

Reserves

This briefing note has been produced to explain the use of reserves since vesting day on 01 April 2021.

The note covers the use of general fund reserves and other earmarked reserves.

This follows concerns raised at the level of reserves used to date.

General Fund Balances

The general fund balance is the 'contingency of last resort'. Where all other cash, reserves and balances are used this is the final reserve that can be utilised to offset cost pressures.

It is critical to set this reserve at a reasonable level and manage the use of the reserve really carefully.

Ongoing reliance should not be placed on the use of general fund balances and if temporary reliance is placed on general fund balances there must always be an exit strategy to move reliance away from this temporary funding.

In the first two years of the Council's existence the final budget included the ability to fall back on up to £5m of general fund balances to be held as a budget contingency given we were a new organisation to help deal with any unforeseen financial impacts in the year.

This provision was not used at all in 2021-22

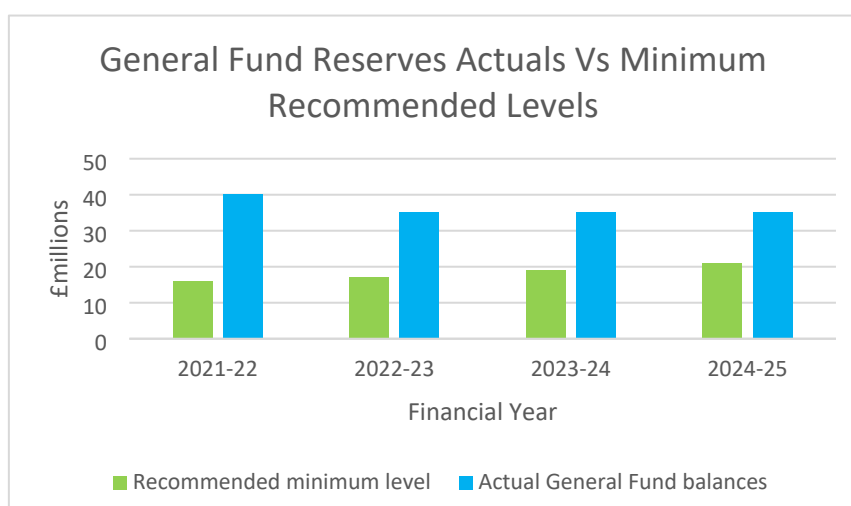
The provision was used in full in 2022-23

From 2023-24 there was no reliance being placed on the general fund balance to support the budget.

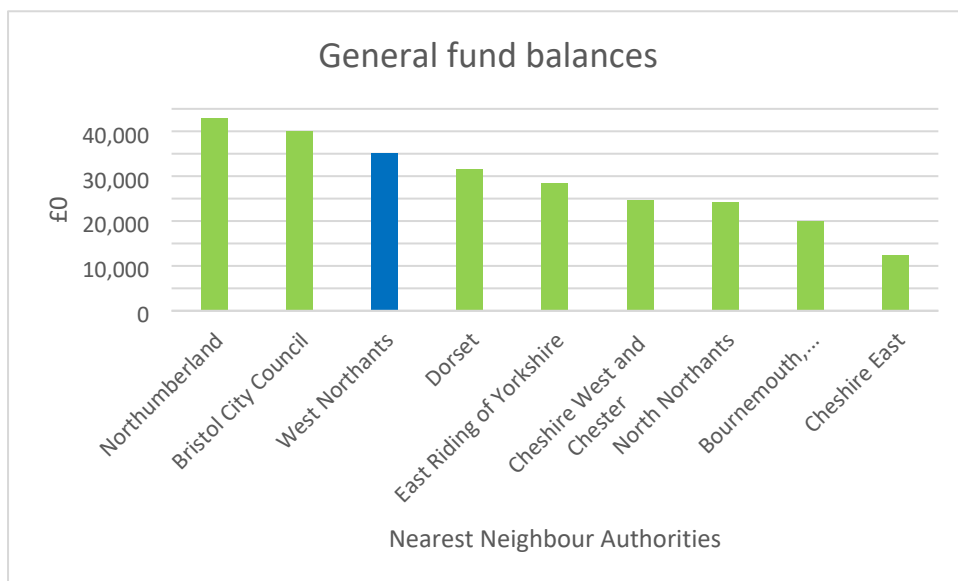
There is no reliance being placed on general fund balances for 2024-25 or over the medium-term financial plan.

Therefore, £5m of general fund balances have been used in a planned way in the four budgets the Council has set so far. They started at £40m and remain stable at £35m with no call against it currently planned or anticipated in the future.

