

## **CABINET**

**3 AUGUST 2023**

### **INITIAL REVIEW OF FINANCIAL RESERVES**

**Report of: Director of Corporate Services**

**Key Decision: Yes**

**Confidentiality: Non-Exempt**

### **PURPOSE OF REPORT**

1. This report presents the outcome of the S151 Officer's initial review of the Council's financial reserves, as requested by Full Council in February 2023, including funds held for Suitable Alternative Natural Greenspaces (SANGs). The report is intended to inform members of the balances and purpose of reserves held and present proposals to better align them with priority service needs and emerging risks. A further review will be undertaken later in the year alongside the budget process and update of the Medium-Term Financial Strategy (MTFS).

### **RECOMMENDATION**

2. Cabinet is requested to:
  - i. Note the findings of the initial review of reserves and request that the second stage of the review is undertaken as part of the update of the Medium-Term Financial Strategy and once the government funding position is more certain.
  - ii. Approve the proposed actions in relation to SANG finances as set out in paragraph 14 and ask officers to report back to Cabinet in the budget setting report.
  - iii. Approve the proposed actions in relation to capital reserves as set out in paragraph 16 and ask officers to develop a programme of projects to utilise S106 funds and include these in the budget setting report.  
and recommend to Council:
  - iv. To approve the proposed prudent minimum balance on the General Fund Working Balance of £6m, to be reviewed as part of the updated Medium-Term Financial Strategy
  - v. To approve the earmarking of the 2022/23 underspend to meet the known future cost pressures as detailed in paragraph 8.
  - vi. To approve the changes to earmarked reserves highlighted in Appendix 2

### **BACKGROUND**

3. In the budget report approved in February 2023, Council requested that a detailed review of reserves is carried out once the outturn for 2022/23 is complete, noting the following specific considerations:
  - review the purpose, approved use and amount held for each reserve to ensure that the earmarking of resources is still justified and that the balances are prudent and provide sufficient flexibility to the Council.

- given the continued uncertain inflation forecasts and economic volatility, including post-Covid recovery of some key income streams, it is important that the Council makes sufficient allowance to cushion the impact on services and the annual budget.
  - It was reported in the 2022/23 budget report that the General Fund working balance needs reviewing. This has not yet been done.
  - review of the residual risk and prudent level necessary for the Business rates smoothing reserve taking account of the need to mitigate the impact of reductions in rateable value across the borough, increases in appeals and reductions in retained business rate core funding.
  - report on the findings of the initial review of earmarked SANG reserves. These reserves must provide sufficient resource to maintain and manage the SANG sites in perpetuity (80 years), therefore forecasting income and expenditure and capital investment as accurately as possible is essential.
  - The need to continue to provide upfront investment to ‘invest to save’ projects to generate long-term revenue budget savings, subject to business case and payback.
  - the need to make sufficient resources available to deliver the capital programme and other important community and corporate projects.
4. Holding reserves is a normal part of prudent financial management for a local authority and this is set within a legal framework with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). A summary of this is included at Appendix 1 for information and context.
5. Spending from earmarked reserves will still be subject to a proper case being made and will require Cabinet approval, or Council approval if part of the annual capital programme.

## REVIEW OF THE COUNCIL’S RESERVES

6. Hart’s reserves are summarised in the table below, the figures being taken from the pre-audit 2022/23 published accounts.

| Usable Reserves              | 31 March 2022<br>£000 | 31 March 2023<br>£000 |
|------------------------------|-----------------------|-----------------------|
| General fund working balance | 6,968                 | 8,290                 |
| Earmarked reserves           | 10,510                | 6,512                 |
| SANG reserves                | 15,580                | 16,920                |
| Capital reserves             | 13,214                | 15,218                |
| Total                        | 46,272                | 46,940                |

This table forms the scope of this review, and each item is addressed below.

### **General Fund Working Balance**

7. In the February 2022 budget report to Council, the S151 Officer identified that the amount held in the general fund working balance was significantly above

what she considered to be a prudent minimum level and I agree with this view. As set out in Appendix 1, there is no set regulatory requirement or guidance on what a prudent minimum level is, it is a judgement made by the S151 officer taking a range of factors into account including risk, the net annual budget and the level of other reserves held. I consider at this stage that a general working balance of 50% of the total net services budget (£12.1m) would provide a prudent working balance, which equates to £6m (rounded). The current balance held is £8.3m which includes £1.3m transferred from the 2022/23 outturn underspend.

