

Question from Mr Chris Henderson to Councillor David Bartholomew, Cabinet Member for Finance

Question

As budget setting approaches, I wonder if the Cabinet Member could explain to me the high level of balances and reserves held by the County.

The business management and monitoring report July 2020 forecasts general balances at £30.3 million at the end of 20-21. This is significantly higher than the risk assessed level of £23.4 million. Why?

Answer

At the year end any underspend on Council services is transferred into general balances. The Council's 2019/20 year-end position was better than forecast when the 2020/21 budget was set. Therefore, general balances started the year already higher than the risk assessed level at £28.7m. The current forecast of £30.3m assumes that there may be a further contribution by the end of the 2021/22 financial year. However, given the unprecedented uncertainty regarding the financial impact of Covid-19, this is uncertain. With a net revenue budget of £475m, £30.3m is only enough to meet 23 days' worth of spend.

Similarly looking at "earmarked reserves" there are some very large figures. Capital reserves are set to increase to £35.2 million, with the vague explanation that it is for "financing capital expenditure in future years". If this is not allocated to specific projects with a likelihood of delivery then does it really qualify as an earmarked reserve at all?

The Capital Programme for the period 2019/20 to 2029/30 which was approved by Council in February 2020 set out how the programme is to be funded. This includes the full use of the Capital Reserve over the period of the programme. If this reserve was not held, then some schemes currently in the programme would not be able to proceed.

The "demographic risk reserve" is set to increase to £6 million. Can the Cabinet member explain exactly what this is for?

This reserve is held to help manage demographic risk, particularly the significant pressures relating to High Needs. At the end of 2019/20, the High Needs part of the Dedicated Schools Grant reserves was in deficit by £11.2m and is forecast to be in deficit by £22m at the end of 2020/21. Whilst the Council is not required to meet the deficit in the High Needs reserve from general funding, it cannot have negative reserves overall. Given the significant deficit forecast, this reserve ensures that overall, the Council has sufficient reserves.

There is an insurance reserve of £11.4 million. It is claimed that this figure is based on experience of claims but since the figure has remained relatively unchanged and the reserve has not been used for some years then is it really necessary?

Each year an independent actuarial assessment is undertaken to review the appropriate level of reserves to be held for future claims. The outcome of this assessment informs the

annual review of Earmarked Reserves which is undertaken as part of the Budget and Business Planning process. In 2019/20 £1m was released from the reserve to support service delivery.

I also notice there is a vehicle and equipment replacement reserve of £2.8 million. Can the Cabinet member then explain why the new electric cars for Community Safety at £200,000 were cut from the budget in September and not simply financed from this reserve?

Annual contributions are made into the vehicle and equipment replacement reserve to allow for the replacement of our fire appliances and other vehicles. These funds are fully committed to replacement of our existing stock and there isn't enough in the reserve to meet additional vehicles.

Many would applaud the County for saving for a "rainy day". However it might be an idea to look out of the window and see that the weather couldn't get much worse and spend some of these reserves rather than cutting services.

As part of their 'going concern' assessment our External Auditors have used the Institute for Fiscal Studies' Covid risk and resilience indicators for local government (published in June) to assess the level of reserves. Reserves data indicates that Oxfordshire has 'most risk' compared to our peers as our percentage of earmarked reserves to net revenue budget. Furthermore, CIPFA's Financial Resilience Index, which provides information on the level of reserves for all authorities, also identifies that Oxfordshire County Council is more at risk than other Counties in terms of the level of reserves held compared to its net revenue budget. The appropriate level of reserves and balances to be held by the Council is considered as part of the Budget and Business Planning process every year.