

Earmarked Reserves and General Balances Policy Statement 2025/26

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

Purpose of balances and reserves

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

7. Any planned use of, or contribution to, earmarked reserves or balances must be included as part of the budget setting process each year.

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8. 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)

9. Information is included in the Financial Strategy (see paragraphs 31 – 34 and Annex 2 of Section 4.5) but the CIPFA Resilience Index indicates that Oxfordshire is lower risk compared to other county councils. The level of risk in respect of levels of reserves has also improved relative to other counties and the level of risk is shifting further towards the lower end of the scale.

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 Executive Director of Resources and Section 151 Officer, as part of the budget setting process.
11. The risk assessment for 2025/26 has determined that balances should be held at £30.2m, unchanged from 2024/25, but reflecting an updated assessment of risks within the total. This is equivalent to 4.7% of the proposed net operating budget of £645.0m for 2025/26 and equates to between two and three weeks of net expenditure.
12. The exposure to financial risk for the organisation in 2025/25 remains in line with that for 2024/25 reflecting the demand and cost pressures and volatility in the wider economy, including supply chain challenges and labour shortages which have been seen in recent years.
13. The Business Management and Monitoring Report to Cabinet in January 2025 sets out a forecast underspend of £8.5m for 2024/25. £2.3m unallocated funding held since the end of 2023/24 is also being held in balances. This will result in the anticipated level of general balances on 1 April 2025 being £10.8m higher than the 2025/26 risk assessed level of £30.2m.
14. It is proposed that the £10.0m funding above the risk assessed level is transferred to the Transformation Reserve and the remaining £0.8m to the Redundancy reserve.
15. It is recognised that the outturn position for 2024/25 may differ from the forecast so the actual level of balances available to allocate may need to vary., It is proposed that any variation to the forecast outturn position will be reflected in the level of general balances and any impact considered through the Provisional Outturn Report for 2024/25.
16. Details of the risk assessment are set out as Annex 1 to this policy statement.

Earmarked Reserves

17. Earmarked Reserves are grouped into six categories explained below.
- a. Revenue Grants Unapplied – these are specific grants received by Government Departments which remain unused at the end of the financial year and are carried forward to be utilised in future years. Examples include the Public Health Grant and grant funding for the Homes for Ukraine scheme in Oxfordshire.
 - b. Capital & Equipment – funding for the council’s capital programme and the replacement of equipment and vehicles.
 - c. Funding for Risk – funding held to mitigate future financial and service risks. Examples include the Insurance and Collection Fund reserves.
 - d. Corporate Priorities – one – off funding to support and deliver the council’s priorities. Examples include the Budget Priorities and Transformation reserves.
 - e. Other Reserves – funding held for other specific purposes including the On – Street Parking Reserve.
 - f. Unusable Reserves – surpluses and deficits held on behalf of Local Education Authority maintained schools.
18. Annex 2 sets out the actual level of earmarked reserves at 31 March 2025 and expected level at 31 March each year to 2028 as well as a description of each reserve.
19. Excluding schools, earmarked reserves are forecast to be £181.4m at 31 March 2025, and £161.3m by 31 March 2028. A significant element of the balance estimated to be held relates to future funding for the capital programme.
20. This position does not take into account an estimated deficit on the Dedicated Schools Grant (DSG) Unusable Reserve in relation to High Needs of £137.6m by 31 March 2028 on the basis that pressures are able to be mitigated. If that isn’t the case the deficit could be much higher rising to £226.2m in the worst case, although the expectation is that at least some of the mitigations would be effective so the more likely position is somewhere between these totals. Further detail on this is set out in paragraphs 43-49 below.

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 on-going annual contribution to the reserve of £4.0m. The forecast reserve will total £25.0m by the end of 2025/26 and £33.0m by the end of 2027/28. 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 has been used to fund the priorities of the Council. As part of the 2023/24 Outturn Report agreed by Cabinet in June 2024, £1.0m was added to the reserve and agreed to be allocated to the Energy Efficiency Recycling Fund for OCC Maintained Schools (second phase) £0.8m and Rail Studies £0.2m.

