

## **Earmarked Reserves and General Balances Policy Statement 2024/25**

### **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. 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 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)

10. The Office for Local Government (Oflog) established in July 2023 has provided data and analysis about performance of local government. Included in the data is information in relation to the level of non-ringfenced reserves (Earmarked Reserves and General Balances).
11. Further information is included in the Financial Strategy (see paragraphs 28 – 31 and Annex 2 of Section 4.5) but the resilience index demonstrates that Oxfordshire is in the middle compared to the level of un-ringfenced reserves held by other councils, and the change in level of reserves is lower than other comparators. The reserves sustainability measures, measuring the change in reserves in each of the last three years, also indicate that Oxfordshire is lower risk compared to others.

## Level of General Balances

12. It is considered prudent to maintain a level of balances commensurate with risk, and a risk assessment is undertaken annually by the Executive Director of Resources and Section 151 Officer, as part of the budget setting process. CIPFA's Financial Resilience Index provides information on the level of general balances for all authorities. As a percentage of both service spend and net revenue expenditure, Oxfordshire is within the median range. Further information is included as part of Annex 2 of the Financial Strategy.
13. The risk assessment for 2024/25 has determined that balances should be held at £30.2m, unchanged from 2023/24. This is equivalent to 4.9% of the proposed net operating budget of £611.2m for 2024/25 and equates to between two and three weeks of net expenditure.
14. High inflation and volatility in the wider economy, including supply chain challenges and labour shortages seen in 2022/23 are continuing to impact in 2023/24 and continue the increased risk to the financial position for the council. The financial landscape for all local authorities and especially those with social care responsibilities remains challenging.

## Section 4.6

15. The Business Management and Monitoring Report to Cabinet in January 2024 sets out an anticipated overspend of £4.2m. This, along with other one – off calls on balances agreed during the year, will need to be met from balances – and as a consequence, the expected level of balances at 31 March 2024 is currently £25.6m, compared to the risk assessed level for 2023/24 of £30.2m.
16. The expected level of balances at 1 April 2024 is currently forecast to be £4.6m less than the risk assessed level for 2024/25 of £30.2m although action is still being taken to reduce the forecast directorate overspend by year end so that no call on balances is required. Because interest rates have been higher than forecast during 2023/24, it is anticipated that additional interest on cash balances received by the council will be used to top up to the risk assessed level if required.
17. It is recognised that the outturn position for 2023/24 may change from that currently forecast so the actual level of balances at 1 April 2024 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 15% below the target risk assessed level.
18. Details of the risk assessment are set out as Annex 1 to this policy statement.

## Earmarked Reserves

19. Annex 2 sets out the actual level of earmarked reserves at 31 March 2024 and expected level at 31 March each year to 2027 as well as a description of each reserve. Issues of significance are set out in the paragraphs below.
20. Excluding schools, earmarked reserves are forecast to be £148.8m at 31 March 2024, and £153.2m by 31 March 2027. A significant element of the balance estimated to be held relates to future funding for the capital programme.
21. This position does not take into account an estimated deficit on the DSG Unusable Reserve in relation to High Needs of £144.3m by 31 March 2027. Further detail on this is set out in paragraphs 38-43 below.

## Demographic Risk Reserve

22. 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 on-going annual contribution to the reserve of £4.0m. The forecast reserve will total £21.0m by the end of 2024/25 and £29.0m by the end of 2026/27. 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

23. This reserve has been used to fund the priorities of the Council. In February 2023 £6.5m was agreed to be allocated to the following:

- Support for climate action (including tree replacement) £3.0m
- Contribution towards match funding for four Children's Homes £1.2m
- Development of community hubs £0.5m.
- Improvements to highways, cycle-paths and pavements (responding to feedback from the consultation) £1.0m
- Further development of school streets to improve road safety around local schools £0.5m
- Further work to develop rail studies £0.1m
- Continuation of funding for the Business and Intellectual Property Centre for a year from 1 April 2023 £0.2m

24. With the exception of £0.4m relating to support for climate action, all of the investments agreed for 2023/24 have been committed.

25. A further £1.1m is estimated to remain uncommitted at the end of 2023/24, giving a total of £1.5m available in the reserve for use in 2024/25 or beyond.

26. No further budgeted contributions are planned.

COVID-19 Reserve

27. The balance expected to be held in the reserve at 31 March 2024 is £6.1m with further budgeted planned use of £3.8m in 2024/25 and £2.3m in 2025/26 (see Annex 4.2.2) to support directorate pressures and provide a further £0.5m funding for cost of living measures in 2024/25 and 2025/26. All of the reserve is allocated for use by the end of 2025/26.