8. As detailed in the outturn report, the main underspend items relate to one-off income and cost underspends in specific areas. Where these have arisen in areas that are expected to have significant costs in the medium term, the **proposed action** is to create an earmarked reserve for this purpose to cushion the impact on the Council's budget. The specific items are as follows:
  - Waste additional income 22/23 – earmark £500k for the cost of assessing the impact of the Environment Act, HCC's disposal changes and for preparing for the end of the current contract in 2026 including options appraisals and tendering costs.
  - Car park income above budget 22/23 – earmark £120k in new reserve for car park maintenance.
  - IT cost underspend 22/23 (non-Capita budgets) – earmark £110k for any one-off costs associated with the end of the IT contract.
  - Capita Contract (all services) underspend against budget 22/23 – earmark £110k for preparing for the end of the current contract in 2025 including options appraisals, system procurement and tendering costs.
  - Net interest on treasury above budget in 22/23 - transfer £350k into future budget pressures earmarked reserve.
9. If the above earmarking of 22/23 underspends is approved by Cabinet, this leaves headroom of some £1m in the general fund working balance (£8.3m-£1.3-£6m). The **proposed action** is to hold this in place until the emerging MTFS position is known in the Autumn when we should have more certainty about government funding, the cost of delivering the Climate Change Action Plan, the potential cost of the Local Plan review and other capital needs. At that stage, further recommendations will be made to Cabinet.

### ***Review of Earmarked Reserves – Review approach and desired outcomes***

10. The review has considered the points listed in the background section above and taken account of the following specific factors covering the medium term:
  - Emerging risks and financial pressures impacting on the MTFS.
  - Capital and service projects, including major contract changes and renewals.
  - Service demands pressures including new legislation.
  - Uncertainty over government funding and other income budgets
  - Continued volatility in economic conditions including inflation and interest rates.
  - The need to consolidate and repurpose small, general reserve amounts.

11. In terms of earmarked reserves, the specific medium term service demands, corporate plan priority areas, risks and financial pressures reflected in the proposals are as follows:
- Review of outsourced and shared services, the timing and impact of major contract end dates including waste, Capita contract and other shared services.
  - The revised Climate Change action plan, still to be fully costed but will require significant financial resource to deliver the Council's objectives.
  - Additional financial and staff resource for the delivery of significant projects including the UK Shared Prosperity Fund etc.
  - Sufficient provision for the Local Plan review to alleviate the budget pressure in any particular financial year.
  - Continued investment in the IT provision and digital projects to improve service delivery and accessibility.
  - Strengthened plan for the maintenance of the Council's service assets and equipment, including CCTV, car parks and car park machines.
  - Adequate provision for the management of the Council's current and future property holding, including landlord obligations on leased buildings, void rent loss on investment buildings (good practice) and securing new property opportunities.
  - Up-front costs of efficiency and invest-to-save projects to benefit the revenue budget in the medium to long term.
  - Continuing to support the Hart district with community recovery, hardship assistance and an effective approach to homelessness.
  - Smoothing budget impact of financial pressures and economic volatility
  - Help cushion the impact of expected future reductions in funding including the New Homes Bonus, retained business rates and general grants.
12. Appendix 2 sets out the detailed breakdown of current earmarked reserves and highlights the **proposed actions** arising from this review.

### **SANG Reserves**

13. Hart has SANG reserves which hold the accumulated funds paid by developers for the provision and ongoing maintenance of SANG sites. The balance held at 31 March 2023 was £16,920k. Cabinet considered an update on SANG at its meeting on 1 December 2022.
14. Hart has a mix of owned and non-owned SANG and there are other sites in the pipeline. There is currently a standard developer tariff in place that applies across the main SANG sites. In terms of the financial arrangements, it is important that SANG reserves plus forecast future receipts are sufficient to maintain the SANG sites in perpetuity (80 years from each SANG becoming operational) and that there is no subsidy from the Council's general budgets. The financial arrangements are complex, and a range of long-term assumptions have to be made including maintenance and replacement costs, inflation, interest rates and cashflow timings. Initial forecasts undertaken as part of this reserves review give confidence that there is sufficient resource in the medium term to meet the required maintenance costs. However, there are

a number of **proposed actions** to bring further clarity to the position and improve the accounting and transparency of SANG finances:

- Improve financial analysis for each individual SANG site.
- Review the effectiveness and level of the standard tariff.
- Identify long term spending plans and lifecycle cost and create a sinking fund to smooth the impact of large expenditure items and increase the accuracy of cashflow forecasts.
- Improve clarity about the distinction between maintenance (SANG funded) and enhancement.
- Identify where external funding, including leisure S106, would be appropriate for site enhancements.
- Set criteria for evaluating new SANG opportunities, including financial, to inform a case-by-case assessment to inform Cabinet decision making.

