

**Agenda Item No 7(b)**

**DERBYSHIRE COUNTY COUNCIL**

**CABINET**

**26 October 2017**

**Report of the Director of Finance & ICT**

**RESERVES POSITION**

(STRATEGIC LEADERSHIP, CULTURE AND TOURISM)

**1 Purpose of the Report**

To note the current and forecast positions for both General and Earmarked Reserves and to approve the Reserves Policy.

**2 Information and Analysis**

**Reserves Policy**

Section 43 of the Local Government Finance Act 1992 requires precepting authorities in England and Wales to assess the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

A range of safeguards are in place to prevent local authorities over-committing themselves financially. These include:-

- The requirement to set a balanced budget as detailed in Section 43 of the Local Government Finance Act 1992;
- The Chief Finance Officer's (Director of Finance's) duty to report on the 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 (Director of Finance) 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 Finance Act 1988 which requires the Chief Finance Officer to report to Council if there is, or is likely to be, unlawful expenditure or an unbalanced budget.

The Council has in place a Reserves Policy which ensures the Council meets its statutory obligations and sets out the framework within which decisions are made regarding the level of reserves.

In line with this framework the balance and level of Earmarked and General Reserves are regularly monitored to ensure they reflect a level adequate to manage the risks of the Council.

### General Reserve

The Council's General Reserve position was reported to Cabinet on 20 July 2017 as part of the Revised Budget Report 2017/18. The level of General Reserve is projected to be between around £25m to £30m over the medium term.

### Earmarked Reserves

Earmarked Reserves are a means of smoothing expenditure to meet known or predicted liabilities. Funds should be used for the item for which they have been set aside. Any funds no longer required should be transferred to the General Reserve.

Earmarked Reserves totalling £202.511m were held at 1 April 2017. Of this total, £80.774m (40%) is available to support future spending. Details of the balances are categorised in accordance with the Reserves Policy below.

Portfolio	Grants £m	Committed Liabilities £m	Funding Capital £m	Other £m	Not Controlled by	Total £m
					Council £m	
AC	0.000	1.883	0.000	5.338	0.000	7.221
YP	7.466	3.181	0.752	7.254	0.727	19.380
CS	0.146	0.000	7.495	60.019	26.605	94.265
HC	6.738	0.101	0.000	0.192	1.233	8.264
HTI	2.311	0.903	3.118	6.773	1.041	14.146
SLCT	0.336	2.391	0.000	1.148	0.295	4.169
EDR	0.000	1.709	6.235	0.050	0.000	7.994
<b>Total</b>	<b>16.997</b>	<b>10.168</b>	<b>17.6</b>	<b>80.774</b>	<b>29.901</b>	<b>155.439</b>
Schools	0.000	0.000	0.000	0.000	47.072	47.072
<b>Total</b>	<b>16.997</b>	<b>10.168</b>	<b>17.6</b>	<b>80.774</b>	<b>76.793</b>	<b>202.511</b>

AC = Adult Care

YP = Young People

CS = Council Services

HC = Health and Communities

HTI = Highways, Transport and Infrastructure

SLCT = Strategic Leadership, Culture and Tourism

EDR = Economic Development and Regeneration

The following Earmarked Reserves have a balance that is in excess of £5m:

**Insurance** (£19.953m held at 1 April 2017; Council Services; Not Controlled by Council) – the Council keeps its payments to external insurance companies to a minimum by self-insuring much of its insurable risk. To cover self-insured risk, a contribution in lieu of premium is paid into an insurance fund, which comprises this reserve to cover expected liabilities and an insurance provision to cover incurred liabilities. Every four years an actuary performs an independent evaluation of the fund balance and the level of contributions, this evaluation will take place this year.

**Uninsured Financial Loss** (£13.000m held at 1 April 2017; Council Services; Other) – through a strategic review of its corporate risk register the Council has identified a shortfall in the Insurance Fund to cover uninsured losses.

**Budget Management** (£12.5m held at 1 April 2017; Council Services; Other) - to support the management of revenue budgets over the medium term.

**Planned Building Maintenance** (£9.813m held at 1 April 2017; Council Services, Other) There are a number of building projects that are funded from this budget, Cabinet agree a schedule to be funded from this budget.

**Children's Services Prior Year Underspend** (£6.266m held at 1 April 2017; Children's Services; Other) - to finance an anticipated overspend in the Children's Services budget due to a lag in the delivery of budget cuts, which are expected to arise because of the lengthy approval and consultation process and need to deliver change in a managed way, to ensure front line services to children and families are not unduly disrupted. It is forecast that this balance will be used by 31 March 2019.

**Broadband Project** (£6.121m held at 1 April 2017; Economic Regeneration and Development; Funding Capital Project) – held to support the Digital Derbyshire project. Phase 1 was completed in 2016-17 and the call on reserves is expected in 2017-18.

**Change Management** (£5.789m held at 1 April 2017; Council Services; Other) - established to meet the one-off costs of the Change Management programme that cannot be met from within the annual base budget.

The Council's Earmarked Reserves balance were reviewed during Summer 2017. Departments have agreed to release £10.856m from balances which can be utilised to fund Council priorities and support the Council in achieving a balanced budget over the medium term. This amount will be held in an Earmarked Reserve and allocated accordingly as initiatives are developed, subject to further reports to Cabinet. Details of the balances to be released are shown in Appendix One.

