

Reserves Strategy - Budget 2024/25

1 Background

- 1.1 Reserves are an essential part of good financial management. They help the Council to cope with unpredictable financial pressures and plan for future spending commitments. The level, purpose and planned use of reserves are important factors for the Council to consider in developing the Medium-Term Financial Strategy (MTFS) and setting the annual budget.
- 1.2 In setting the budget, the Council decides what it will spend and how much income it needs from fees, charges and council tax to supplement government funding. The Council may choose to fund some of its spending from its reserves or set aside some of its income to increase reserves for future spending.
- 1.3 Having the right level of reserves is important. If reserves are too low, there may be little resilience to financial shocks and sustained financial challenges.
- 1.4 Councils are free to determine the reserves they hold. Members are responsible for ensuring that the Council's reserves are part of the MTFS and need to be appropriate for circumstances. The Chief Finance Officer has a duty to provide members with advice on the level of reserves.
- 1.5 Councils face significant financial challenges, especially given the cost of living crisis and subsequent high inflation which has increased cost dramatically. The unprecedented reduction in government funding since 2010/11, a decline in other income, rising costs and growing demand for many services are all testing the Council's financial management and resilience. Many of these challenges are likely to continue through to the end of the decade and potentially beyond.
- 1.6 The Government has postponed the review of local government finances and the reset of business rates and this uncertainty creates additional risk. Currently there is no indication when this will take place.
- 1.7 Current and future financial challenges pose significant, and increasing, pressures and risks for the Council. The Council may consider using reserves to balance competing pressures for example:
 - Using reserves to offset funding reductions and protect services – although this can only be a short-term strategy as reserves are a one-off resource.
 - Invest in making operational changes with the objective of reducing future costs of providing services.
 - Increasing reserves to strengthen resilience against future, uncertain cost pressures. A feature of the 2024/25 budget strategy and for future MTFS years 2025/26 and 2026/27 has been that reserves will be used to support the budget. It will also be used to fund investment in delivering savings, the transformation programmes and delivering the objectives included in the new proposed Corporate Framework; Mission Waltham Forest.

2 The approach to setting the Reserves Strategy

- 2.1 The Reserves Strategy is integral to the MTFS and the annual budget setting process. Therefore, the MTFS includes:

- Information showing the current level of reserves and how reserves have changed over time.
 - Consideration of the forward strategy for reserves needed to support the Council's MTFS.
 - A summary of the financial risks facing the Council, how it will mitigate these risks, and the minimum and maximum level of residual risk for which the council may need to hold funds in its reserves.
 - An explanation of the purpose and level of any earmarked reserves.
 - Details of the plans for reserves within the published budget.
- 2.2 Reserves will be monitored throughout the year as part of the routine financial monitoring and the level of reserves reported as part of the year-end accounting processes.

3 Why the Council holds reserves

- 3.1 We use different terms to refer to the reserves depending on why they are held. Terms we use in this report have the following meanings:
- Available earmarked reserves – funds we choose to set aside to meet known or predicted future spending or ring-fenced by previous Council decisions.
 - Working balances (unallocated reserves) to manage cash flows, funds to protect annual budgets against multiple, less predictable, costs and uncommitted accumulated surpluses.
 - Other or unusable reserves - the Council holds but which are not available to fund their general spending: schools' reserves held by the Council; some reserves with statutory restrictions on how they can be spent, such as capital receipts or Housing Revenue Account reserves; and non-cash-backed reserves that councils hold to comply with accounting practice, such as pension reserves.
 - Total usable reserves – the sum of earmarked reserves and working balances.
- 3.2 Available earmarked reserves include funds for contingent spending that is hard to predict (risk-based reserves) – for example reserves to cover shortfalls in investment income.
- 3.3 Reserves are distinct from contingency funds and provisions. Contingency funds are held within the annual revenue budget and are set aside mainly to meet ongoing costs such as pay and price pressures and provide a degree of flexibility around spending. Provisions are funds set aside for one-off probable future liabilities where the timing and amounts are uncertain.

Ring-fenced income

- 3.4 The Council must spend some of its income on specific purposes, for example, ring-fenced grants, or property developers' contributions for local environmental improvements. Spending ring-fenced income before the end of a financial year is

not always possible or desirable. The Council will carry forward unspent ring-fenced income from one financial year to the next in its reserves.