23. The agreed use in 2023/24 and 2024/25 included:

- Support for climate action (including tree replacement) £2.6m
- 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
- One - off contribution to Children's Centre voluntary and community sector rents in 2024/25 £0.1m
- Gully and ditch clearing and repairs in areas recently flooded, to boost capacity to work with landowners and Parishes for them to clear ditches and implement Sustainable Drainage Schemes, for a second cut of urban verges around footways and cycleways and to reclaim footpaths and cycleways through vegetation clearance £1.3m

24. As set out in the Business Management & Monitoring Report to Cabinet on 20 January 2025, a £3.0m contribution to the reserve in 2024/25 will be used to support future risks within social care.

25. Paragraph 32 of the report sets out that it is proposed to add a one – off investment of £2.0m for pro-active flooding measures and working with communities who have suffered flooding. It is anticipated that this would be used over multiple years so an element of this funding would be held in the Budget Priorities Reserve for use in future years.

26. All of the existing funding in the reserve was agreed to be committed as part of the 2024/25 budget. No further budgeted contributions are planned.

COVID-19 Reserve

27. The balance held in the reserve at 31 March 2024 was £7.9m. After taking account of the planned used in 2024/25 the balance expected to be held in the reserve at 31 March 2025 is £3.7m with further budgeted use of £2.3m in 2025/26 to support directorate pressures and provide a further £0.5m funding for cost of living measures.

28. £1.4m remains in the reserve which is not allocated and can be transferred for use elsewhere. It is proposed that this is transferred to the Transformation Reserve. The reserve will be closed after the transfer of funding in 2025/26.

Collection Fund Risk Reserve

29. This reserve is held to manage fluctuations in Business Rate and Council Tax income that the Council receives, and the intention was to hold a balance of £4.0m. The actual balance held in the reserve was £6.3m at 1 April 2024 and is expected to be £8.3m at 31 March 2025 after taking account of additional Business Rates funding received in 2023/24 and 2024/25.

30. It is proposed that £4.0m is transferred to the Redundancy Reserve and £0.3m 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 expected in April 2026.

Transformation Reserve

31. 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. Funding held in the Transformation Reserve is being used to support the implementation of this transformation programme. The forecast balance at 31 March 2025 is £5.8m with further commitments in 2024/25 expected to utilise all of the existing funding. It is proposed to add £10.0m to the reserve in 2025/26 to enable priority projects and programmes to deliver the council's ambition to become an employer of choice, a partner of choice and a place shaper of choice.

Redundancy Reserve

32. The balance held in the Redundancy Reserve at 31 March 2024 was £2.4m. After taking account of a contribution of £5.0m in 2024/25 and the anticipated cost of redundancies relating to the senior management structure including the delayering of Tier 3 and 4 managers in 2024/25 the remaining balance is forecast to be £4.2m. It is proposed to add a further £6.5m to the reserve to support the on-going need to reduce the size of the council to be sustainable in future. Half of the balance in this reserve is proposed to be used in 2025/26 and 2026/27.

Impact of IFRS9

33. IFRS9 (changes in the value of Treasury Management Pooled Funds at year end) could potentially impact on the revenue account in 2025/26 if the statutory override which removes changes in their value from the council's accounts is removed on 1 April 2025 as proposed in the Provisional Local Government Settlement for 2025/26.

34. As at 30 November 2024 the council held investments in pooled funds with an estimated value of £99m against an original purchase value of £101m. If the value of the funds is below the purchase price at the balance sheet date, funds will be released from the reserve to ensure that there is no net impact to the revenue account. Similarly, if the fund value is above the purchase price at the

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balance sheet date, any unrealised gain will be transferred to the IFRS9 reserve. However, it would only be appropriate to release such gains to the revenue account when the funds are divested from and gains are crystallised

35. The reserve which was created during 2024/25 currently has a balance of £5.0m. Whilst the average loss of value (compared to the original purchase price) during times of recent financial stress was £8.3m, it is deemed that £5.0m is a reasonable level to hold at this stage.

Commercial Reserve

36. This reserve was created during 2024/25 to support the council's Commercial Strategy with a contribution of £2.0m agreed as part of the Outturn Report for 2023/24 approved by Cabinet in June 2024. No further contributions are proposed at this stage and the use is being managed through the Commercial Board.

Local Government Re-organisation & Devolution Reserve

37. On 16 December 2024, the government published its English Devolution White Paper and the Minister of State for Local Government and English Devolution set out a summary of plans in a Written Ministerial Statement to Parliament.
38. All two-tier areas and small/failing unitary councils are invited to submit reorganisation proposals with the government aiming for all Local Authorities to be unitary authorities with 500,000 population or more. Furthermore, all areas will need to be within Strategic Authorities (including combined authorities) covering at least 1.5 million residents.
39. A proposal to create a new reserve to support the development of reorganisation and devolution proposals for Oxfordshire and to make an initial one-off contribution of £5.0m from underspends on the contingency and pay inflation budgets in 2024/25 is set out in the Business Management & Monitoring Report to Cabinet on 21 January 2025.