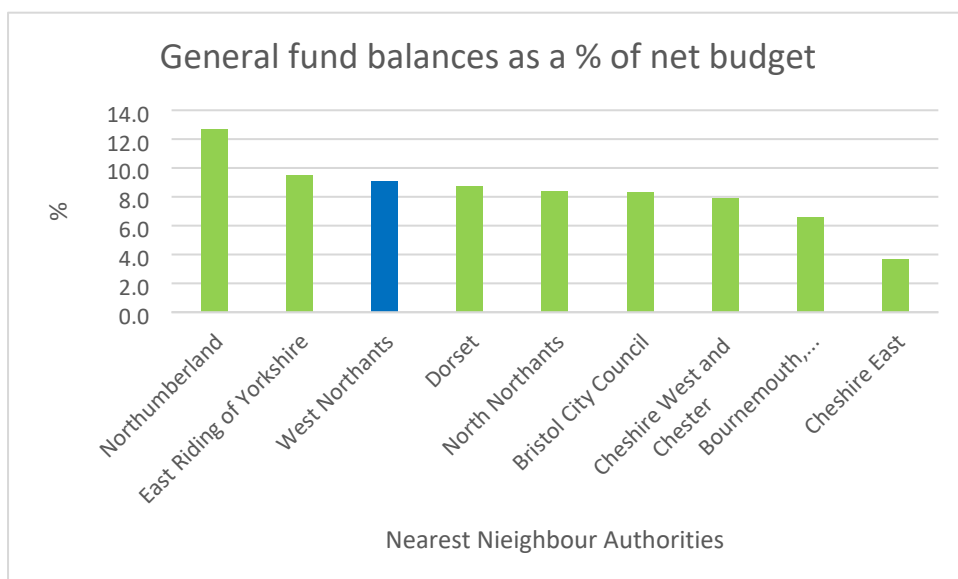
The Council's S151 officer sets a minimum level of general fund balances as part of his S25 statement each year. The chart below shows the minimum recommended level of general fund balances and the actual level of general fund balances held.



The Council also carries out benchmarking against its nearest neighbours on general fund balances



This can also be considered as a percentage against net budget to account for different sizes of authority.



Other Earmarked Reserves

Other earmarked reserves contain all of the other reserves held by the authority for a specific purpose or reason. They can, and should, be spent on the things they were earmarked for in the first place.

The Council has since its creation inherited or created 210 different earmarked reserves all being held for specific reasons and purposes.

There has been one substantial review of these reserves and iterative changes and re-purposing of the reserves on an ad-hoc basis.

They are often created as a result of grant funding being given to the authority for a specific purpose which will often have terms and conditions attached to the spend. Quite often if this grant funding is not spent in a certain timeframe and on the things it was received for it has to be returned to government.

The Council’s policy is to return as little grant funding to Government as possible and it will therefore seek to spend all of the grant for the purpose it was received and before having to return it to Government.

Estimated 'other reserves' on 01 April 2021 was £131.2m. This estimated opening position included significant grant funding to deal with the impacts of COVID which were rightly utilised to effectively manage the pandemic and the consequences of the pandemic.

The opening balance also included Public Health balances which include strict criteria in terms of how those funds can be utilised and has to be ringfenced specifically for public health.

Finally, there is also an Enterprise Zone reserve which is held by the Council but can only be released when all external partners on the EZ board agree. This reserve is therefore not within our control.

To get a better understanding of the balances inherited on vesting day, which hadn't been received for exceptional reasons (and had to be utilised for those reasons or repaid to Government) or are not within our direct control, these amounts should be deducted as set out below:

	Provisional Opening Balances 2021-22
Other reserves	131,152
Less:	
COVID grants and compensation	-60,928
Public Health Reserve	-8,470
Enterprise Zone reserve	-3,549
Adjusted 'Other reserves'	58,205

If we carry out the same calculation for the estimated balances at 31 March 2024 we can see how much of the 'other reserves' we have actually utilised in the three years we have been WNC.

	Forecast position 31 March 2024
Other reserves	53,727
Less:	
COVID grants and compensation	-588
Public Health Reserve	-6,297
Enterprise Zone reserve	-172
Adjusted 'Other reserves'	46,670

Therefore we have used **£11.535m** of other reserves in the three years we have been WNC after adjusting for the items detailed earlier. This figure includes draw downs from reserves and top ups to reserves.

A detailed list of the 'use of' and 'contribution to' reserves totalling £11.535m is available if required.

As WNC has been in existence for three years so the average use of 'other reserves' per year since vesting day has been **£3.8m on average per year**.

If the use of reserves continued at the same rate as has been the case to date then **other reserves** would be fully utilised after **12 years**.

If we then fell back on general fund balances and used these at the same rate then these would be available for a further **9 years**.

Therefore, if we continued to use reserves at the same rate as has been the case over the first three years of WNC they would last for a further 21 years.

Even if we based the analysis on the 'use of' reserves only and ignored 'top ups' to reserves contained within the net position of £11.535m referred to above then the reserves would last for at least 10 years.

This also assumes no other intervention in the meantime. This would clearly not be the case if it became apparent that they were becoming too low. There is no such concern at this point in time.

There is a base budget funded contingency of £10m which, if not required for any other reason, could be redirected to replenish reserves if it was deemed necessary. At the current point in time it is not deemed necessary to take this course of action.