Earmarked Reserves and General Balances Policy Statement 2020/21

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.

Level of General Balances

10. 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. CIPFA's Financial Resilience Index provides information on the level of general balances for all authorities. Excluding extremes, the average percentage of net revenue budget held for general balances in County Councils is 5.1%.

11. The risk assessment for 2020/21 has determined that balances should be held at £23.4m, compared to £19.3m for 2019/20. This is equivalent to 4.9% of the proposed net revenue budget for 2020/21. Based on the latest 2019/20 Business Management & Monitoring Report to Cabinet in January 2020, the expected level of balances at 31 March 2020 is currently £21.8m assuming the forecast directorate overspend is met from contingency.

12. The increase in the assessed risk from 2019/20 is primarily as a result of separately identifying the risk that known pressures will exceed the level of additional funding agreed and using the average percentage held for County Councils as a guide. Details of the risk assessment are set out at the end of this Appendix.

13. The proposed budget includes a contribution to balances of £3.0m in 2020/21. In addition, 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 is maintained. Based on the current forecast level of balances at 31/3/2020, these contributions take the expected level to £25.8m at 1/4/2020.

Earmarked Reserves

14. Annex 2 – Appendix 7 sets out the actual level of earmarked reserves at 31 March 2019 and expected level at 31 March each year to 2024. 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.

15. Excluding schools, earmarked reserves are forecast to be £54.1m at 1 April 2020, reducing over the medium term to £44.9m by 2023/24. This position takes into account an estimated deficit on the DSG High Needs Block Reserve by

2023/24 of £33.6m. Excluding schools, the forecast level of earmarked reserves at 31 March 2019 was £54.8m this time last year, with the actual position being £75.0m. In addition, forecast earmarked reserves, excluding schools, by the end of the MTFP period have increased from £35.3m per last years' Service & Resource Planning round to £44.9m this year.

Existing Earmarked Reserves

16. In 2017/18, 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. The existing MTFP includes the repayment, into this reserve of £8.1m used earlier years in 2020/21, 2021/22 and 2022/23, with a further addition of £1.8m proposed in 2023/24. The reserve is not currently earmarked for specific purposes, as budget priorities are addressed through the revenue budget proposals. After taking account of the transfer to the new Redundancy Reserve in 2019/20 (see Paragraph 17), the balance in this reserve is currently expected to be £10.7m by 2023/24. It is proposed that £3.0m is used to fund towards the redundancy Reserve; and £1.0m towards the Investment Pump Priming Reserve.

17. A new Redundancy Reserve of £1.0m has been created during 2019/20 to meet the costs associated with service redesign. It is proposed that a further £3.0m is added to the reserve over the period 2020/21 and 2021/22 to meet further predicted costs. This will be achieved through a contribution from the Budget Priorities Reserve.

18. Based on the current profile of spend, the balance if funding remaining in the Transformation Reserve at the end of 2019/20 is £2.7m. The remaining sum will be used to meet the costs of further service redesign and organisational development.

19. It is expected that the Dedicated Schools Grant (DSG) High Needs Reserve will be in deficit at the end of 2019/20 and the medium term. The Department for Education (DfE) has recently consulted on changing the conditions of grant and regulations applying to the DSG, to clarify that it is ring-fenced specific grant separate from the general funding of local authorities. It also clarifies that any deficit an authority may have on its DSG account is expected to be carried forward and should not be covered by the authority's general reserves. The Government will make a decision on the proposed changes, in time to inform the setting of local authorities' budget for the financial year 2020/21. Based on current levels of demand, it is anticipated that the reserve could reach a deficit of £33.6m by 2023/24.

20. In light of the significant pressures relating to High Needs and other budgets with demographic volatility, last year the budget included £3.0m of on-going funding in 2019/20 (and rising in future years) to help manage demographic risk. The funding is intended to be held in the reserve until its need is determined. It is proposed that annual contributions are kept at £3.0m per year for 2020/21 and 2021/22, releasing ongoing funding of £0.6m in 2020/21, a further £1.0m in

2021/22. An additional annual contribution to the reserve of £1.0m remains for 2022/23. Therefore, the total in the reserve by 2023/24 is expected to be £17.0m.

21. 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 2020 is greater than the actuarial assessment, it is proposed that £1.0m is taken from the reserve and is used to help create the Investment Pump Priming reserve.

22. The Public Health Grant Reserve, which holds the balance of unspent grant and must be spent on public health related activity, is expected to have a balance of £1.2m at 31 March 2020. It is proposed that a contribution of £0.4m for both 2020/21 and 2021/22 is made to support the costs of up to ten system wide posts as part of the Family Safeguarding Model in Children's Services.

23. In 2015/16 a new reserve was created with an annual contribution of £0.5m to manage the impact of future year business Rates collection fund deficits. This reserve has not been used since 2016/17 and the balance of the reserve is £1.0m at the end of 2019/20. It is proposed that the annual contribution is stopped and the £0.5m instead added to the contingency budget.

New Earmarked Reserves

24. Following the adoption by Council of the Investment Strategy in September 2019, and updated approval as part of the Service & Resource Planning process each year, a new Investment Pump Priming reserve is proposed to be created to meet the initial costs of developing business cases and feasibility studies associated with the strategy. It is expected that this will generally work as a revolving fund, with costs being capitalised if projects proceed. It is proposed that a reserve of £2.0m is created for 2020/21, to be funded evenly from contributions from the Insurance Reserve and the Budget Priorities Reserve.

Financial Resilience Index

25. CIPFA's Financial Resilience Index is designed to support and improve discussions surrounding local authority financial resilience. It shows a council's performance against a range of measures associated with financial risk, including the level of earmarked reserves and general balances. The Index is a comparative tool to be used to support good financial management and generate a common understanding of the financial position within authorities.

26. For 2018/19, the Index shows that Oxfordshire had relatively high depletion of reserves compared to other County Councils, and that reserves were relatively lower than many other counties. However, for 2017/18 and earlier years, Oxfordshire compared more averagely to other counties. This position reflects the financial planning principles for 2018/19, which set out that a holistic approach would be taken in using reserves in 2018/19 to allow time for the actions to reduce demand start to take effect. £14.7m of earmarked reserves were used towards setting a balanced budget for 2018/19. £1.0m of earmarked reserves were used towards setting a balanced budget in 2019/20. No earmarked

reserves are proposed to be used to balance the budget in 2020/21. In addition, as set out above, the risk assessed level of General Balances has been increased to £23.4m, including an additional contribution as per the proposed 2020/21 Budget. This will increase the overall level of reserves,

2020/21 risk assessment for determining appropriate level of balances

Area of risk	2020/21 £m	Explanation of risk/justification of balances	2019/20 £m
Emergencies	1.0	Expenditure below Bellwin Scheme threshold (0.2% of annual net operating budget).	0.9
Directorate overspends	3.9	Risk that directorates will overspend due to unforeseen pressures, demography or demand (based on a 2.0% adverse variance).	3.1
Non-achievement of planned savings	7.6	Risk that savings are not achieved. This is based on a risk assessment of savings which considers the deliverability of the savings proposals.	6.7
Pressures identified within Medium Term Financial Plan exceed budgeted amounts	2.1	Risk that pressures will exceed the level of additional funding agreed. The allowance is made based on an assessment of the volatility of pressures and the level of certainty about the level of funding required to meet the pressure.	0.0
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)	3.9
Major contracts & 3rd party spend	4.8	Risk of contractors failing, mis-specification, or non-delivery plus contract costs increase by more than allowed for in the budget (1.5% of estimated annual value of 3rd party spend)	4.7
Total	**23.4**		**19.3**