

Agenda Item No 7(b)

DERBYSHIRE COUNTY COUNCIL

CABINET

20 September 2018

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 26 July 2018, as part of the Revenue Outturn Report 2017-18. The level of General Reserve projections have been updated as part of the updated Five Year Financial Plan 2018-19 to 2022-23, reported to this Cabinet Meeting. General Reserves are forecast to be between £18m and £40m 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 £187.570m were held at 1 April 2018. Of this total, £79.964m (43%) 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 Council £m	Total £m
AC	0.000	0.250	0.000	3.932	0.000	4.182
CS	0.000	0.000	0.000	62.894	32.407	95.301
EDR	0.000	0.832	0.114	0.000	0.000	0.946
HC	7.291	0.079	0.000	0.158	0.000	7.528
HTI	1.435	0.959	7.655	8.637	0.813	19.499
SLCT	0.299	4.059	0.000	1.018	0.488	5.864
YP	4.669	2.806	0.645	3.325	0.547	11.992
Total	13.694	8.985	8.414	79.964	34.255	145.312
Schools	10.955	0.000	0.000	0.000	31.303	42.258
Total	24.649	8.985	8.414	79.964	65.558	187.570

AC = Adult Care

CS = Council Services

EDR = Economic Development and Regeneration

HC	= Health and Communities
HTI	= Highways, Transport and Infrastructure
SLCT	= Strategic Leadership, Culture and Tourism
YP	= Young People

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

Broadband Project (£5.430m held at 1 April 2018; Economic Regeneration and Development; Funding Capital Project) – held to support the Digital Derbyshire project.

Economy Transport and Environment (ETE) Prior Year Underspends (£6.056m held at 1 April 2018; Highways Transport and Infrastructure; Other) – held to finance anticipated overspends in the ETE budget because of a lag in the delivery of budget savings. These are expected to arise whilst delivering change in a managed way, to ensure that front line services are not unduly disrupted. It is forecast that this balance will be used by 31 March 2020.

Planned Building Maintenance (£6.517m held at 1 April 2018; 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.

Public Health (£6.811m held at 1 April 2018; Health and Communities; Grants) – the balance carried forward of the ring-fenced Public Health Grant.

Uninsured Financial Loss (£13.000m held at 1 April 2018; 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.

Insurance and Risk Management (£20.627m held at 1 April 2018; 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. The last actuarial evaluation, completed in May 2018, confirmed that the total of this reserve and the insurance provision was adequate to meet current and anticipated liabilities.

Budget Management (£20.850m held at 1 April 2018; Council Services; Other) - to support the management of revenue budgets over the medium term. The Revenue Budget Report 2018-19 approved the use of one-off revenue support of £11.457m from this balance. The use of further one-off amounts have been forecast in the Five Year Financial Plan 2018-19 to 2022-23.

The Council's Earmarked Reserve balances were reviewed during Summer 2018. Departments have agreed to release £4.329m 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 the Budget Management 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.

In September 2017, the Government invited local authorities to submit proposals to become a 100% business rates retention pilot in 2018-19. The Council, together with the eight district/borough councils in the county, Derby City Council and Derbyshire Fire and Rescue Authority, submitted a bid to become a pilot. The Finance Settlement announced the Derbyshire pilot as one of the ten successful bids. The pilot is generating additional one-off income in 2018-19 to the county of Derbyshire, over and above the business rates income the Council receives through the local government finance settlement. The County Council's share of the gain is currently forecast to be approximately £17.8m, 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. Business rates assessed can also be subject to appeals, which could mean that some rates income receivable could become repayable in the future.

Of the forecast income of £17.8m, 70% will support Council services and will initially be allocated as follows:

- £6m, which was anticipated in the Five Year Financial Plan contained within the Revenue Budget Report 2018-19 and is the Minimum Funding Level that can be expected, will be held in the Budget Management Earmarked Reserve for the purposes identified above;
- £0.630m will be transferred to a Business Rates Appeals Earmarked Reserve, to hold in the event of any later successful business rates appeals; and
- the balance of £6.855m will be allocated to the Business Rates Pool Earmarked Reserve.

