

**Report To:** Cabinet

**Date of Meeting:** 2 October 2023

**Report Title:** Reserves Policy 2023-24

**Report By:** Kit Wheeler  
Chief Finance Officer

**Key Decision:** Yes

**Classification:** Open

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### **Purpose of Report**

An essential part of the financial planning process for Hastings Borough Council is a robust and modern policy on the level and nature of reserves.

The policy document attached updates the Council's approach to Reserves in preparation of its Medium Term Financial Strategy and as part of the budget setting process for 2024-25.

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### **Recommendations**

- 1) Cabinet recommends that Full Council agrees the updated Reserves Policy.**
- 2) Cabinet recommends to Full Council that the minimum General Reserve balance be reduced from £6m to £4m.**

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## Reasons for Recommendations

1. Sections 31A, 32 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
2. Hastings Borough Council, like many others at the current time finds itself under considerable financial duress. To ensure that Councils do not fall fail of overcommitting themselves financially there are several safeguards in place to prevent this from occurring. These include;
  - All Councils must set a balanced budget as set out in sections 31A, 42A of the Local Government Finance Act 1992, as amended.
  - The Chief Finance Officers duty to report on the robustness of estimates and adequacy of Reserves (section 25 of the Local Government Act 2003) when the Council is considering its budget requirement.
  - Section 151 of the Local Government Act 1972 states as part of the legislation that each Local Authority must make arrangements for the proper administration of their financial affairs and that the Chief Finance Officer / proper officer has responsibility for the administration of those affairs.
3. The above requirements are reinforced by Section 114 of the Local Government Finance Act 1988 which requires the Chief finance Officer in England and Wales to report to Council if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.
4. Within the existing statutory and regulatory framework, it is the responsibility of the Chief Financial Officer to advise the Council about the level and nature of reserves to be held. In assessing the adequacy of unallocated general reserves the Chief Financial Officer will take account of the strategic, operational, and financial risks facing the authority. The Chief Financial Officer will also ensure that there are clear protocols for their establishment and use.

## Introduction and Background

5. The Department for Levelling Up, Housing and Communities (DLUHC) released a paper on the 25<sup>th</sup> July 2023 stating the following:

*'Reserves are an important part of the resourcing available to local authorities and are held for a variety of purposes. Some reserves are held as a general cushion against uneven cashflows and a contingency against unexpected expenditure; these are referred to in the revenue outturn as unallocated reserves.*

*Other reserves are earmarked by an authority for specific purposes, such as to mitigate specific risks or to build up funds for known or anticipated future expenditure. These are known as earmarked reserves. The extent to which earmarked reserves can be made available for other purposes varies depending on the reasons a particular reserve is being held. Some reserves are ringfenced by accounting practice or statute and are not available for spend elsewhere.'*

6. There is currently no recommended statutory minimum level of General Fund (unallocated) reserves or Earmarked Reserves, and is the responsibility of each authority to determine for themselves individually.

7. Despite there being no specific recommended guidance around reserve balances, the Councils external auditors Grant Thornton produced a public report in 2021 entitled 'lessons from public interest reports' which discussed the issue of reserve balances within the public sector.

*In our view, those councils who have, throughout the period of grant reduction, recognised and been committed to maintaining adequate reserves, have not only continued to provide strong services but have also put themselves in a position to ride out the current pandemic storm.*

*This, we believe, is the absolute and fundamental lesson from the PIRs issued in the last few months. Maintaining sound reserves is absolutely vital and a key indicator of sound financial governance. It should be at the heart of all medium-term financial plans.*

*In our view, general fund reserves (including earmarked general fund reserves) should be a minimum of 5% of net spending and arguably should be somewhere between 5 and 10%. This level of reserves will provide councils with a vital cushion.*

8. Hastings Borough Councils current policy has an agreed minimum level of General Reserve set at **£6m**. This is calculated as follows:

- (i) 15% downturn in income (sales, fees, rents, etc) - £2m (Projection)
- (ii) 5% over run in expenditure (including capital) - £2m
- (iii) Unforeseen events/losses - £2m

9. Having considered the above historical approach and the current financial and economic environment the Council is faced with at present, any number of permutations could be calculated.
10. However, given that the above calculation was made with an expectation of a downturn in Income trends, set at a time when the impact of the Covid pandemic was still largely unknown, and 5% over run in Expenditure in addition to any other unforeseen events and losses. It could be argued that this was correct and prudent at the time but now that there is less uncertainty around some of those areas that this could, and should be potentially reduced.
11. There is also the consideration of the ongoing issue and one of the biggest financial risks to the Council at the present time being around increasing Homelessness costs, something not a factor when originally considering the levels of recommended General Reserve.
12. The 2023/24 budget that was agreed by Full Council in February 2023 showed an expected budget for Net Expenditure to be **£17.8m**. **10%** contingency based on this figure would be **£1.8m**.
13. Given the current and well documented issues the Council is having in relation to tackling the Housing Crisis, an additional provision should be set aside to mitigate these financial demands. The 2023/24 Homelessness budget was set at **£5.2m**. **20%** contingency based on this figure would be **£1.04m**.
14. Included within the 2023/24 budget of **£17.8m** net expenditure, the Council already provides a provision for contingency for unexpected and unforeseen events within the revenue budget which accounts for **£300,000**. Therefore, excluding that contingency figure as well as the already separately accounted for Homelessness risk of **£5.2m** above, the remaining net cost is **£12.3m**. **10%** of this figure is **£1.2m**.
15. Therefore, the re-calculated Minimum General Fund Reserve balance should be as follows:
  - £1.8m (10% contingency of total Net Expenditure based on 2023/24 Budget)
  - £1.04m (20% Homelessness costs fluctuations)
  - £1.2m (Other unexpected / unforeseen events)

Total = £4.04m (say **£4m**).

It is therefore recommended that the minimum level of General Reserve balance is reduced from **£6m** to **£4m**.

## Reserves Protocol

16. For each earmarked reserve held by a local authority there should be a clear protocol setting out:
- The reason for/purpose of the reserve;
  - How and when the reserve can be used;
  - Procedures for the reserve's management and control; and
  - A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

## Balance of Reserves

17. At the 31<sup>st</sup> March 2023 the General Reserve balance was **£7.59m** and the Earmarked Reserves balance was **£13.44m**.

## Reserves to be released

18. As per the attached Reserves policy, each year all Reserves and their use will be reviewed as part of the budget setting process and if considered no longer necessary or required at the level previously held will be released back into the General Fund.

## Conclusion

19. A robust Reserves Policy enables the Council to achieve its Corporate Priorities and Programmes of work. The amending of the General Reserve Balance is due to re-evaluation of, and reflection of the current risks facing the Council.

## Timetable of Next Steps

Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Cabinet	Approve Report and Recommendations	2 <sup>nd</sup> October 2023	Chief Finance Officer / Lead Member for Finance
Full Council	Approve Report and Recommendations	22 <sup>nd</sup> November 2023	Lead Member for Finance

Budget Cabinet	Approve Report and Recommendations	29 <sup>th</sup> January 2024	Chief Finance Officer / Lead Member for Finance
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**Wards Affected**

All

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**Policy Implications**

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues & Climate Change	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	No
Anti-Poverty	No
Legal	No

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**Additional Information**

Appendix 1 – Reserves Policy

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**Officer to Contact**

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