

**DERBYSHIRE COUNTY COUNCIL****CABINET****1 October 2013****Report of the Director of Finance****RESERVES POLICY**  
(COUNCIL SERVICES)**1 Purpose of the Report**

To note and approve:

- the revised Reserves Policy
- the transfer of Earmarked Reserves no longer required to the General Reserve balance;
- the creation of Earmarked Reserves as set out below and;
- the transfer of revenue contributions to the capital programme, or earmark them in reserve where spend has not yet occurred.

**2 Information and Analysis**

The Council's Reserves Policy ensures that the Council is meeting both its statutory requirements and that it takes a risk assessed approach to maintaining an adequate level of reserves.

Section 43 of the Local Government Finance Act 1992 requires precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. There are also a range of safeguards in place that help to prevent local authorities over-committing themselves financially. These include:

- The balanced budget requirement as set out in section 43 of the Local Government Finance Act 1992.
- The chief finance officer's duty to report on robustness of estimates and adequacy of reserves when the Council is considering its budget requirement as set out in Section 27 of the Local Government Act 2003.
- Legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the chief finance officer has responsibility for the administration of those affairs as set out in Section 151 of the Local Government Act 1972.

These requirements are reinforced by section 114 of the Local Government and Finance Act 1988 which requires the chief finance officer to report to Council if there is or likely to be unlawful expenditure or an unbalanced budget.

The Reserves Policy was last approved by Cabinet on 29 January 2013. Proposed amendments to the policy are:

- Clarity in the creation of Earmarked Reserves and the authorisation limits associated with their use
- Changes to the presentation of Earmarked Reserves to analyse them in a specific format to aid the understanding of their purpose

These changes will better inform Council of the purpose to which reserves are being held, splitting balances into those that are restricted in their use, and those that are not. It is proposed that future reserve reports will split reserves in this way.

An updated version of the policy is shown in Appendix One; changes to the policy have been shown in *italics*.

### **Earmarked Reserves**

To ensure that Earmarked Reserves are fit for purpose, the Reserves Policy requires balances should be reviewed quarterly and formally reported to Cabinet at least annually.

Earmarked reserves are a means of building up funds to meet known or predicted liabilities. Funds should be used for the item for which they have been set aside, or be transferred in whole or in part, to the General Reserve if it is found they are no longer required.

At the end of 2012-13, total earmarked reserves were £138.499m. The analysis has identified £5.163m of Earmarked Reserve balances which are no longer required. It is proposed that these amounts are transferred to the General Reserve. Details of these reserves are:

- £2.088m Royalties from Waste – Environmental Services
- £0.339m Vehicle Maintenance – Environmental Services
- £0.284m Closed Landfill Waste Sites – Environmental Services
- £0.997m Landfill Allowances not required – Environmental Services
- £1.060m Grant no longer required – CAYA
- £0.059m Amounts held to replace civic cars – CRD
- £0.211m VAT Reserve – Corporate
- £0.114m DEFRA exit strategy no longer required – CACS
- £0.011m Grants and contributions no longer required - CACS

Department	Balance at 31.03.2013 £m	To transfer to General Reserve £m	Balances after transfer to General Reserve £m
Adult Care	1.060	0.000	1.060
CRD	13.541	0.059	13.482
CAYA	17.002	1.060	15.942
Corporate	28.278	0.211	28.067
CACS	1.915	0.125	1.790
Environmental Services	17.377	3.708	13.669
<b>Total Excl. Schools</b>	<b>79.173</b>	<b>5.163</b>	<b>74.010</b>
Schools Balance & DSG	59.326	0.000	59.326
<b>All Earmarked Reserves</b>	<b>138.499</b>	<b>5.163</b>	<b>133.336</b>

The remaining balance of Earmarked Reserves of £133.336m has been analysed into the specified categories as outlined in the revised Reserves Policy and are shown below:

	Grants £m	Committed Liabilities £m	Funding a Capital Scheme £m	Other £m	Not Controlled by Council £m	Total £m
<b>Adult Care</b>	0.000	1.060	0.000	0.000	0.000	<b>1.060</b>
<b>CRD</b>	0.206	3.763	4.505	1.722	3.286	<b>13.482</b>
<b>CAYA</b>	0.715	8.065	4.087	2.290	60.111	<b>75.268</b>
<b>Corporate</b>	1.264	18.496	1.455	6.852	0.000	<b>28.067</b>
<b>CACS</b>	0.310	0.000	0.000	1.398	0.082	<b>1.790</b>
<b>Environmental</b>	0.127	2.684	5.076	5.616	0.166	<b>13.669</b>
	<b>2.349</b>	<b>34.159</b>	<b>15.205</b>	<b>17.410</b>	<b>63.563</b>	<b>133.336</b>

### General Reserve

The Council's General Reserve balance as at 31 March 2013 was £102.720m; however the Council has a number of commitments against the balance. It is requested that the following Earmarked Reserves are created, in order to reflect these commitments in the accounts:

