

Earmarked Reserves and General Balances Policy Statement 2026/27

Introduction

1. This paper sets out the Council's policies underpinning the maintenance of a level of general balances and earmarked reserves within the council's accounts.

Statutory Position

2. A local authority is not permitted to allow its spending to exceed its available resources so that overall it would be in deficit. Sections 32 and 43 of the Local Government Finance Act 1992 require authorities to have regard to the level of balances and reserves needed for meeting future estimated future expenditure when calculating the council tax requirement.
3. Balances and reserves can be held for three main purposes:
 - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing, this forms part of general reserves
 - A contingency to cushion the impact of unexpected events or emergencies, this forms part of general balances;
 - A means of building up funds often referred to as earmarked reserves, to meet known or predicted liabilities

Purpose of balances and reserves

4. The Council maintains general balances in order to provide a contingency against unplanned or unexpected events.
5. Although there is no recognised official guidance on the level of general balances to be maintained, the key factor is that the level should be justifiable in the context of local circumstances. The council's external auditor comments on the level of balances and reserves as part of the annual audit of the Council's financial position. Financial regulations require Council to decide on the level of general balances it wishes to maintain before it can decide the level of council tax. This will be done as part of the annual budget setting process.
6. Whilst general balances are unallocated, earmarked reserves are held for a specific purpose and to mitigate against potential future known or predicted liabilities.

Planned use of balances and reserves

7. Any planned use of, or contribution to, earmarked reserves or balances must be included as part of the budget setting process each year.

Section 4.6

8. In accordance with the Council's Financial Regulations, any new reserves or a change in the purpose of earmarked reserves requires Cabinet approval. Contributions to or use of earmarked reserves is reported to Cabinet as part of the monthly Business Management & Monitoring Report. Those greater than £1m require endorsement by Cabinet.

National Comparison of Level of Earmarked Reserves and Unallocated Reserves (General Balances)

9. Information is included in the Financial Strategy (see paragraphs 32 – 34 and Annex 2 of Section 4.5), noting that the CIPFA Resilience Index indicates that Oxfordshire County Council is lower risk compared to other county councils. The risk in respect of levels of reserves has also improved relative to other counties and the level of risk is moving further towards the lower end of the spectrum.

Level of General Balances

10. It is considered prudent to maintain a level of balances commensurate with risk, and a risk assessment is undertaken annually by the Deputy Chief Executive (Section 151 Officer), as part of the budget setting process.
11. The risk assessment for 2026/27 has determined that balances should be held at £32.7m, increased from £30.2m in 2025/26, reflecting an updated assessment of risks. When added to contingency of £6.3m this is equivalent to 5.2% of the proposed net operating budget of £752.6m for 2026/27 and equates to just over two weeks of net expenditure.
12. The Business Management and Monitoring Report to Cabinet in January 2026 sets out a forecast underspend of £2.0m for 2025/26. This includes the use of £2.2m balances to fund the deficit held by Woodeaton Manor Special School when it converted to academy status in October 2025. There is also a further anticipated call on balances relating to the Bicester Motion incident, estimated at £0.5m. £1.9m held in general balances will be used to support the cost of the Cowley Branch Line should it not be possible to identify other funding for this purpose.
13. The anticipated level of general balances on 1 April 2026 is currently forecast to be £34.7m after taking account of the anticipated use set out in paragraph 12. This is £2.0m higher than the 2026/27 risk assessed level of £32.7m; the additional funding will be held to support future priorities.
14. It is recognised that the outturn position for 2025/26 is likely to differ from the forecast so the actual level of balances available to allocate may vary. It is proposed that any variation to the forecast outturn position will be reflected in the level of general balances and any impact considered through the Provisional Outturn Report for 2025/26.
15. The risk assessment for 2026/27 is set out as Annex 1 to this policy statement.

Earmarked Reserves

16. Earmarked Reserves are grouped into the following six categories:

- a. Revenue Grants Unapplied – these are specific grants received by Government Departments which remain unused at the end of the financial year and are carried forward to be utilised in future years. Examples include the Public Health Grant and the remaining grant funding for the Homes for Ukraine scheme in Oxfordshire.
- b. Capital & Equipment – funding for the council's capital programme and the replacement of equipment and vehicles.
- c. Funding for Risk – funding held to mitigate future financial and service risks. Examples include the Insurance and Collection Fund reserves.
- d. Corporate Priorities – one – off funding to support and deliver the council's priorities. Examples include the Budget Priorities and Transformation reserves.
- e. Other Reserves – funding held for other specific purposes including the On – Street Parking Reserve.
- f. Unusable Reserves – surpluses and deficits held on behalf of Local Education Authority maintained schools.