Delivering a balanced budget

- 3.5 The Council, in common with other organisations, needs financial reserves to help manage unforeseen circumstances and to smooth the impact of known spending requirements overtime. The Council will use reserves for such purposes to enable it to manage variations between its planned and actual budgets that result from unpredictable spending and income. Reserves will also be used by the Council to plan its finances strategically to support activities over the medium and long term.
- 3.6 The budget takes a prudent approach by retaining an equalisation reserve to mitigate future year increases in the NLWA Levy that are anticipated as the authority (along with its North London partner authorities) progresses towards its replacement of facilities at Edmonton. This effectively reduces budgetary shocks from large annual increases and allows the Council to plan more effectively.
- 3.7 The Local Government Finance Act 1992 requires the Council to calculate its expected outgoings and income for the year – including any additions to or use of reserves. The difference between expected outgoings and expected income is the authority's council tax requirement for that year.
- 3.8 If unplanned costs are incurred during the year that are not funded externally (for example, by a grant from government or an insurance policy) or the Council experiences a shortfall in expected income, there will be few options, if it is to deliver to budget. Raising extra income or making in-year savings may have an unacceptable impact on service users. Therefore, the Council may want to consider using reserves to balance spending and income.
- 3.9 The current MTFs is forecasting a funding gap in 2025/26 and 2026/27, and reserves might be required to manage some of these gaps whilst the transformation programmes are implemented, and the benefits are realised. However, as there is no certainty about government funding from 2025/26 onwards, this position must continually be kept under review.

4 Reserves and the management of risks

- 4.1 With regard to the Council's financial stability, reserves are used to manage risks. There are certain earmarked reserves that have been set aside for specific risks, for example: the Tax Base Fluctuation and the Budget Strategy Reserve (BSR). These reserves and the potential pressures that need to be managed are reviewed as part of the budget setting process.
- 4.2 The Council also manages unforeseen financial shocks by maintaining a Working Balance in its General Fund. The Council's agreed policy is to maintain working balances at between £10 million and £15 million. Some councils set a minimum desired percentage and although the Council has not done this the policy would maintain general balances at approximately 4% to 5% of the net budget. This level of working balance is kept under review and the Chief Finance Officer has expressed a view that the level is reasonable as part of the budget setting process.

Increasing Financial Risks

4.3 The risk environment for local government funding has significantly increased. This strategy identifies the following issues that have increased risk during MTFS period to the end of the decade:

- Growth in demand for Council services, in particular social care, housing and SEND.
- The Cost of Living Crisis, increases in interest rates and the subsequent high inflation, meaning all costs are increasing at unprecedented levels
- The impact of one-year settlements and late notification of settlements reduces timescales to plan and manage risk from reduced resources.
- Localisation of business rates or other reforms could present a collection rate risk, an economic downturn risk, and a risk in respect of backdated appeals.
- Economic stability both nationally and worldwide.
- The government could decide to transfer further services/responsibilities to local authorities, and these may not be adequately funded.
- Growth in the resident population numbers brings pressures to a range of services and requires more investment in schools, housing and social infrastructure.
- The level of deficit to the High Needs Block and potential lack of mitigations by the service.
- Potential liabilities due to schools running deficit budgets ahead of converting to Academies.

On-going risks in the current strategy.

4.4 In addition, there are still the risks that are normally managed within the MTFS:

- The implementation of the budget savings and benefits realisation from transformation programmes.
- On-going service budgetary control.
- Support for Asylum Seekers and No Recourse to Public Funds cases.
- Homelessness – increasing numbers coming into the area due to rising rents in other parts of the capital.
- Service spending pressures, e.g. unavoidable demand in social care services and lack of mitigations to resolve current overspends.
- Exceptional inflation beyond that provided for within the annual budget.
- Council Tax base may not grow at the assumed rate due to market rates and/or difficult economic conditions such as high inflation on construction costs and a depressed housing market.

4.5 The prospect of further grant reductions means that it is prudent to retain sufficient reserves so that any future spending reductions may be implemented in a planned and efficient fashion. Whilst the current level of reserves is

considered to be robust, consideration should be given to increasing reserves should the opportunity arise, in order to facilitate budget strategy management.