- £0.125m D2N2 Local Enterprise Partnership – funding was approved by Cabinet on 16 April 2013 following the Chancellors announcement on 5th December 2012 for a package of support aimed at building a strong and more balanced economy. Each LEP can apply for up to £250,000 funding per year however LEPs are required to make an equivalent revenue match funding. The four top tier partners have

agreed to provide the match funding to secure the government funding for the next two financial years 2013/14 and 2014/15 (£0.062 per annum for Derbyshire)

- £0.125m Elvaston Castle – funding was approved by Cabinet on 26 March 2013 for the appointment of a project officer and other work to be undertaken by the National Trust, and external legal and financial support required to assist the Council with the preparation of funding applications to the Heritage Lottery Fund.
- £3.8m Digital Derbyshire Local Broadband Plan – this is the balance of guaranteed funding the Council has agreed to underwrite.
- £1.2m Voluntary Severance Costs – Cabinet originally approved £15m on VR/VER programme over five years from 2010/11. Total expenditure to date has been £6.1m, and a further provision has been created for £7.708m. It is requested that the remaining £1.2m is transferred into an Earmarked Reserve. It should be noted that in light of the further budget reductions required as a result of the unexpected reductions to government grants in 2015/16 there may be a further call on the general reserve in future years for VR/VER costs.
- £15.2m Equal Pay Costs – to support the liability associated with equal pay cases lost.
- £2m Winter Maintenance Reserve – Council approved £2m towards winter maintenance on 2 Feb 2011.
- £2m Adult Social Care IT system – The contract for the replacement IT system is due to be signed in April 2014.
- £0.277m Urgent Road Repairs – Cabinet approved £0.824m on 5 March 2013 for urgent road repairs. Environmental Services have used £0.547m of this and approval is now sought to earmark the remaining £0.227m.
- £0.124m Equal Pay Legal Costs – 2 November 2012 the Cabinet Member for Finance and Management approved £0.352m for legal costs associated with Equal Pay court cases. To date £0.228m of this has been used and approval is now sought to earmark the remaining £0.124m.

In addition to the creation of the above Earmarked Reserves it is proposed to create the following earmarked reserves in order to make revenue contributions to the Capital Programme, towards expenditure already incurred on these schemes:

- £6.5m Tibshelf School – The scheme was approved by Cabinet on 24 January 2012 at an estimated cost of £14.5m. Of this, £8m is to be funded from Dedicated Schools Grant.
- £1.9m Glossop Library – up to £2m support from revenue was approved for the scheme by Cabinet on 1 April 2008.

There are further commitments in future years reported in the five year financial plan of:

- £2m per annum for the remaining 4 years of the plan to support the revenue budget.
- £0.005m pay protection for individuals who have been redeployed to jobs which pay a lower grade. It should be noted that in light of the further budget reductions required as a result of the unexpected reductions to government grants in 2015/16 there may be a further call on the general reserve in future years for pay protection following redeployment.

Reserves will be adjusted as shown:

	<b>General Reserves £m</b>
<b>Opening Balance 1 April 2013</b>	<b>102.720</b>
Approved as per Outturn Report	(17.564)
2013/14 transfers already processed*	(16.084)
<b>Balance at 10 September 2013</b>	<b>69.072</b>
Transfer to Earmarked Reserves	(24.851)
Transfer from Earmarked Reserves	5.163
Contribution to Capital	(8.400)
<b>Projected balance at 31 March 2014</b>	<b>40.984</b>
Future years expected budget support	(8.000)
Future years pay protection (redeployment)	(0.005)
<b>Carrying value going forward</b>	<b><u>32.979</u></b>

\* 2013/14 transfers include:

- £7.201m CAYA use of 2011/12 outturn approvals
- £8.000m 2013/14 budget support

### 3 Considerations

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality of opportunity, human rights, personnel, environmental, health, property and transport considerations.

### 4 Key Decision

No.

### 5 Call-in

Is it required that call-in be waived in respect of the decisions proposed in the report? – No

**6 Background Papers**

Chartered Institute of Public Finance and Accountancy

- LAAP Bulletin 77

Derbyshire's Local Management Scheme for financing schools.

Papers held in Technical Section, Corporate Finance Room 208,  
County Hall

**7 OFFICER'S RECOMMENDATION**

That Cabinet approves:

- the transfer of £5.163m from Earmarked Reserves to the General Reserve;
- the creation of Earmarked Reserves totalling £24.851m to reflect commitments previously held against the General Reserve Balance;
- Contributions to the capital programme totalling £8.400m;
- The revised Reserves Policy.

**PETER HANDFORD**

**Director of Finance**

County Hall  
MATLOCK

6 September 2013

## Appendix One

**RESERVES POLICY**

Changes have been shown in *italics*

***Introduction***

This policy establishes a framework within which decisions will be made regarding the level of reserves held by the Council and the purposes for which they will be used and maintained.

Sections 32 and 43 of the Local Government Finance Act 2003 require local authorities to have regard to the level of resources needed to meet estimated future expenditure when calculating the annual budget requirement.