The table below summarises the forecast movement in Earmarked Reserves from the date of the review to 31 March 2018.

<b>Portfolio</b>	<b>Actual Reserves at 01.04.17 £m</b>	<b>Additional Use Planned £m</b>	<b>Additional Contributions £m</b>	<b>Amounts to be released £m</b>	<b>Forecast Reserves at 31.3.18 £m</b>
AC	7.221	-2.329	0.000	-1.311	3.582
YP	19.380	-12.110	3.287	-0.250	10.307
CS	94.265	-44.451	13.476	-8.015	55.324
HC	8.118	-7.186	2.933	-0.000	3.856
HTI	20.080	-5.925	0.323	-1.072	13.407
SLCT	4.583	-2.742	1.000	-0.095	2.747
EDR	1.742	-0.925	0.005	-0.115	0.706
<b>Total</b>	<b>155.439</b>	<b>-75.669</b>	<b>21.023</b>	<b>-10.858</b>	<b>89.928</b>
Schools	47.072	-8.495	2.239	0.000	40.815
<b>Total</b>	<b>202.511</b>	<b>-84.164</b>	<b>23.262</b>	<b>-10.856</b>	<b>130.744</b>

The table below categorises projected Earmarked Reserves balances at 31 March for the next five years, in accordance with the Reserves Policy. Schools balances have been excluded from this analysis.

	<b>Grants £m</b>	<b>Committed Liabilities £m</b>	<b>Fund Capital Projects £m</b>	<b>Other (General Purpose) £m</b>	<b>Not Controlled by Council £m</b>	<b>Total Reserves £m</b>
<b>31.3.17</b>	16.997	10.168	17.560	80.774	29.901	<b>155.439</b>
<b>31.3.18</b>	11.801	3.070	5.792	42.551	26.714	<b>89.928</b>
<b>31.3.19</b>	5.560	1.652	1.543	29.738	26.211	<b>64.743</b>
<b>31.3.20</b>	1.425	1.285	0.445	27.563	25.604	<b>56.322</b>
<b>31.3.21</b>	0.243	0.928	0.299	26.056	25.526	<b>53.051</b>

Members should note details of the two further items, highlighted below, which are likely to release further balances, in addition to the £10.856m outlined above. These balances will be returned to the Earmarked Reserve to support Council priorities, subject to further reports to Cabinet.

- The announcement of improved Better Care Fund allocations will allow the Adult Care portfolio to utilise the allocation to support the costs of the National Living Wage in 2017-18. This will release one-off resources of £6.467m back to the General Reserve;

- The Council is a member of the Derbyshire business rates pool. This provides additional income, over and above the business rates income the Council receives through the local government finance settlement. In 2017-18, the additional income is estimated to be approximately £1m, however this will not be confirmed until the end of the financial year and is dependent upon the level of business rates income collected locally, which can be volatile.

### **3 Financial Considerations**

As set out above.

### **4 Other Considerations**

In preparing this report the relevance of the following factors has been considered: legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property, transport and social value considerations.

### **5 Background Papers**

Papers held in Technical Section, Room 137, County Hall.

### **6 Key Decision**

No.

### **7 Is it necessary to waive the call-in period?**

No.

### **8 Officer's Recommendations**

That Cabinet:

- (i) note the current position on Earmarked Reserves;
- (ii) note the details of the balances to be released from Earmarked Reserve balances;
- (iii) approve the allocation of £10.856m to the Council Priorities Earmarked Reserve;
- (iv) note the details of the additional sums from Adult Care and the Derbyshire Business Rates Pool which will be released later in the financial year.

PETER HANDFORD  
Director of Finance & ICT

**Details of Earmarked Reserves where an amount is to be released.**

	<b>Return to General Reserve £m</b>
<b>Adult Social Care</b>	
Budget Cuts Shortfall	1.311
<b>Total Adult Social Care</b>	<u><b>1.311</b></u>
<b>Children's Services</b>	
Complex Enquiry	0.050
Unaccompanied Asylum Seeking Children	0.200
<b>Total Children and Young People</b>	<u><b>0.250</b></u>
 <b>Highways, Transport and Infrastructure</b>	
Departmental premises improvements	0.600
Traffic Management Act permits Project	0.017
3D Broadband project	0.121
IT Reserve	0.334
<b>Total Highways, Transport and Infrastructure</b>	<u><b>1.072</b></u>
 <b>Strategic Leadership, Culture and Tourism</b>	
Policy and Research Projects	0.033
Strategic Policy Underspend	0.062
<b>Total Strategic Leadership, Culture and Tourism</b>	<u><b>0.095</b></u>
 <b>Economic Development and Regeneration</b>	
D2N2 Low Carbon Economy	0.115
<b>Total Economic Development and Regeneration</b>	<u><b>0.115</b></u>
 <b>Council Services</b>	
Budget Management	5.404
Business Rates Pool	2.560
Equal Pay Legal costs	0.034
Allocated Prior Year Underspend	0.017
<b>Total Council Services</b>	<u><b>8.015</b></u>
 <b>Total Earmarked Reserves</b>	<u><b>10.856</b></u>