17. Annex 2 sets out the actual level of earmarked reserves at 31 March 2026 and expected level at 31 March each year to 2031 as well as a description of each reserve.

18. Section 4.6.1 sets out forecast reserves over the medium term. A significant element of the balance forecast to be held relates to future funding for the capital programme.

19. This position does not take into account an estimated deficit on the Dedicated Schools Grant (DSG) Unusable Reserve in relation to High Needs. This is currently forecast to be £163.2m as at 31 March 2026. If the current level of spend continues with no solution put in place this would increase to at least £300m by 31 March 2028 when the statutory over-ride ends. Further detail on this is set out in paragraphs 51-55 below.

Demographic Risk Reserve/ High Needs DSG Deficit Risk Reserve

20. Because of the significant pressures relating to High Needs and other budgets with demographic volatility a demographic risk reserve was created in 2019/20. The existing MTFS includes an on-going annual contribution to the reserve of £4.0m. The forecast reserve will total £35.0m by the end of 2025/26, £29.0m by the end of 2026/27 and £33.0m by the end of 2027/28 when the statutory over-ride ends. This reserve will in part offset the impact of carrying the negative DSG reserve on the council's cashflow and improve the financial resilience position.

21. The Provisional Local Government Finance Settlement for 2026/27 sets an expectation that local authorities will be required to meet some of the historic deficit on High Needs DSG. Reflecting this change, and the expectation that

Section 4.6

the council will need to manage at least some of the deficit, it is proposed to increase the contribution to the Demographic Risk Reserve from £4m in 2025/26 to £8m per annum from 2026/27 onwards. This will increase the balance held in the reserve to £41.0m at 31 March 2028, when the statutory override ends.

22. It is also proposed to change the name of this reserve to the “High Needs DSG Deficit Risk Reserve”.

Budget Priorities Reserve

23. This reserve has been used to hold one – off funding for the council’s priorities.
24. The remaining balance from a one – off investment of £2.0m in 2025/26 for pro-active flooding measures and working with communities who have suffered flooding that will be used in 2026/27 will be held in this reserve.
25. £1.9m potential funding for the Cowley Branch Line is likely to be moved to the reserve from general balances before the end of 2025/26. If other funding is subsequently identified this will be released for other priorities.
26. £1.5m funding is available to support future priorities.

Budget Reserve

27. As set out in the Business Management & Monitoring Report to Cabinet in January 2026, and the Treasury Management quarterly updates, there is forecast additional interest on cash balances totalling £7.5m over the budgeted level in 2025/26. £2.0m of this is forecast to be used to support the revenue budget in 2025/26.
28. The remaining balance is proposed to be held in a Budget Reserve, that will be created in 2025/26 subject to approval through the Business Management & Monitoring Report elsewhere on the agenda. This funding will be held to help manage any difference in the timing of the delivery of savings and the funding reductions arising from the Local Government Finance Settlement over the three-year settlement period to 2028/29.

Collection Fund Risk Reserve

29. This reserve is held to manage fluctuations in Business Rate and Council Tax income that the Council receives, with a recommended level of at least £4.0m held. The actual balance held in the reserve is expected to be £6.7m at 31 March 2026 after taking account of additional Business Rates funding received in 2025/26 including the council’s share of the pooling gain from the North Oxfordshire Business Rates pool.
30. It is proposed that £2.4m is used in 2026/27 to manage the impact of a reduced taxbase and therefore council tax income due to a delay in council tax

Section 4.6

valuations of houses in South Oxfordshire and Vale of White Horse District Council areas. The remaining balance is therefore expected to be £4.3m and considered sufficient to meet any shortfall on the business rates collection funds notified by the district councils after 31 January 2026, should it be needed.

31. Council tax collection fund surpluses are expected to be £8.3m in 2026/27. The additional £0.3m above the £8.0m budgeted level is proposed to be held in the reserve and will be available to manage any variation on the Business Rates Collection Fund position that is yet to be notified by the district councils.

