

Earmarked Reserves and General Balances Policy Statement 2023/24

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
4. This policy statement is concerned with general balances and earmarked reserves as defined above.

Purpose of balances and reserves

5. The Council maintains general balances in order to provide a contingency against unplanned or unexpected events.
6. 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.
7. 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

8. Planned use of earmarked reserves or general balances in setting a budget each year is an acceptable approach subject to the level of reserves being adequate and necessary, albeit recognising that it is only a one-off measure. Any planned use of, or contribution to, earmarked reserves or balances must be included as part of the budget setting process each year.
9. In accordance with the Council's Financial Procedure Rules, 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.

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 Section 151 officer (Director of Finance), as part of the budget setting process. CIPFA's Financial Resilience Index provides information on the level of general balances for all authorities. As set out in CIPFA's Financial Resilience Index for 2021/22, the range of general balances as a percentage of net revenue expenditure for County Councils was between 2.6% and 17.9%. Oxfordshire was 7th out of 24 in this comparator group and scores a low risk in relation to this indicator.
11. The risk assessment for 2023/24 has determined that balances should be held at £30.2m, compared to £28.9m for 2022/23. This is equivalent to 5.6% of the proposed net revenue budget for 2023/24 (5.6% for 2022/23) and equates to around three weeks net expenditure.
12. High inflation and volatility in the wider economy, including supply chain shocks and labour shortages, continue to increase the risk to the financial position for the council in 2022/23 and this is exacerbated by increasing demands particularly in Children's Services. The financial landscape for all local authorities and especially those with social care responsibilities has been much more challenging for 2022/23 than had been anticipated when budgets were set in February 2022.
13. The Business Management and Monitoring Report to Cabinet in January 2023 sets out an anticipated overspend of £12.6m. This will need to be met from balances – which the Council holds to deal with these types of in-year shocks – and as a consequence, the expected level of balances at 31 March 2022 is currently £23.4m, compared to the risk assessed level for 2022/23 of £28.9m.
14. Given the expected level of balances at 1 April 2023 is expected to be £6.8m less than the risk assessed level for 2023/24 of £30.2m, it is proposed that a contribution of £6.8m is made from council tax collection fund surpluses to increase balances to the risk assessed level. However, it is recognised that the

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outturn position for 2022/23 may change from that currently forecast so the actual level of balances at 1 April 2023 may differ from the risk assessed level. Consequently, it is proposed that the performance measure for general balances (as set out in the Financial Strategy at Section 4.5) allows for a variation of 10% from the target risk assessed level.

15. Details of the risk assessment are set out as Annex 1 to this policy statement.

Earmarked Reserves

16. Annex 2 sets out the actual level of earmarked reserves at 31 March 2023 and expected level at 31 March each year to 2026 as well as a description of each reserve. Issues of significance are set out in the paragraphs below.

17. Excluding schools, earmarked reserves are forecast to be £161.5m at 31 March 2023, reducing over the medium term to £129.2m by 31 March 2026.

18. This position does not take into account an estimated deficit on the DSG Unusable Reserve in relation to High Needs of £121.5m by 31 March 2026. Further detail on this is set out in paragraphs 37-42 below.

Capital Reserve

19. The Capital Reserve includes capital receipts and other funds to meet the cost of borrowing to finance the capital programme. The reserve is fully committed and required in full to meet the costs of the Capital Programme.

20. It is proposed that £4.2m is transferred to the Capital Reserve from the Budget Priorities Reserve to meet the costs of the proposed pipeline schemes set out in paragraphs 23 and 24. This funding will be held in the Capital Reserve until it is required to fund the capital expenditure.

Demographic Risk Reserve

21. In light 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 annual contribution to the reserve of £4.0m from 2022/23. The forecast reserve will total £13.0m at the end of 2022/23 and £25.0m by the end of 2025/26. 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.

Budget Priorities Reserve

22. This reserve is to fund the priorities of the Council. In 2022/23 this included funding for the Councillor Priority Fund. Following the Provisional Local Government Finance Settlement in December 2021, an additional £7.7m of one-off funding was added to the reserve in 2022/23. There is a further £0.8m

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available in the reserve which can be used to support the council's priorities. To date this has been agreed to be used as follows:

- Vision Zero £0.250m
 - Food Strategy £0.250m
 - Low Traffic Neighbourhoods £0.360m
 - Council Tax Hardship Schemes (up to) £0.380m
 - Replacement trees on highways £0.185m
23. It is proposed that £3.0m is transferred to the Capital Reserve to support climate action including tree replacement. The pathway to zero carbon Oxfordshire report recognises a need to plant 23,000 trees across Oxfordshire by 2050. Between 2015 and 2022 a total of 3,942 highway trees had to be felled as they were at the end of their life, dead or dangerous. These have not been replaced and this funding will help support the council's tree policy of replacing any tree felled with two new ones.
24. £1.2m will be transferred to the Capital Reserve to allow the council to unlock the full £5.2m grant offered by government to fund four children's homes as set out in Section 5.3.
25. The remaining balance of £2.9m is available to be used to support the council's priorities on a one – off basis. Proposals for use of this reserve include:
- £0.5m for the development of community hubs in particular to support children and families through the provision of local services.
 - £1.0m for improvements to highways, cycle-paths and pavements in Oxfordshire on an area by area basis (responding to feedback from the consultation).
 - £0.5m for the further development of school streets to improve road safety around local schools.
 - £0.1m for further work to develop rail studies
 - £0.2m to continue funding for the Business and Intellectual Property Centre for a further year from 1 April 2023 ahead of identifying on-going funding sources for 2024/25 onwards
 - The remaining £0.6m will be used to support the implementation of further initiatives.

Budget Equalisation Reserve

26. The Budget Equalisation Reserve is used to smooth the timing differences between funding changes and emerging pressures over the period of the MTFS. The balance in the reserve at the end of 2022/23 is forecast to be £1.8m. As part of the Business Management & Monitoring report to Cabinet in January 2023, this balance is recommended to be transferred into the Transformation Reserve to meet costs associated with continuous improvement and transformation programmes.

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27. As part of previous MTFS timing differences, the current MTFS includes a contribution of £4.3m for 2023/24. It is proposed that this sum is transferred to the Transformation Reserve in 2023/24.

COVID-19 Reserve

28. The balance held in the reserve at 31 March 2023 after taking account of £8.4m agreed to be used to support directorate budgets in 2022/23 and agreed further in-year use is expected to be £15.5m.

29. £11.6m was agreed to be used to fund COVID-19 related pressures from 2023/24 onwards as part of the Medium Term Financial Strategy approved by Council in February 2022.

30. Section 4.2.1 of this report proposes the use of a further £1.8m to meet pressures from 2023/24 to 2025/26.

31. The balance of £2.0m is available to support further pressures related to COVID-19 on a one-off basis either in 2022/23 or future years.

Business Rates Reserve

32. This reserve is held to manage fluctuations in Business Rate income that the Council receives. As noted in the budget agreed by Council in February 2022, Business Rate income for 2022/23 was estimated as information regarding the 2022/23 anticipated income and the 2021/22 collection fund deficit position was received from the district councils after the budget was agreed. Actual Business Rates income for 2022/23 is £5.9m more than estimated in the budget and this has been added to the Business Rates Reserve.

33. The forecast balance as at the end of 2022/23 is currently £9.5m. It is proposed that this is held to fund future volatility in the collection fund position alongside the impact of a business rates reset (also see the Financial Strategy Section 4.5 paragraph 8).

Transformation Reserve

34. The Transformation Reserve has been used to support the costs of the implementation of the council's transformation programme. The existing funding has been fully committed during 2022/23 and, as set out in the Business Management and Monitoring Report to Cabinet in January 2023, it is proposed that £1.8m funding held in the Budget Equalisation Reserve should be transferred to the Transformation Reserve in 2022/23 to support one – off expenditure needed to support continuous improvement and transformation.

35. In order to meet future requirements, it is proposed to transfer the available funding of £4.3m from the Budget Equalisation Reserve in 2023/24 into the Transformation Reserve. This will enable the priorities for next phase of transformation to be delivered. More details of the approach to the utilisation of the reserve and the programme are set out in Annex 2.

Investment Pump Priming Reserve

36. This reserve is held to meet the costs of self-financing schemes which require pump priming until the funds are returned. The balance in the reserve is expected to be £2.0m at 1 April 2023. The proposed capital pipeline schemes set out in Section 5.3 includes three schemes which will be funded, in the first instance, from this reserve. These schemes are:
- Low Carbon Business Travel Project (grey fleet) £0.8m
 - Energy Efficiency Recycling Fund for OCC Maintained Schools £0.8m
 - Initial funding to develop plans for the workplace charging levy £0.2m

Dedicated Schools Grant (DSG) Unusable Reserve

37. 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.
38. 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—
- (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
39. As a result of this, an unusable reserve has been created on the balance sheet to hold the negative balance. This is different to the previous accounting treatment where the negative balance was held within the Council's total Earmarked Reserves. Unusable reserves are usually created to hold accounting adjustments that cannot be charged to the general fund and have no cash value. The new DSG unusable reserve is unique in that the deficit balance has a real impact on the Council's cash balances.
40. The regulations which require the negative balance to be held in an unusable reserve were due to come to an end on 1 April 2023. The government has agreed to the extension of the DSG statutory override for a one-off period of three years (up to March 2026)¹.
41. As at 31 March 2022, the DSG Unusable Reserve had a negative balance of £23.6m of which a negative balance of £29.8m related to High Needs DSG. This reserve will continue to increase in deficit over the MTFS period and the

¹ The Statutory Instrument (SI): Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.2) Regulations 2022 approving this was laid before Parliament on 16 December 2022.

