

## **Section Three – Robustness of Estimates and Adequacy of Reserves**

### **Background**

1. As part of its budget setting processes, the council has a duty to consider the adequacy of its reserves and working balances. Under Section 25 of the Local Government Act 2003 the Section 151 Officer is required to state in the budget report their view on the robustness of estimates for the coming year, the medium term financial strategy and the adequacy of proposed reserves and balances.
2. This report provides a summary of the review of reserves and working balances undertaken this year which will form part of the considerations around budget setting for 2022-23.

### **Reserves Policy**

3. The council has developed a Reserves Policy which documents how it will manage and utilise its financial reserves in meeting the financial challenges it faces over the medium term. This is reviewed annually, with the current version dated January 2022 this can be found at Appendix 6a.

### **Assurances**

4. With regard to assessing the robustness of the budget, assurances have been sought of the following:-
  - The financial planning process for 2022/23
  - The financial strategy, including the Medium Term Financial Plan
  - Clear monthly budget monitoring by Heads of Service
  - Effective risk based internal and external audits reporting through the Finance and Audit Committee.
  - Effective corporate and operational risk management arrangements

### **Principles to assess risk in relation to the Adequacy of Usable Reserves**

5. In order to assess the adequacy of usable reserves when setting the budget for the General Fund the Director (Corporate Services), as S151 Officer, has considered the risks facing the General Fund and future investment requirements in capital and other projects. This information has been supplemented with consideration of the council's financial management and control arrangements, the national political and economic situation, advice from professional bodies and reserve practices of other like authorities to derive the recommended level of working balances and reserves for the 2022-23 financial year.

### **Assessing the risks**

6. As in previous years a risk assessment has been undertaken which attempts to quantify the risks to the Council's financial position in the forthcoming financial year for the General Fund. The outcomes of this assessment can be found at Appendix 6b.

## **Consideration of the council's financial management and control arrangements**

7. In preparing the detailed budget for 2022-23, the Finance Team has engaged with budget holders and their services to ensure that the budget is based on realistic estimates of income, expenditure and liabilities.
8. The council has in place a continual process for reviewing and adjusting its budget during the financial year. Monthly budget monitoring reports are presented to budget holders for review and comment. All reports to the Corporate Management Team and Members for decision are required to consider financial implications so that these can be properly understood and captured in the decision-making process. On a quarterly basis formal budget monitoring reports are produced and considered by the Corporate Management Team and Members to enable the reporting of budget variances over £10,000 and to provide the mechanism to call to account budget holders where this is appropriate.
9. In October 2019, Full Council adopted a new Corporate Plan for the period 2019 to 2023 which set the direction and guiding principles for council activity during the period to deliver a Gravesham to be proud of. The Corporate Plan recognises the need for the council to work differently to enable it to deliver more homes, more jobs and more investment in the borough. In doing this, the council will need to continue its activity to move away from reliance on funding from Central Government and become more commercial in some of the activity it undertakes.
10. Assessment has been made of the council's financial management arrangements against the Chartered Institute of Public Finance Accountants (CIPFA) Financial Management Code. The Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. Review of the self-assessment undertaken during the last financial year confirmed that the council continues to be fully compliant with the code.