Transformation Reserve

32. Funding held in the Transformation Reserve is being used to support the Delivering the Future Together programme.

33. The forecast balance at 31 March 2026 is £9.4m with further commitments in 2026/27 and 2027/28 expected to utilise a further £5.5m and £0.9m respectively. This includes funding for Copilot and E5 licences totalling £1.8m and estimated one – off funding of up to £1.0m to support investment associated with the redesign of IT services ahead of savings being achieved by an increase in the organisation redesign savings from 2027/28. £3.0m remains uncommitted.

34. Because of the need for the council's services are as efficient and streamlined as possible ahead of a new organisation, £2.0m is proposed to be added to the Transformation Reserve (from the Redundancy Reserve) to support further delivery.

Redundancy Reserve

35. The balance held in the Redundancy Reserve at 31 March 2025 was £4.0m. After taking account of a budgeted contribution of £6.5m in 2025/26 and the cost of redundancies relating to the on-going organisation redesign the remaining balance as at 31 March 2026 is expected to be around £9m. The remaining balance is expected to be used to support redundancy costs in 2026/27. £2.0m of the balance held is proposed to be transferred to the Transformation Reserve. Any redundancies relating to Local Government Reorganisation in March 2028 will be met, either from the Local Government Reorganisation reserve or from future savings arising from the transition to a new authority/authorities.

Impact of IFRS9

36. The IFRS9 Statutory Override, which mandates that fluctuations in the value of pooled fund investments are taken to the balance sheet, is ending on 31 March 2029 for investments made before 1 April 2024. From 1 April 2029 fluctuations in the fund value are therefore reflected in the revenue account.

37. To mitigate against any reduction in value, a ringfenced IFRS9 reserve was created in 2024/25. If the value of the funds is below the purchase price at the

Section 4.6

balance sheet date, funds will be released from the reserve to ensure that there is no net impact to the revenue account. Similarly, if the fund value is above the purchase price at the balance sheet date, any unrealised gain will be transferred to the IFRS9 reserve. It would only be appropriate to release such gains to the revenue account when the funds are divested from and gains are crystallised.

38. The reserve, which was created during 2024/25, currently has a balance of £4.0m. Whilst the average loss of value (compared to the original purchase price) during times of recent financial stress was £8.3m, it is deemed that £4.0m is a reasonable level to hold at this stage. This will continue to be held ahead of Local Government Reorganisation pending future decisions about pooled funds.

Commercial Reserve

39. This reserve was created during 2024/25 to support the council's Commercial Strategy with a contribution of £2.0m agreed as part of the Outturn Report for 2023/24 approved by Cabinet in June 2024. No further contributions are proposed at this stage, and the use is being managed by the Director of Financial and Commercial Services through the Strategic Capital and Commercial Board and reported to Cabinet as part of the Business Management and Monitoring reports.

Local Government Re-organisation (LGR) & Devolution Reserve

40. In December 2024, the government published its English Devolution White Paper and the Minister of State for Local Government and English Devolution set out a summary of plans in a Written Ministerial Statement to Parliament.
41. In January 2025 Cabinet approved the creation of a new reserve to hold one-off funding to support the development of reorganisation and devolution proposals for Oxfordshire and a contribution of £5.0m. A further contribution of £5.0m in March 2025 increased the total to £10.0m.
42. Based on the submission for the One – Oxfordshire £8.8m of this funding is expected to be used to meet the transition costs to a new authority or authorities and the associated change related activities leading up to vesting day on 1 April 2028. The remaining £1.2m would be used to support costs associated with devolution.
43. Costs that will be funded from the reserve in 2025/26 include business case development and activities related to the pre-transition stage. Current costs for 2025/26 for both Devolution and LGR are forecast to be £1.3m. After taking into account a grant from MHCLG for LGR business case development of £0.1m, the forecast drawdown on the reserve in 2025/26 is £1.2m.
44. A further £3.6m is currently forecast to be used in 2026/27. This comprises £1.2m for devolution including £0.850m to support costs associated with a new

Section 4.6

spatial development strategy for Oxfordshire and/or the Thames Valley, and £2.4m for re-organisation.