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high needs element is forecast to be in deficit by £46.8m at 31 March 2023. Based on current levels of demand, it is anticipated that the high need deficit held in the reserve could reach £91.6m at the end of 2024/25 and £121.5m by the end of 2025/26.

42. Beyond the period of the statutory override, the expectation is that the balance on the DSG Unusable Reserve will transfer back to the Council's total Earmarked Reserves. If this happens, it materially impacts on the overall level of reserves and by 1 April 2026, the Council would be in a position where its total reserves were only £20.1m. This 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 interest earned (as set out in the Treasury Management Strategy at Section 5.2).

2023/24 risk assessment for determining appropriate level of general balances

Area of risk	2023/24 £m	Explanation of risk/justification of balances	2022/23 £m
Emergencies	5.4	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	5.2
Directorate overspends	13.2	Risk that directorates will overspend due to unforeseen pressures, demography or demand (based on a 2.5% adverse variance for 2023/24) and no mitigations are available	8.4
Non-achievement of planned savings		Risk that savings are not achieved. Assumes 25% are not achieved - removed from 2023/24 as in practice this would be wrapped into the % variation above	4.3
Contingent liabilities & insurance risk	4.6	Possible liabilities for which no provision has been made or funding set aside in an earmarked reserve (0.5% of gross expenditure or minimum to meet quantified contingent liabilities)	4.5
Major contracts & 3rd party spend	7.0	Risk of contractors failing, mis-specification, or non-delivery plus contract costs increase by more than allowed for in the budget - calculated as 1% of estimated spend with suppliers	6.5
Total	30.2		28.9

Approach to utilisation of the Transformation Reserve

In August 2018 the County Council's Cabinet adopted a business case for change focused on transformation in terms of supporting people, improving process, and investing in technology to modernise the organisation and ensure the development of skills and capabilities that align with long term priorities of the Council. The transformation reserve supports the delivery of various transformational programmes and projects and invest to save activities where these cannot be undertaken as part of existing arrangements due to capacity, skills or the scale or change.

The table below sets out the cross-council themes (referred to as layers) within the business case that have guided the various transformational programmes, projects and initiatives undertaken since 2019.

Front Office	Pre-Front Door	Individuals, communities, members, the council and partner organisations working together to build resilience, develop strengths and create opportunities in local areas, which helps to reduce the need for council services.
	Customer Management	The customer management layer contains all activities undertaken by the council that involve interaction with customers and/or have an immediate impact on service delivery to customers.
	Customer Assessment	The customer assessment layer contains activities that are a key part of many customer interactions with the council, with information being used to decide whether and how services are provided.
Back Office	The Provision Cycle	The Provision Cycle layer provides the framework of processes and activities through which the Council decides how best to meet an identified need or to achieve a specific outcome, including commissioning, contracting and the management of third party suppliers.
	Enabling and support services	The Enabling & Support Services layer provides services that are optimised to meet the needs of internal customers through process improvement, the use of enhanced digital systems and clear delineation of roles and responsibilities.
	Strategic capability	The strategic capability layer provides the capabilities that the Council requires in order to define its vision, high level strategy and objectives, as well as capabilities required to support, manage and review the realisation of each of these.
	Business intelligence	The business intelligence layer provide information, intelligence and insight to a range of customers including businesses, partners and staff within the organisation.

Front Office Theme: Transformation and Organisational Change Priorities

In terms of work undertaken within the front office workstream the 'Oxfordshire Way' in adults social care and the 'BEST' programme in Customer Services are in place with work well advanced in Children's services to develop a similar approach. These approaches seek to improve early intervention and upstream prevention (referred to in the business case as pre-front door) through effective work with partners and communities to promote independence, healthy and secure lives to reduce demand. When residents do access services, customer management and assessment activities seek to signpost and effectively assess and meet need. This approach is consistent across all departmental change activities but recognises the different operating environments of communities and customer groups, for example adults social care users and children's social care.