15 A further report for Cabinet will be prepared once this work has been completed including whether any further measures are necessary to ensure the long-term financial sustainability of Hart's SANGs.

### **Capital Reserves**

| Capital Reserves  | 31 March 2023<br>£000 |
|---|-----------------------|
| Disabled Facilities Grants (DFG)                          | 351                   |
| Capital receipts other                                    | 99                    |
| Leisure S106  | 2,973                 |
| Housing S106 and capital receipts, including Right to Buy | 11,628                |
| EA Flood grants   | 105                   |
| Other small specific balances                             | 62                    |
| <b>Total</b>  | <b>15,218</b>         |

16. The following are **proposed actions** for the capital reserves:

- The DFG balance has restricted use and will be gradually drawn down to fund grants when demand rises above the annual allowance.
- The capital receipts other amount will be used to fund equipment replacements through the capital programme.
- Leisure and Housing S106 funds - Officers will work on developing a programme of projects over the medium term to utilise these resources in line with corporate priorities, for example investment in the Heathlands sheltered scheme and the potential acquisition of more key worker housing. The review has identified that there is a repayment condition applying to three amounts of housing S106 but this a relatively small proportion of the overall funding and the earliest date is 2029 so this has been assessed as being a manageable risk.
- EA flood grants are site specific, and reports will be coming to Cabinet later in 2023.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

17. The alternative of doing nothing, and not reviewing reserves, was considered and rejected because with limited resources and competing priorities, improving alignment of reserves to risk and need is a vital part of sound financial management. This is set in the context of a projected MTFs budget shortfall, continued economic uncertainty and further pressure on income and government funding.

## **CORPORATE GOVERNANCE CONSIDERATIONS**

### **Relevance to the Corporate Plan and/or The Hart Vision 2040**

18. The holding of reserves supports all the Corporate Plan objectives and the Hart Vision by ensuring that sufficient resource is available to deliver services and withstand financial shocks to the budget. This report is at the heart of the cross-cutting objective in the Corporate Plan of having a financially sustainable Council.

### **Service Plan**

- Is the proposal identified in the Service Plan? Yes
- Is the proposal being funded from current budgets? Yes
- Have staffing resources already been identified and set aside for this proposal?  
n/a

### **Financial and Resource Implications**

19. This report sets out a key area of the Council's finances and makes proposals to bring clarity to why reserves are kept and greater justification for the amount held in them. This report supports the Medium-Term Financial Plan and future capital and revenue budget setting. Reserves by their nature are finite and the Council must continue to balance its ongoing budget through new and increased income, cost savings where possible, efficiency gains and invest to save projects - underpinned by robust cost control.

### **Risk Management**

20. As explained in Appendix 1, reserves are often held by local authorities to address risk. The corporate risk register should help inform the approach to reserves, particularly the reasons for holding them and the balance held. This is judgement at a point in time and should be periodically reviewed.

## **EQUALITIES**

21. The proposed changes set out in this paper are not considered to impact on equalities directly, however, directing financial resources to service priorities will indirectly support the delivery of equality policies.

## **CLIMATE CHANGE IMPLICATIONS**

22. The proposals included in this report support the delivery of the Council's climate change action plan and recognise the importance of providing sufficient resource to deliver this key Corporate Plan objective.

## **OVERVIEW AND SCRUTINY COMMITTEE**

23. The O&S Committee reviewed the report at its meeting on 18 July. One comment was recorded to pass to the cabinet which was a request for risk assessment to be undertaken in the review of SANG finances.

**Contact Details:** Graeme Clark

Graeme.clark@hart.gov.uk

## **Appendices**

Appendix 1 – Reserves legislative/regulatory framework.

Appendix 2 – Schedule of earmarked reserves and proposed actions

## **Background Papers:**

There are no unpublished background papers