In accordance with the Pooling Agreement, the remaining 30% will be used to support economic regeneration across the county and in Derby City. A Business Rates Strategic Investment Fund Earmarked Reserve will be created and a forecast £4.299m will be allocated to it. The Derby and Derbyshire Authorities Joint Committee for Economic Prosperity will be the decision making board for allocation of funding to individual projects.

It should be noted that the pilot is for 2018-19 only. Thereafter, the funding allocations will revert back to those previously announced in the multi-year settlement for 2019-20, pending further consultation on the move to 75% business rates retention. It is possible the Government may extend the pilot

into 2019-20 to bridge the gap for affected councils until the 75% regime comes into force in 2020-21.

The table below summarises the forecast movement in Earmarked Reserves from the date of the review to 31 March 2019.

Portfolio	Reserves Brought Forward at 01.04.2018	Planned Net Contribution /(Use) 2018-19	Amounts to be Released to Budget Management Reserve	Forecast Reserves Carried Forward at 31.03.2019
	£m	£m	£m	£m
AC	4.182	8.096	0.000	12.278
CS	95.301	(2.139)	(2.571)	90.591
EDR	0.946	(0.610)	(0.011)	0.325
HC	7.528	(4.695)	0.000	2.833
HTI	19.499	(6.256)	(1.243)	12.000
SLCT	5.864	(2.698)	(0.384)	2.782
YP	11.992	(5.390)	(0.120)	6.482
Total	145.312	(13.692)	(4.329)	127.291
Schools	42.258	(5.492)	0.000	36.766
Total	187.570	(19.184)	(4.329)	164.057

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.

	Grants	Committed Liabilities	Funding Capital	Other	Not Controlled by Council	Total
	£m	£m	£m	£m	£m	£m
31.03.2018	13.694	8.985	8.414	79.964	34.255	145.312
31.03.2019	7.131	3.864	11.012	68.182	37.102	127.291
31.03.2020	2.503	1.934	0.673	49.238	32.679	87.027
31.03.2021	0.155	1.226	0.612	36.327	28.559	66.879
31.03.2022	0.121	1.112	0.689	29.764	26.613	58.299

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) notes the current position on Earmarked Reserves;
- (ii) notes the details of the balances to be released from Earmarked Reserve balances;
- (iii) approves the allocation of £4.329m Earmarked Reserves released to the Budget Management Earmarked Reserve; and
- (iv) approves the allocation of the forecast business rates 100% retention gains as follows:
 - a. £6.000m to the Budget Management Earmarked Reserve;
 - b. £6.855m to the Business Rates Pool Earmarked Reserve;
 - c. £0.630m to a Business Rates Appeals Earmarked Reserve; and
 - d. £4.299m to a Business Rates Strategic Investment Fund Earmarked Reserve.

PETER HANDFORD
Director of Finance & ICT

Details of Earmarked Reserves where an amount is to be released:

Portfolio	Reserve	AC £m	CS £m	EDR £m	HC £m	HTI £m	SLCT £m	YP £m	Total £m
CS	Change Management		0.500						0.500
CS	Equal Pay		0.300						0.300
CS	Prior Year Underspends		0.250						0.250
CS	Business Rates Pool		1.471						1.471
CS	Communities Priorities		0.050						0.050
EDR	Regeneration External Funding			0.011					0.011
HTI	Road Safety					0.120			0.120
HTI	Waste WEEE Grant					0.261			0.261
HTI	Waste Performance Efficiency Grant					0.802			0.802
HTI	Water Management Project					0.007			0.007
HTI	Legal Orders Post					0.030			0.030
HTI	Community Management Fund					0.013			0.013
HTI	Cycle Events					0.010			0.010
SLCT	Prior Year Underspends						0.114		0.114
SLCT	Innovation and Transformation						0.270		0.270
YP	Systems Replacement							0.020	0.020
YP	Higher Education Children in Care							0.100	0.100
Total		0.000	2.571	0.011	0.000	1.243	0.384	0.120	4.329

AC = Adult Care; CS = Council Services; EDR = Economic Development and Regeneration; HC = Health and Communities;
HTI = Highways, Transport and Infrastructure; SLCT = Strategic Leadership, Culture and Tourism; YP = Young People