Extended Producer Responsibility Reserve

40. Local Authorities will receive around £1.1bn of new funding in 2025/26 through the implementation of the Extended Producer Responsibility (EPR) scheme to improve recycling outcomes.
41. The council will receive £5.1m funding in 2025/26. This will be used to meet additional costs and projects needed to drive up reuse and recycling of packaging waste. This will result in less residual waste and a reduction in the impact of rising costs in future years including the implementation of the Carbon Emission Trading Scheme in April 2028. It is anticipated that income will reduce over time as producers change packaging.
42. It is proposed to create a new reserve to hold this funding to meet associated costs and projects from 1 April 2025.

Dedicated Schools Grant (DSG) Unusable Reserve

43. 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.
44. 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.
45. 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.
46. In December 2022 Parliament agreed the extension of the DSG statutory override for a one-off period of three years (up to March 2026). The Provisional Local Government Finance Settlement for 2025/26 stated that the Government will set out plans for reforming the SEND system. This will also include plans to help Local Authorities “deal with their historic and accruing deficits” as well as considering any transitional period between the current and reformed system. This work will inform any decision to remove the statutory override (which currently ends on 31 March 2026). The expectation is that the Government will find a solution towards dealing with (and accounting for) the accumulated deficit prior to the end of 2025/26, when the current statutory override is due to end.
47. As at 31 March 2025, the DSG Unusable Reserve is expected to have an overall negative balance of £73.3m of which a negative balance of £84.2m relates to High Needs DSG. Taking account of the deficits for 2025/26 – 2027/28 set out in Table 15 of the report it is anticipated that the high needs deficit held in the reserve could reach £110.9m at the end of 2025/26 and £129.7m by the end of 2026/27 assuming planned mitigations set out in the Deficit Management Plan are effective.
48. Beyond the period of the statutory override, and pending a solution being put in place by the Government, the balance on the DSG Unusable Reserve would transfer back to the Council's total Earmarked Reserves. If this were to happen, 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 maintained

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schools' balances) were only £40m-£50m depending on the level of the High Needs deficit by that point.

49. The accumulated and on-going deficit 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).

Summary of proposed movement in General Balances and Earmarked Reserves for 2025/26

50. The table below sets out the proposed movement in General Balances and Earmarked Reserves for 2025/26 as detailed in this policy statement.

	Reductions £m	Additions £m
Proposed changes to Reserves and Balances for 2025/26		
Balances in excess of 2025/26 risk assessed level	-10.8	
COVID-19 Reserve	-1.4	
Collection Fund Risk Reserve	-4.3	
Transformation Reserve		10.0
Redundancy Reserve		6.5
Total movement in Reserves and Balances	-16.5	16.5

Annex 1

2025/26 risk assessment for determining appropriate level of general balances

Area of risk	2025/26 £m	Explanation of risk/justification of balances	2024/25 £m
Emergencies	6.4	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	6.1
Directorate overspends	8.2	Risk that directorates will overspend due to unforeseen pressures, demography or demand and no mitigations are available - assumes 1.25% overspend in 2025/26 (reduced from 2.5% in 2024/25).	15.8
Contingent liabilities & insurance risk	3.2	Possible liabilities for which no provision has been made or funding set aside in an earmarked reserve (0.5% of net expenditure or minimum to meet quantified contingent liabilities)	3.1
Major contracts & 3rd party spend	7.4	Risk of contractors failing, mis-specification, or non-delivery plus contract costs increase by more than allowed for in the budget - calculated as 1.0% of estimated spend with suppliers (increased from 0.75% in 2024/25)	5.2
Capital Programme risk	5.0	Risk related to capital grant funding ceasing before schemes are completed or increases in costs compared to the level of grant funding. Assumes £5m risk relating to grant funded schemes where there may be an impact in 2025/26.	
Total (one - off funding)	30.2		30.2
Contingency (on-going funding)	7.3		7.3
Total Balances and Contingency	37.5		37.5
Risk assessed level of balances as % of net operating budget of £645.0m	4.7%		
Net operating budget - spend per week	12.4		
Weeks of spend	2.4		