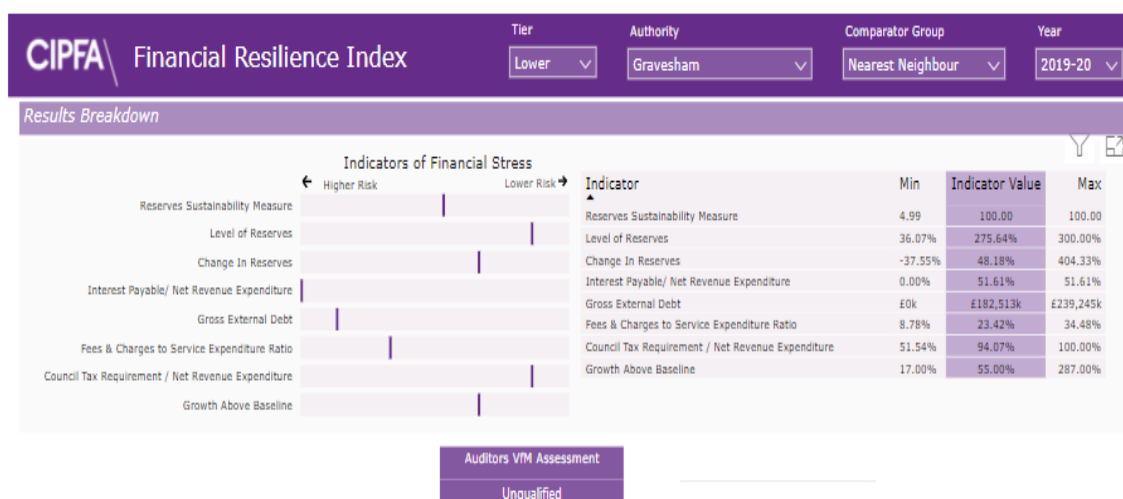
## **National Considerations**

11. Local government has experienced a sustained period of financial uncertainty and significant change. This uncertainty relates to the overall UK economy, COVID-19 impacts, as well as the impact of national policy changes. There has also been a lack of clarity regarding the way in which local government is funded in the medium to long term. This year like last year central government has issued a one year settlement which covers 2022-23. The Government intends to review how business rates income is to be distributed and various other schemes such as the fair funding review. It therefore remains uncertain how this will impact the Council in the coming years. The proposed budget takes into account information currently available.

## **Professional advice**

12. Guidance received from the Audit Commission in 2012 indicated that, in the Commission's view, a prudent level of working balances was to retain an amount equivalent to three months net revenue spending requirement. For the General Fund, three months net spending would equate to approximately £3 million.
13. The Financial Resilience Review 2015 conducted by Grant Thornton recognises the importance of working balances and earmarked reserves as a means of providing a

buffer against unplanned financial shocks and to invest in capital and other projects, including the funding of transformation. This view was shared by CIPFA in their briefing on English local authority reserves published in June 2015 and the Financial Resilience Index first published in December 2018, which contains indicators relating to the level of reserves an authority holds and the extent to which reserve are being utilised. The latest index shown in the table below shows the data for the 2019-20 financial year.



## Movement in Working Balances and Reserves

14. Analysis of movements in working balances and reserves have been considered and are set out in the next table. This indicates a positive trend in recent years in terms of increasing the level of working balances of the General Fund. It is considered that all movements within earmarked reserves and application of revenue grants are managed activity and have been reported to senior management and Members through the council's budget monitoring arrangements.

	Projected Balance as at 31/03/2022 £(000)	Balance as at 31/03/2021 £(000)	Balance as at 31/03/2020 £(000)	Balance as at 31/03/2019 £(000)	Balance as at 31/03/2018 £(000)
General Fund Minimum Working Balance	£2,000	£2,000	£2,000	£1,250	£1,250
General Fund General Reserve	£3,250	£3,250	£3,250	£4,000	£4,000
Usable Working Balances	£7,041	£6,033	£5,101	£4,038	£2,055
<b>Total</b>	<b>£12,291</b>	<b>£11,283</b>	<b>£10,351</b>	<b>£9,288</b>	<b>£7,305</b>
Net Annual Movement increase / decrease	£1,008	£932	£1,063	£1,983	£1,143
Other Earmarked Reserves	£9,989	£16,585	£10,041	£9,419	£5,761
Revenue Grants Unapplied	£1,948	£2,494	£1,865	£1,819	£1,737
<b>Total</b>	<b>£11,937</b>	<b>£19,079</b>	<b>£11,906</b>	<b>£11,238</b>	<b>£7,498</b>
Net Annual Movement increase / decrease	<b>-£7,142</b>	<b>£7,173</b>	<b>£668</b>	<b>£3,740</b>	<b>£437</b>

\* Movement in other earmarked reserves due, in part, to recognition of business rate grants received by the council in respect of other preceptors being transferred to the Collection Fund.

## Assessing the appropriateness of Working Balances and Reserves

15. The minimum prudent level of reserves is a matter of judgement and is the council's safety net for any unforeseen expenditure or other circumstances. The current Medium Term Financial Strategy contains the core principle to preserve a total minimum level of £2m General Fund working balances, with a further £3.25m

General Revenue Reserve to enable the Council to meet unforeseen challenges or pressures on its financial position.

16. Based on the assessed risks at the time of making the assessment of General Fund Working Balances in relation to setting the budget for 2022-23, it is the view of the Director (Corporate Services) that the minimum of £5.25m in General Fund working balances should be retained during 2022-23.

