

Earmarked Reserves and General Balances Policy Statement 2018/19

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.

Level of balances and reserves

8. 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.
9. The risk assessment for 2018/19 has determined that balances should be held at £16.3m, compared to £17.6m for 2017/18. This is equivalent to 3.9% of the operating budget. Based on the latest 2017/18 Financial Monitoring and Medium Term Financial Plan Delivery Report to Cabinet in December 2017, the expected level of balances at 31 March 2018 is currently £18.8m.
10. The reduction in the risk assessment is, in the main, as a result of removing the risk relating to business rates income. The risk relates to the success of appeals, reduction in collection rates that could have materialised in year and any deficit from previous years. However, this risk does not arise during the year, only at the point the budget is set so any changes to the expected income levels are adjusted then. Details of the risk assessment are set out in Appendix 1 to this paper.
11. The existing MTFP includes an annual £2.0m contribution to balances to replenish any use from the previous year and ensure that the risk assessed level is maintained. From a review of 2016/17 and the previous four years, the average draw down from balances has been £0.9m. It is therefore proposed that the annual contribution is reduced to £1.0m and that this is transferred to the corporate contingency budget, increasing it to £6.0m.
12. The Financial Strategy for 2018/19 sets out that for 2018/19 and 2019/20 a holistic view on the use of earmarked reserves will be made, to allow time to drive forward actions which will reduce demand. This means using reserves to balance the budget particularly in 2018/19.
13. Whilst there have been some years with higher levels of reserves, the level of earmarked reserves held at 31 March 2017 of £86.0m¹ was only 2% less than at 31 March 2012.
14. In recent years, a large number of low value reserves have been created under the banner of Directorate reserves. Holding a large number of small reserves is restrictive in using them holistically in accordance with the financial strategy. Therefore, except for those with restrictions on usage (e.g. on street parking reserve, reserves held on behalf of OxLEP). In line with the Financial Regulations, Cabinet will be asked to approve their amalgamation into a single Budget Priorities reserve to be established before 1 April 2018.
15. Drawdown planned in 2018/19 and beyond proposed as part of this year's budget process will be honoured. All future requests for usage will be agreed by the all of the Strategic Directors in consultation with the Director of Finance, and where they are above £1m that Cabinet approval will be required.

¹ After schools reserves

2018/19 risk assessment for determining appropriate level of balances

	2018/19		2017/18
Area of risk	£m	Explanation of risk/justification of balances	£m
Emergencies	0.8	Expenditure below Bellwin Scheme threshold (0.2% of annual budget)	0.9
Directorate overspends and non-achievement of planned savings	8.4	Risk that directorates will overspend due to unforeseen pressures, demography, demand or non-achievement of planned savings (based on a 3% adverse variance less sum held in contingency)	8.3
Business rates	0.0	5% adverse variation to District Councils' estimates, due to inaccuracy or under estimation of successful appeals	1.5
Contingent liabilities & insurance risk	4.0	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)	2.1
Major contracts & 3rd party spend	3.1	Risk of contractors failing, mis-specification, or non-delivery plus contract costs increase by more than allowed for in the budget (1.0% of annual value of 3rd party spend)	4.8
Total	16.3		17.6