***Definitions***

Reserves are sums of money held by the Council to meet future expenditure. There are two principal types of reserves:

- (a) General - non-specific reserves which are kept to meet short term, unforeseeable expenditure and to enable significant changes in resources or expenditure to be properly managed over the period of the Council's Five Year Financial Plan (FYFP). The Council's general revenue reserves are held in the General Reserve Balance.
- (b) Earmarked reserves which are held for specific purposes and which are established either by statute or at the discretion of the Council.

A *summary* of all reserves, including in year movements and year-end balances are contained in the Council's Statement of Accounts.

***General Reserve Balance***

The Council will maintain an adequate level of General Reserve Balance to:

- Provide a working balance to cushion the impact of uneven cash flows and avoid unnecessary short term borrowing;
- Provide a contingency to cushion the impact of unexpected events or emergencies
- Plan for potential major items of expenditure.

The appropriate level of reserves for this purpose will be determined by the Council's FYFP, which will be reviewed annually and will be subject to approval by a meeting of the Council's Cabinet. However, the Council will not maintain levels of General Reserve balances that are excessive compared with appropriate minimum levels. In this context, "excessive" will be assessed and reviewed annually in the FYFP with regard to:

- The projected level of General Reserve balance at the end of the FYFP, less the appropriate minimum level;
- The annual planned use of reserves in each year of the FYFP;
- The impact of sudden large changes in annual use of balances on services or Council Tax levels.

The adequacy of the General Reserve Balance will be determined by assessing the financial risks associated with meeting continuing obligations to provide services. The risk assessment will be reviewed annually.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance about the factors which should be taken into account in determining the overall level of reserves and balances. These are:

- Assumptions regarding inflation;
- Estimates of the level and timing of capital receipts;
- Treatment of demand-led pressures;
- Treatment of savings;
- Risks inherent in any new partnerships;
- Financial standing of the Authority (i.e. level of borrowing, debt outstanding, etc.)
- The Authority's track record in budget management;
- The Authority's capacity to manage in year budget pressures;
- The Authority's virements and year-end procedures in relation to under and over-spends;
- The adequacy of insurance arrangements.
- An assessment of external risks
- Impact of major unforeseen events; and
- Likely level of Government support following major unforeseen events.

The General Reserve Balance will be reviewed and projections on future balances will be made at key points during the financial year, namely as part of the budget setting process and update of the Five Year Financial Plan.

In exceptional circumstances, the actual level of the Council's balance may fall below the level which is considered appropriate. This is consistent with the need to provide to meet short-term unforeseen expenditure. However, the actual level will be monitored against balances outlined in the *FYFP*. The plan will set out the level of planned balances, as well as confirming acceptable thresholds above or below the balance. If the balance falls outside of the planned tolerance levels, a plan will be agreed by the Council to restore balances to the appropriate level.

### ***Earmarked reserves***

*Departments may establish earmarked reserves from within their cash-limited budgets to properly reflect on-going financial commitments, fund future service*



*developments or expenditure of an uneven nature. Earmarked reserves are not available to the Council for use in its budget and Council Tax setting process. They are required for specific purposes and are a means of building up funds to meet known or predicted liabilities. These reserves have no upper threshold on them; however, individually their limit and purpose must be approved before they are created using the following approval limits:*

- *Up to £20,000 – Strategic Director in consultation with Director of Finance*
- *Between £20,000 and £100,000 – Approval by Cabinet Member*
- *Above £100,000 – Approval by Cabinet*

*Balances carried forward from previous year's underspend will be allocated to a departmental reserve and proposals for their use will be subject to final approval by the Cabinet Member.*

*Balances should be reasonable for the purpose held and must be used for the item for which they have been set aside, if circumstances arise to which the reserve is no longer required for its original purpose, they should be transferred to the General Reserve. In order to establish that they are fit for purpose, there will be a review of balances on a quarterly basis, the outcomes of which will be formally reported to Cabinet at least annually.*

*Earmarked reserves will be analysed into the following categories:*

- **Grants** – Any reserve that was created through the receipt of a grant to which its use is restricted to the degree that if it is not used for that purpose then the Council would become liable to repay the grant.
- **Committed Liabilities** – Genuine liabilities that are known and current to the Council (this does not include holding a balance to cover possible future liabilities).
- **RCCO required** – These are items where the reserve is held to meet the funding required by the capital programme.
- **Not Controlled by Council** – predominantly this is money which is controlled by schools, however also includes resources held on behalf of partnerships and other Councils.
- **Contribution to General Reserve** – These balances are no longer required for their original purpose and are available to be returned to the General Reserve Balance.
- **Other** – all other earmarked reserve balances, most likely to be balances held for potential future liabilities.

### **School Reserves**

School balances are held for two main reasons; as a contingency against financial risks and to meet planned commitments in future years.

Schools are encouraged to retain, where possible, a modest balance towards future liabilities and potential need for replacement of equipment. In order to allow the local authority to monitor schools' financial positions, governing bodies will be asked to report to the local authority on the use which the schools intend to make of surplus balances. The local authority will focus particularly on those schools which have built up significant excessive uncommitted balances and/or where some level of redistribution would support improved provision across a local area.