Business Rates & Council Tax Collection Fund Reserve

28. These reserves have been held to manage fluctuations in Business Rate and Council Tax income that the Council receives. The balance held in the Business Rates Collection Fund reserve is £9.5m. A further £3.0m is held in the Council Tax Collection Fund reserve.

29. It is proposed that the two reserves are merged into one Collection Fund Risk Reserve.

30. £8.5m will be transferred to the Transformation Reserve, leaving £4.0m to fund future volatility in the collection fund position alongside the potential impact of a business rates reset.

### Transformation Reserve

31. The Transformation Reserve has been used to support the costs of the implementation of the council's transformation programme, Delivering the Future Together. The forecast balance at 31 March 2023 is £1.5m with further commitments in 2024/25 expected to utilise all of the existing funding.
32. Through Delivering the Future Together, a successful and sustainable Oxfordshire County Council of the future will be smaller and more focused on delivering key priorities to the best of our ability. To enable the priorities for the next phase of transformation to be delivered and to create a sustainable council for the future (including funding for Artificial Intelligence/technology) it is proposed to transfer funding of £8.5m from the Business Rates Reserve into the Transformation Reserve in 2024/25. A further one – off revenue contribution of £1.5m will be funded by additional interest on balances held by the council.

### Redundancy Reserve

33. The estimated balance held in the Redundancy Reserve is expected to be £2.4m at 31 March 2024. Reflecting the need to reduce the size of the council to be sustainable in future it is proposed to add £3.8m that is not now required and can be released from the 20 mile per hour speed limits programme<sup>1</sup> to the reserve as well as £1.2m from the Budget Equalisation Reserve to increase the balance available to support future redundancy costs to £7.4m.

### Impact of IFRS9

34. IFRS9 (changes in the value of Treasury Management Pooled Funds at year end) may impact on the revenue account in 2025/26 if the statutory override which removes changes in their value from the accounts is removed on 1 April 2025.
35. It is proposed to create a new reserve to manage estimated risk pending confirmation about the statutory override. An initial contribution of £2.2m will be funded by additional interest on balances held by the council.

### 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 uncommitted balance in the reserve is expected to be £0.1m at 1 April 2024. Schemes approved as part of the 2023/24 budget setting process and during 2023/24 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
  - Investigation and development of solar panel programme £0.1m.

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<sup>1</sup> This was originally agreed to be funded by a mix of funding from the Budget Priority, Budget Equalisation and Council Tax Collection fund reserve as part of the 2022/23 budget.

37. £0.1m currently remains available to utilise.

#### Dedicated Schools Grant (DSG) Unusable Reserve

38. 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.
39. 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.
40. 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 new DSG unusable reserve is unique in that the deficit balance has a real impact on the council's cash balances.
41. In December 2022 Parliament agreed the extension of the DSG statutory override for a one-off period of three years (up to March 2026)<sup>2</sup>.
42. As at 31 March 2024, the DSG Unusable Reserve is expected to have a negative balance of £62.3m of which a negative balance of £68.0m related to High Needs DSG. Taking account of the deficits for 2024/25 – 2026/27 set out in Annex B it is anticipated that the high need deficit held in the reserve could reach £114.3m at the end of 2025/26 and £150.0m by the end of 2026/27.
43. 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 (excluding schools' balances) were only £47.6m. 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).

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<sup>2</sup> 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.

## Annex 1

## 2024/25 risk assessment for determining appropriate level of general balances

Area of risk	2024/25 £m	Explanation of risk/justification of balances	2023/24 £m
Emergencies	6.1	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	5.4
Directorate overspends	15.8	Risk that directorates will overspend due to unforeseen pressures, demography or demand and no mitigations are available - assumes 2.5% overspend	13.2
Contingent liabilities & insurance risk	3.1	Possible liabilities for which no provision has been made or funding set aside in an earmarked reserve (0.25% of net expenditure or minimum to meet quantified contingent liabilities)	4.6
Major contracts & 3rd party spend	5.2	Risk of contractors failing, mis-specification, or non-delivery plus contract costs increase by more than allowed for in the budget - calculated as 0.75% of estimated spend with suppliers (reduced from 1.0% in 2023/24)	7.0
<b>Total</b>	<b>30.2</b>		<b>30.2</b>
<b>Contingency (on-going funding)</b>	<b>6.6</b>		<b>8.3</b>
<b>Total Balances and Contingency</b>	<b>36.8</b>		<b>38.5</b>
<b>Risk assessed level of Balances as % of net operating budget</b>	<b>4.9%</b>		
Net operating budget - spend per week	11.8		
Weeks of spend	2.6		