

# Reserves - Update

Corporate Policy and Scrutiny Committee  
23<sup>rd</sup> June 2022

# Purpose and key messages

## Purpose

1. To provide Scrutiny Committee with a briefing and update on the Council's reserves
2. To respond to the Committee on questions around the Council's reserves

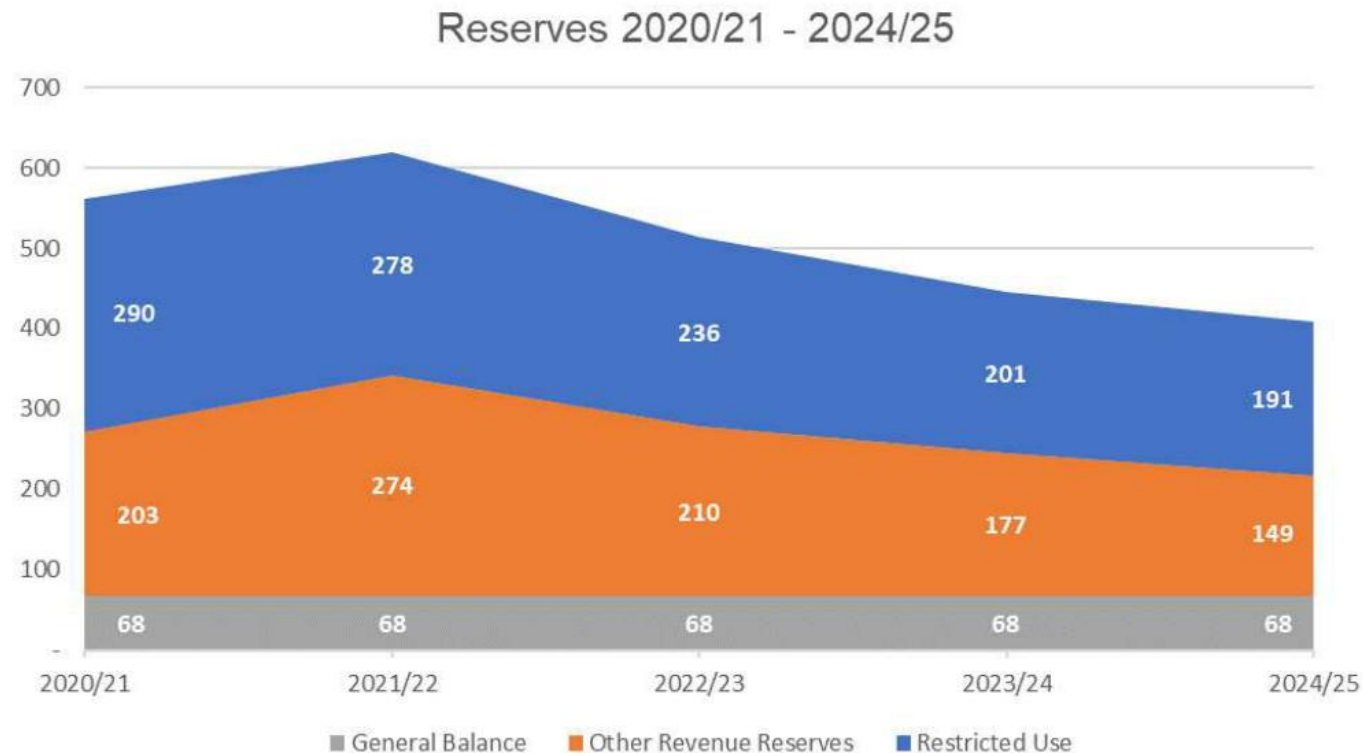
## Key messages

- The Council holds reserves to provide some resilience to cope with unpredictable financial pressures and long term contractual commitments.
- We have a statutory requirement to provide for an adequate level of reserves
- Section 151 Officer must advise the Council about the level of reserves to hold and report to Members of the Council where reserves have become seriously depleted
- Members are responsible for ensuring that the Council's reserves are appropriate for local circumstances, taking into consideration the advice provided by the Section 151 Officer
- Without adequate reserves, it may be necessary to take remedial urgent action in-year to mitigate challenges that arise, which could lead to longer term consequences
- Our reserves allowed us to get through a particularly challenging period at the start of 2020/21 when a number of emergency decisions were required at the start of the COVID-19 pandemic and we had yet to receive any additional funding from Government

# Types of Reserves

Type of Reserve	Description	Significant Examples
Restricted Use Funds	Held for long term contractual commitments or on behalf of others and not available for use by the Council	PFI and Schools reserves
Other Revenue Reserves	Funds earmarked to enable the Council to change the way it provides services and achieve future savings	Everyone's Essex, Transformation Reserve and Reserve for Future Capital Funding
General Balance	Un-ringfenced funds which provide a working balance to protect the Council against unexpected cost pressures	Only the General Balance

# Balance of Reserves – 5 Year Trend



The reducing balance on restricted funds mainly relates to utilisation of the residual balance in the Covid Equalisation Reserve (£41m closing balance 2021/22) and planned payments relating to the A130 PFI contract.

The 2021/22 budget included a net appropriation to Other Revenue Reserves of £48m (including creation of the Adults Risk Reserve £10m, an increase to the Collection Fund Risk Reserve to mitigate tax risk £12m and additional funds to the Technology and Digitisation Reserve to support investment in systems £10m). The remainder of the increase is mainly due to recommendations in the Provisional Outturn Report to appropriate the 2021/22 revenue under spend of £16m to reserves, mainly to create a new General Risk Reserve to support inflationary cost pressures. The reducing balance going forwards reflects draw down of carry forwards and funds set aside to support transformation – most significantly Everyone's Essex priorities.