5 Budgeted Reserves

5.1 The forecast Earmarked Reserves assumed as part of the budget strategy are included at Appendix 7.

5.2 In advance of the 2024/25 Budget setting process, a full review of all reserves was undertaken with the objective of maximising reserve balances that could be reallocated to the Budget Strategy Reserve (BSR). This review has enabled a reallocation of reserves totalling £11.564 million to the BSR, £9.996 million from other earmarked reserves and £1.564 million from grant reserves.

Reserve Name	Transfer to BSR
	£'000
Revenues & Benefits	(2,000)
Priorities Impact Fund	(1,414)
MRP equalisation reserve	(2,146)
Business Rate Pool reserve	(713)
Funding Risk Reserve	(359)
Ward Forums	(100)
Leisure Contract	(829)
Discretionary Housing Payments	(600)
Risk Management	(35)
Financial Exercise	(1,800)
Earmarked Reserves	(9,996)
SFA Employer/Le	(241)
Local Housing	(20)
Income Support	(23)
Atlas Grant	(1)
Council Tax Localisation Grant	(300)
NHS Healthy Living	(10)
MHCLG Pocket Parks	(75)
Covid-19 Unallocated	(898)
Grant Reserves	(1,568)
OVERALL TOTAL RESERVES	(11,564)

5.3 The forecast value of General Fund Reserves as at 31 March 2024 is £52.7 million, a decrease £16.7 million on the balance as at 31 March 2023 and a decrease of £12.2 million projected in 2024/25, leaving a balance of £40.5 million as at 31 March 2025. The decreases are due to the need to invest in service improvements, future savings projects and manage the delay to the Business

Rates. The significant movements have been in the Budget Strategy Reserve, the collection fund reserve and the investment reserves.

- 5.3 These reserves are earmarked for specific purposes and do not include the £14.9 million Working Balance that is held to protect the Council’s budget from unexpected risks.
- 5.4 The table below summarises the General Fund Reserves:

Forecast General Fund Earmarked Balances and Reserves

Reserves	31 March 2023	31 March 2024	31 March 2025
	Actual £'000	estimate £'000	estimate £'000
Capital programme related	2,209	1,380	1,380
Contingencies for known risks / Committed revenue	21,341	10,154	6,254
To Support the Budget Strategy	14,129	22,463	15,521
Technical Reserves	27,434	16,331	15,106
Operational Reserves	3,600	2,180	2,110
Statutory Accounts	682	238	168
External Income Related	8	0	0
Earmarked Reserves	69,402	52,744	40,538

- 5.5 **Capital Related Reserves** link to the current capital programme or provide resources are used support capital schemes.
- 5.6 **Contingencies for Known Risks / Committed revenue** provide funds to meet potential expenditure not provided for within the base budget. The largest item is a reserve set aside to meet any loss of Housing Benefit Admin Grant Forecast at £6.2 million for March 2024. The level will be reviewed as the benefits service changes in response to the welfare reforms and will also be used to manage the reduction of grant when it occurs. Committed revenue relate to plans agreed in the past where the expenditure will be required at some time in the future and based on business cases. They mainly relate to PFI projects.
- 5.7 A balance of £22.5 million is forecast to be carried forward into 2024/25 to **support the budget strategy**. This can be used to balance the budget and manage service budgetary risks and required investment in transformation programmes.
- 5.8 The **Technical Reserve** are earmarked funds to manage the risk within the Council collection fund and major levies which the authority has little or no control over. The main reserve within this grouping is the Tax Base Fluctuation Reserve (£7.2 million estimated at the end of March 2024), which is being held to manage the risks from major fluctuations in the collection fund and the delay in the new local government funding regime changes. The other reserves include Levies equalisation reserve to manage the North London Waste Authority levies.
- 5.9 The **Operational Reserves** are earmarked funds for service activities. In many cases they will have been committed to spending plans and in others they are funds that have been carried over from previous service underspends. Included

APPENDIX 6

in this category is the Hardship Fund of £750,000 which is used to support Council Tax Support cases.

- 5.10 The reserves held in respect of **statutory accounts** result from surpluses that can only be used for statutory purposes or over time should be balanced.
- 5.12 The table and paragraphs above only cover the General Fund earmarked reserves. There are other revenue balances held by the Council for specific purposes including (projected 31 March 2024): HRA Reserves £0.180 million, Schools Balances £6.5 million, Grant Related £16.3 million (earmarked for the purpose that the grant was received), Provisions £11.5 million (set aside for known liabilities) and Working Fund balances of £14.9 million for the General Fund and £5.6 million for the HRA.