- a minimum working balance of £2m to assist cash flow.
- £3.25m General Revenue Reserve to enable the Council to meet unforeseen challenges or pressures on its financial position.

17. In respect of Earmarked Reserves, the table below sets out the opening balance and forecast balances to 31/03/2022.

<b>General Fund Earmarked Reserves</b>	<b>Opening Balance 01/04/2021 £'000</b>	<b>Forecast Use of Reserve (Expenditure) £'000</b>	<b>Forecast Contributions (Income) £'000</b>	<b>Forecast Balance 31/03/2022 £'000</b>
Planning Policy Reserve	465	(232)	200	433
Asset Enhancement Reserve	1,163	(909)	100	354
Leisure Centres Reserve	1,657	(2,016)	359	--
Corporate Priorities Reserve	535	(113)	33	455
Town Pier Pontoon Reserve	123	--	13	136
Elections Reserve	74	--	18	92
NNDR Collection Fund Equalisation Reserve	5,075	(4,406)	1,519	2,188
IT Infrastructure Reserve	371	(290)	100	181
DSO Vehicle Capital Reserve	474	(425)	132	181
Freighter Replacement Reserve	1,223	(410)	221	1,034
NNDR Growth Fund Reserve	375	(95)	226	506
Lower Thames Crossing Reserve	140	--	--	140
Woodville Repairs Reserve	240	(57)	57	240
Investment Interest Equalisation Reserve	500	--	--	500
Housing & Commercial Growth Fund	700	(200)	--	500
St George's Income Protection Reserve	1,240	--	--	1,240
Commercial Income Protection Reserve	1,147	(142)	--	1,005
Service Review Reserve	83	(83)	--	--
Playgrounds Reserve	136	--	68	204
Decriminalisation Reserve	228	(228)	--	--
Enterprise Reserve	151	(353)	375	173
Climate Change Reserve	485	(58)	--	427
<b>Sub-total - Specific Earmarked Reserves</b>	<b>16,585</b>	<b>(10,017)</b>	<b>3,421</b>	<b>9,989</b>
Revenue Grants not yet applied	2,494	(546)	--	1,948
<b>Total - All Earmarked Reserves</b>	<b>19,079</b>	<b>(10,563)</b>	<b>3,421</b>	<b>11,937</b>

18. The finance team have reviewed the reserves held by the council, with a focused review on movements over the MTFP period within the larger reserves that the authority holds.

19. It is the opinion of the Director (Corporate Services) that earmarked reserves should be retained, with the exception of the following:-

- Town Pier Pontoon Reserve
  - Leisure Centres Reserve
20. On 4 January 2022 Cabinet made a decision to sell to the Town Pier and Pontoon. Once this sale has taken place the remaining balance of the Town Pier Pontoon reserve will no longer be needed. It has been agreed that this remaining balance in this reserve be transferred to the Climate Change Reserve to support the Council's Climate Change Strategy and initiatives.
21. The Leisure Centre Reserve will no longer be required at the end of March 2022. The balance on this reserve is to be used towards the costs of bringing forward a new leisure centre within the borough.
22. The movement in the NNDR collection fund equalisation reserve relates to Business Rates reliefs that have been paid back to the collection fund following the deficit position reported last year last year. This is due to Collection Fund accounting arrangements arising from the Business Rates position attributable to the COVID-19 pandemic in 2020/21.
23. By making these changes, it is the view of the Director (Corporate Services) that the General Fund continues to maintain adequate reserves and working balances and that the budget proposals recommended to Cabinet are robust and sustainable. The threshold for Key Decisions has also been reviewed and is to remain at £100,000. The risk assessment conducted at appendix 6b does, however set out a number of areas of risk or uncertainty and, for this reason, the reserves and working balances maintained for the General Fund will be kept under review.

### **Opportunity Cost of holding reserves**

24. Having set minimum levels, the opportunity cost of holding reserves needs to be considered. All balances are used to either reduce temporary borrowing or are invested subject to other cash flows. Therefore in measuring any opportunity cost of holding these reserves, account needs to be taken of the interest saving. The opportunity cost of holding the reserves is therefore a judgment whether the 'worth' of expenditure foregone is more than the income generated. Given the current economic climate and prevailing uncertainty over future funding it is considered that the risks the authority is exposed to exceed the opportunity cost of holding reserves.