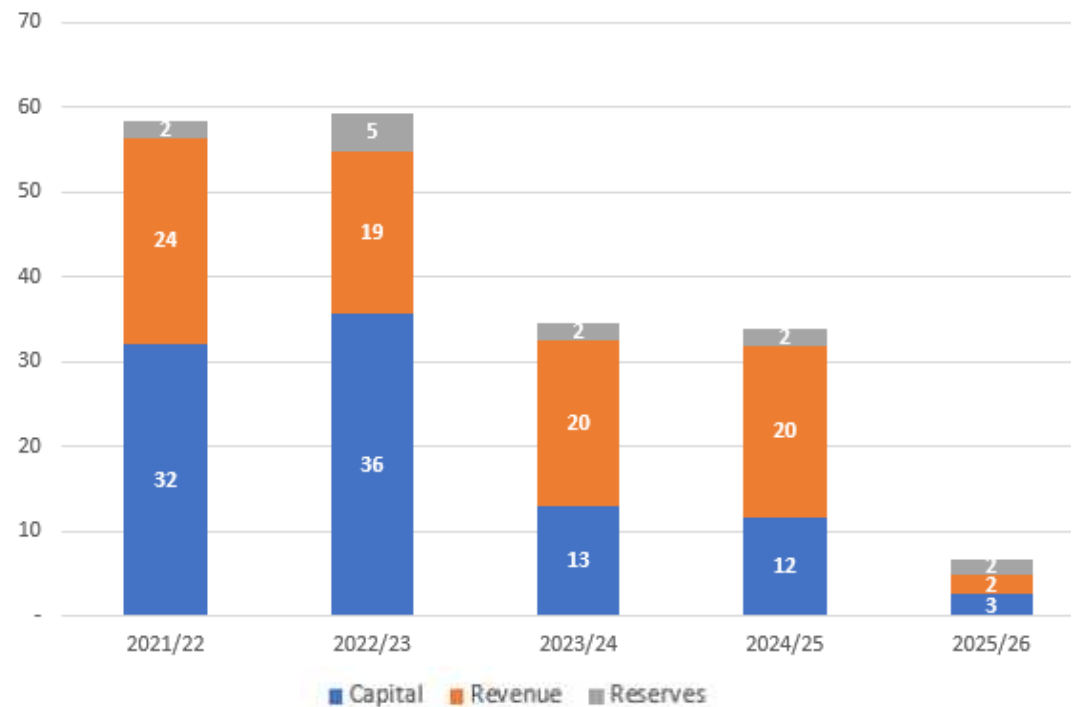
# What have reserves been used for?

	2021/22
<b>Other Revenue Reserves</b>	<b>£58m</b>
<b>Carry Forwards</b>	<b>£21m</b>
<b>Technology and Digitisation</b>	<b>£10m</b>
Implementation of the new corporate system	£7m
Social Care Case Management System	£2m
<b>Ambition Fund</b> – primarily to fund announcements from the Leader's budget speech at Council Feb 2021	<b>£7m</b>
<b>Transformation</b>	<b>£7m</b>
Design and implementation of the Transforming Community Care Programme in Adult Social Care	£2m
Other smaller programmes	£5m
<b>Finance Capital</b>	<b>£7m</b>
<b>Other Reserves</b>	<b>£6m</b>

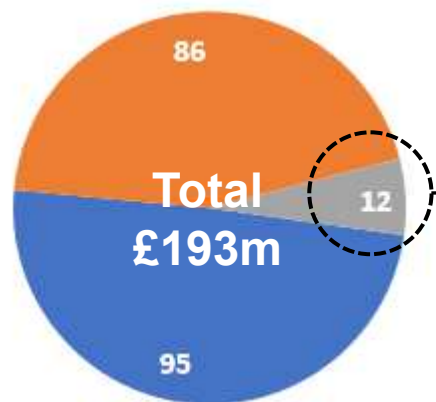
# Do we get a return on holding reserves?

- The council earns interest on its level of cash balances, but these are not directly related to its level of reserves
- During 2020/21, the Council held some of its cash balances for investment, achieving investment income of **£900,000**, a return of 0.14%
- The majority of the cash balances were used to temporarily defer external borrowing, thereby avoiding an estimated **£8m** in debt financing costs in 2021/22 which would have been the equivalent of 1% council tax

# Climate – What is ECC investing?



In November 2021 Cabinet approved a report setting out ECC’s response to the Essex Climate Action Commission’s Report. The report set out a programme of activity over the 5 year period 2021/22 – 2025/26 costing £193m. Funding for the programme was split between capital (£95m), revenue (£86m), with a small contribution from reserves (£12m).



Reserve	£m
Everyone's Essex	6.2
Essex Climate Change Commission	4.7
Transformation Reserve	0.7
Ambition Fund	0.5
Total	12.1

Note – a further decision to draw down additional funds of £3.7m from the Everyone’s Essex Reserve was subsequently approved.

# Conclusions

- CIPFAs Financial Resilience Index judged ECC as being of relatively high resilience in comparison to our peers due to the balance of reserves we maintain
- This was put to the test in the early stages of the Covid-19 pandemic and we came through a very challenging period without having to take urgent remedial action that may have been necessary should we not have had sufficient reserves to bridge the actions we needed to take whilst awaiting emergency funding
- Our balance sheet remains healthy and we further bolstered our resilience with a new General Risk Reserve created specifically to mitigate price pressures due to the soaring rate of inflation, funded from the 2021/22 final revenue under spend position
- This puts us in a good position to manage the potential impact of the current challenging economic situation