.12.** Listed below is a comparison with a sample of other local authorities who hold a similar style of MTFS reserve:
- 6.12.1. *Cheshire East: "MTFS Reserve" £10.068m at March 2022 – 3.1% of net budget (£327.7m)*
- 6.12.2. Rochdale: "Equalisation Reserve" £27.7m at March 2022 – 11.1% of net budget (£248.9m)
- 6.12.3. Solihull: "Budget Strategy Reserve" £7.340m at March 2022 – 4.8% of net budget (£151.4m)
- 6.12.4. Stockport: "Cabinet One-Off Investment/MTFP/Smoothing Reserve" £6.556m at March 2022 – 2.4% of net budget (£272.8m)

7. Consultation and Engagement

- 7.1.** Details of budgeted changes to general and earmarked reserves are included in the Reserves Strategy within the annual Medium Term Financial Strategy. The budget engagement every year aims to include any proposed changes to reserves and highlights where budget changes are to be funded from reserves where necessary.

8. Implications

8.1. Legal

- 8.1.1.** The Council has a legal duty to set a balanced annual budget. As part of the budget setting process there must be due regard to the level of

reserves to ensure they are sufficient for the size and scale of the authority.

8.2. Finance

8.2.1. Future planned changes to the reserve will form part of the usual budget setting process and will be included in the budget engagement and Medium-Term Financial Strategy on an annual basis.

8.3. Policy

8.3.1. The Corporate Plan will drive and inform Council policy and priorities for service delivery. These priorities may have a direct policy implication on reserves levels and will be considered on a case-by-case basis.

8.4. Equality

8.4.1. Under the Equality Act 2010, decision makers must show 'due regard' to the need to:

- Eliminate unlawful discrimination, harassment and victimisation;
- Advance equality of opportunity between those who share a protected characteristic and those who do not share it;
- and - Foster good relations between those groups.

8.4.2. The protected characteristics are age, disability, sex, race, religion and belief, sexual orientation, gender re-assignment, pregnancy and maternity, and marriage and civil partnership.

8.4.3. Having "due regard" is a legal term which requires the Council to consider what is proportionate and relevant in terms of the decisions they take.

8.4.4. The Council needs to ensure that in taking decisions on the Medium-Term Financial Strategy and the Budget (including the use of and contribution to all earmarked reserves) that the impacts on those with protected characteristics are considered. The Council undertakes equality impact assessments where necessary and continues to do so as proposals and projects develop across the lifetime of the Corporate Plan.

8.4.5. The process assists us to consider what actions could mitigate any adverse impacts identified. Completed equality impact assessments form part of any detailed Business Cases.

8.5. Human Resources

8.5.1. No direct implications from this report.

8.6. Risk Management

8.6.1. The Council has a legal duty to set a balance budget every year. As part of the budget setting process, the level of general and specific earmarked

reserves needs to be carefully managed to ensure that risks can be covered as necessary.

8.6.2. The S151 officer comments on the robustness of all reserves as part of the requirements of Section 25(1) of the Local Government Act 2003.

8.7. Rural Communities

8.7.1. No direct implications from this report.

8.8. Children and Young People/Cared for Children

8.8.1. No direct implications from this report.

8.9. Public Health

8.9.1. No direct implications from this report.

8.10. Climate Change

8.10.1. No direct implications from this report.

Access to Information	
Contact Officer:	Alex Thompson Director of Finance and Customer Services
Appendices:	Annex A – Section 25 Report Annex B - extract from 2018/19 Statement of Accounts Annex C – MTFS reserve
Background Papers:	MTFS 2022-26 (including the latest Reserves Strategy at Annex 13 of the report)