

## **Earmarked Reserves and General Balances Policy Statement 2019/20**

### **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.
10. With the exception of school's reserves and grants and contribution reserves (where unspent grant must be transferred at year end), any change to the planned contribution to, or use of reserve, where the amount is £250k or more<sup>1</sup> must also be approved by Cabinet<sup>2</sup>.

## Level of General Balances

11. In recent years, it has been considered prudent to maintain a level of balances commensurate with risk, with a risk assessment undertaken annually by the Section 151 officer (Director of Finance), as part of the budget setting process.
12. The risk assessment for 2019/20 has determined that balances should be held at £19.3m, compared to £16.3m for 2018/19. This is equivalent to 4.4% of the operating budget. Based on the latest 2018/19 Financial Monitoring and Medium Term Financial Plan Delivery Report to Cabinet in December 2018, the expected level of balances at 31 March 2019 is currently £25.3m. This is expected to increase by at least £2.9m due to the transfer of external investments from an accumulating fund to an income producing fund. The switch has realised a one-off gain which will be taken to the general fund in 2018/19. General balances are therefore expected to be approximately £28.2m by the year end, £8.9m higher than the risk assessed level for 2019/20. It is proposed that £6.0m is transferred into the Transformation Reserve to help pay for implementation costs in 2019/20. This would leave the projected level of general balances as £22.2m at 1 April 2019.
13. The increase in the assessed risk from 2018/19 is as a result of a higher value identified in relation to directorate overspends and non-achievement of planned savings. As the savings have been RAG rated this year, it has been possible to quantify the level of risk associated in non-achievement of the proposed. In addition, given events surrounding the collapse of Carillion, the value of the risk relating to contractors failing has also been increased. Details of the risk assessment are set out in Appendix 1 to this paper.
14. The existing MTFP includes an annual £1.0m contribution to balances to replenish any use from the previous year and ensure that the risk assessed level

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<sup>1</sup> Amounts under £75k must be approved by the Director of Finance; any amounts between £75k and under £150k must be approved by the Cabinet Member for Finance and the Director of Finance

<sup>2</sup> This can be as part of the Provisional Outturn Report for any year-end changes

is maintained. Based on the expected outturn position for 2018/19, the contribution in 2019/20 will not be required. Therefore, it is proposed that the £1.0m contribution for 2019/20 is transferred to the corporate contingency budget, increasing it to £5.5m.

## **Earmarked Reserves**

15. Section 4.7.1 sets out the actual level of earmarked reserves at 31 March 2018 and expected level at 31 March each year to 2023. It also sets out the purpose of each of the earmarked reserves. Details of new reserves and issues of significance are set out in the paragraphs below.
16. Last year, as part of this policy document, Cabinet approved the amalgamation of a large number of low value reserves into a single Budget Priorities reserve. This decision was made on the basis that holding a large number of small reserves was restrictive in using them holistically in accordance with the Financial Strategy. And, in line with the Financial Strategy, £18.0m of reserves were used to balance the budget in 2018/19.
17. In July 2018, Cabinet agreed to transfer the remaining unallocated balance of £3.9m from the Budget Priorities Reserve to the Transformation Reserve to support the transformation programme. As set out last year, drawdown planned from the Budget Priorities reserve in 2018/19 and beyond proposed as part of last year's budget process will continue to be honoured. The existing MTFP also includes the repayment of £6.3m used in 2018/19 in 2020/21 and 2021/22.
18. It is expected that the Dedicated Schools Grant (DSG) High Needs Reserve will be in deficit at the end of 2018/19 and the medium term. The Department for Education (DfE) has recently consulted on DSG deficit recovery plans and has stated explicitly that 'as funding is ring-fenced, there is no requirement for local authorities to top-up the grant from general funding or from non-ring-fenced reserves'. For this reason, the DfE will require local authorities with a cumulative overspend on DSG provision to produce a recovery plan. Even though there is no requirement to subsidise DSG from general funding, local authorities cannot continue to build up cumulative deficits on DSG provision. It is anticipated that the reserve could reach a deficit of £18.4m by 2022/23.
19. In light of the significant pressures relating to High Needs and other budgets with demographic volatility, the proposed budget includes £3.0m of on-going funding in 2019/20 (and rising in future years) to help manage demographic risk. It is proposed that a new reserve is created and the funding held in the reserve until its need is determined.
20. The Insurance Reserve is held for insurance claims that are likely to be received. The level of the reserve is determined based on an annual actuarial assessment. As the expected balance at 31 March 2019 is greater than the actuarial assessment, it is proposed that £1.0m is taken from the reserve and is used towards helping achieve a balanced budget in 2019/20.

21. Excluding schools, earmarked reserves are forecast to be £53.7m at 1 April 2019, reducing over the medium term to £34.5m by 2022/23. The forecast level of earmarked reserves at 31 March 2019 was £55.0m this time last year. In addition, forecast earmarked reserves at the end of the medium-term plan period have increased from £28.2m in the 2016/17 Service & Resource Planning round to £34.5m in this years' Service & Resource Planning round.

## Appendix 1

## 2019/20 risk assessment for determining appropriate level of balances

Area of risk	2019/20		2018/19	
	£m	Explanation of risk/justification of balances	£m	
Emergencies	0.9	Expenditure below Bellwin Scheme threshold (0.2% of annual budget)	0.8	
Directorate overspends	3.1	Risk that directorates will overspend due to unforeseen pressures, demography or demand (based on a 2.0% adverse variance less contingency budget)	8.4	
Non-achievement of planned savings	6.7	Risk that red rated savings are not achieved and that amber savings are only 50% achieved		
Contingent liabilities & insurance risk	3.9	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)	4.0	
Major contracts & 3rd party spend	4.7	Risk of contractors failing, mis-specification, or non-delivery plus contract costs increase by more than allowed for in the budget (1.5% of annual value of 3rd party spend)	3.1	
<b>Total</b>	<b>19.3</b>		<b>16.3</b>	