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Future priorities for transformation within the front office workstream include further work to support change within Children's services, continued implementation of the Oxfordshire Way and BEST.

Front office transformation is also aligned with the Council's corporate priorities (as set out in the corporate strategy) including upstream prevention, early intervention and work to address the climate emergency.

There are strategic activities underway within Public Health (for example the Healthy Place Shaping Framework) and a significant policy agenda within Environment and Place to deliver these priorities. Activities such as directorate improvement plans and service redesign within all frontline services seek to implement the design principles set out in the business case for change and ensure there are the skills, capabilities and capacity to deliver strategic outcomes.

Back Office Theme Transformation and Organisational Change Priorities

Work has already been undertaken and implemented with regards to the back office including the provision cycle (including procurement and commissioning), a review of strategic capability at the corporate centre and the 'Delivering the Future Together Programme' which supports workforce development and employee engagement. During 2022 work was undertaken to develop and refine capital governance arrangements as part of ensuring there is effective delivery and oversight of capital projects.

Work has been undertaken to develop an IT, Digital and Innovation strategy and an infrastructure upgrade was undertaken in 2019 to deliver the first phase of the technology route map set out within the strategy.

Priorities for the next phase of back office organisational transformation include investment in business intelligence, which is the layer set out in the business case that has not yet been systematically addressed (although some capabilities and activities have been enhanced), upgrading key business applications, including consideration of our finance and HR systems, web and digital presence and technology that supports self-service and automation.

Alongside the delivery of our IT, Digital and Innovation strategy modernisation of HR policy and practice with a particular focus on agile working, organisational development and the strategic functions of HR including a new resourcing strategy, business partnering and workforce planning.

During 2023/24 there will be a focus on transformation within law and governance. This will follow the same approach as other projects and programmes supporting people, improving process, and investing in technology to modernise.

Following the adoption of a new property strategy in 2022 the next phase of transformation will be the development of a suite of documents that enable the implementation of the 10-year vision. This includes a business case for city centre accommodation, the development of strategic asset plans for operational estate








(including properties such as libraries and fire stations) and the development of a place-based approach to community hubs.

Design Principles and Implementation

The table below sets out the high-level design principles that inform the council’s approach to transformation and change. Transformational projects are delivered as part of existing governance and delivery arrangements, for example delivery of the property strategy is undertaken as part of the capital governance arrangements; or dedicated programme boards – for example the Oxfordshire Way, which coordinates the adult social care programme and includes interfaces with partners and other service areas such as the customer contact centre.

Implementation is also underpinned by the work undertaken to improve back office or enabling services. A renewed approach to business partnering has been developed to ensure that there is a move from seeing back-office services as administrative activities to view services such as procurement, IT, HR and finance as key partners to enable frontline delivery. The transformation undertaken to date has developed enabling services around the design principles below and developing a consistent approach to business partnering, now implemented in IT, HR, Finance and Procurement (category management).

Back Office design principles

 Customer offering	<ul style="list-style-type: none"> We will embrace the ‘digital age’ in the way in which we engage with our customers. We will provide transparency, consistency and clarity of expectations of the strategic offerings
 Processes	<ul style="list-style-type: none"> Our processes will be simplified, standardised and ‘self serve’ wherever possible. Our processes will be designed around controlling risk rather than eliminating it. We will be ‘intelligent clients’.
 Technology	<ul style="list-style-type: none"> We will use business intelligence and policy analysis to understand our technology requirements. We will ensure staff have the right technology to support management of information and efficient and effective delivery of services to our customers. We will rationalise, standardise and link our applications to support new ways of working.
 Information	<ul style="list-style-type: none"> We will collect and store data once, sharing between departments where appropriate. Our staff will have access to standardised performance information and reports (in real time where possible), to ensure consistency across the organisation. We will use business intelligence to improve the way in which we use our information.
 Organisational structure	<ul style="list-style-type: none"> We will embed accountabilities at the right level to enable us to make the right decision, at the right level, at the right time.
 People capabilities	<ul style="list-style-type: none"> We will empower our staff to take ownership of the relationship with customers and to drive the delivery of solutions. We will enable all our people to use their creativity to develop innovative solutions to the challenges we face.
 Performance Management	<ul style="list-style-type: none"> We will measure the right things, through a consistent performance management framework, from corporate outcomes to individual performance. We will empower and support our partners to utilise performance information to innovate, take measured risks and manage demand.

Link to business case for change (source document)

[Microsoft PowerPoint - OCC CONFIDENTIAL OMD Business Case FINAL \(oxfordshire.gov.uk\)](#)