Extended Producer Responsibility Reserve

45. The council will receive £5.2m funding from the Extended Producer Responsibility (EPR) scheme in 2025/26. This is being used to meet additional costs and projects needed to drive up reuse and recycling of packaging waste. This will result in less residual waste and a reduction in the impact of rising costs in future years including the implementation of the Carbon Emission Trading Scheme in April 2028.
46. A new reserve was created as part of the 2025/26 budget to hold this funding to meet associated costs and projects from 1 April 2025. There is planned use of £5.1m including a £1.8m contribution towards a new site replacing the Ardley Household Waste Recycling Centre. £0.2m currently remains unallocated and is available to meet costs associated with packaging disposal.
47. A further £5.4m pEPR funding will be received in 2026/27 and will be used to fund the revenue cost of disposing of packaging waste. No further contributions to the reserve are planned. It is anticipated that the funding will continue over the medium term but gradually reduce as producers change packaging.

Lane Rental Surplus Fund Reserve (New Reserve)

48. The Lane Rental Scheme is designed to reduce congestion and improve network efficiency by charging works promoters for occupying the busiest roads at peak times. The income must be reinvested in initiatives that reduce disruption and improve network performance.
49. A new reserve is proposed to be created to hold the Lane Rental Surplus Fund ahead of the use agreed by the Lane Rental Board, an independent governance body that reviews and approves bids for surplus lane rental income.
50. 50% of the funding will be used to support Highways Maintenance in line with budget assumptions.

Dedicated Schools Grant (DSG) Unusable Reserve

51. The School and Early Years Finance (England) Regulations 2020 stipulate that a deficit on the DSG must be carried forward to be funded from future DSG income unless permission is sought from the Secretary of State for Education to fund the deficit from general resources.
52. The accounting treatment for deficit DSG balances was provided by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020. These stipulated that where a local authority has a deficit in respect of its school budget for a financial year beginning on 1st April 2020, 2021 or 2022, the authority—

Section 4.6

- (a) must not charge to a revenue account an amount in respect of that deficit; and
- (b) must charge the amount of the deficit to an account established, charged and used solely for the purpose of recognising deficits in respect of its school budget.

53. As a result of this, an unusable reserve was created on the balance sheet to hold the negative balance. Unusable reserves are usually created to hold accounting adjustments that cannot be charged to the general fund and have no cash value. The DSG unusable reserve is unique in that it the deficit balance has a real impact on the council's cash balances.

54. As at 31 March 2026, the DSG Unusable Reserve is expected to have an overall negative balance of around £150m of which a negative balance of £163.2m will relate to High Needs DSG.

55. The accumulated and on-going deficit not only has an impact on the level of risk over the medium term (as referred to in the Financial Strategy at Section 4.5), but also has an immediate impact on reducing the cash balances and interested earned (as set out in the Treasury Management Strategy at Section 5.2).

Summary of proposed movement in General Balances and Earmarked Reserves for 2026/27

56. The table below sets out the proposed movement in General Balances and Earmarked Reserves for 2026/27 as detailed in this policy statement.

Section 4.6

Area of risk	2026/27 £m	Explanation of risk/justification of balances	2025/26 £m
Emergencies	7.5	An allowance of 1.0% of annual net operating budget for the cost of responding to emergencies that falls outside of eligibility for the Bellwin Scheme	6.4
Service overspends	8.9	Risk that services will overspend due to unforeseen pressures, demography or demand and no mitigations are available - assumes 1.25% overspend in 2026/27.	8.2
Contingent liabilities & insurance risk	3.8	Possible liabilities for which no provision has been made or funding set aside in an earmarked reserve (0.5% of net expenditure or minimum to meet quantified contingent liabilities)	3.2
Major contracts & 3rd party spend	7.5	Risk of contractors failing, mis-specification, or non-delivery plus contract costs increase by more than allowed for in the budget - calculated as 1.0% of estimated spend with suppliers.	7.4
Capital Programme risk	5.0	Risk related to capital grant funding ceasing before schemes are completed or increases in costs compared to the level of grant funding.	5.0
Total (one - off funding)	32.7		30.2
Contingency (on-going funding)	6.3		7.3
Total Balances and Contingency	39.0		37.5
Risk assessed level of balances as % of net operating budget of £753.0m	4.3%		
Risk assessed level of balances and contingency as % of net operating budget of £753.0m	5.2%		
Net operating budget - spend per week	14.5		
Weeks of spend	2.3		