

Agenda Item No 5(c)

DERBYSHIRE COUNTY COUNCIL

CABINET

24 January 2017

Report of the Director of Finance

RESERVES POSITION

(STRATEGIC POLICY, ECONOMIC DEVELOPMENT AND BUDGET)

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.

The Reserves Policy was last approved by Cabinet on 26 January 2016 and no amendments are proposed in this report. A copy of the Policy has been included at Appendix One.

General Reserve

As at 31 March 2016, the Council had a General Reserve balance of £52.028m.

The recent review of Earmarked Reserves undertaken by the Council (see below) has identified a sum of £1.047m which is no longer required and which will be returned to the General Reserve.

The projected movements on the General Reserve are shown below:

	2016-17	2017-18	2018-19	2019-20	2020-21
	£m	£m	£m	£m	£m
Opening Balance	52.028	42.658	26.238	20.988	19.488
Plus Expected Contributions	13.790	2.500	2.500	2.500	2.500
Less Use	(23.160)	(18.920)	(7.750)	(4.000)	(4.000)
	42.658	26.238	20.988	19.488	17.988
Contributions					
Budget Monitoring Report - Projected Underspend	11.062	2.000	2.000	2.000	2.000
Contributions from Earmarked Reserve	2.388	0.500	0.500	0.500	0.500
Staveley Town Council Loan	0.340	0.000	0.000	0.000	0.000
	13.790	2.500	2.500	2.500	2.500
Use					
Prior Year Commitments	8.076	9.000	2.000	2.000	2.000
Elections	0.000	1.000	0.000	0.000	0.000
Public Transport	2.000	2.000	0.750	0.000	0.000
Property Development Company	0.040	0.000	0.000	0.000	0.000
School redundancies	0.960	0.750	0.000	0.000	0.000
VR/VER	0.000	0.000	3.000	0.000	0.000
Support for changes to Adult Care Client Contributions	0.129	0.000	0.000	0.000	0.000
General Revenue Budget Support	6.007	6.170	2.000	2.000	2.000
Coroners	0.070	0.000	0.000	0.000	0.000
Senior Economic Development Officers	0.100	0.000	0.000	0.000	0.000
Previous approvals	5.778	0.000	0.000	0.000	0.000
	23.160	18.920	7.750	4.000	4.000

Local authorities are required to maintain a prudent, risk assessed level of General Reserve, relative to spending for that year. Reserves are required to mitigate against financial risk and provide for future spending plans. The table below shows the General Reserve balance as a percentage of the Council's spending (Net Budget Requirement).

	Annual Net Budget Requirement £m	Closing General Reserve £m	
2016-17	475.979	42.658	9.0%
2017-18	486.126	26.238	5.4%
2018-19	477.988	20.988	4.4%
2019-20	495.068	19.488	3.9%
2020-21	496.166	17.988	3.7%

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 £191.155m were held at 28 October 2016. Of this total, £65.313m (34%) 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
ASC	3.894	0.250	0.000	5.338	0.000	9.482
ChS	6.958	3.234	0.701	7.204	0.765	18.862
CS	0.000	0.163	0.000	50.154	26.748	77.065
HAC	0.444	0.301	0.000	0.602	0.000	1.347
HTI	2.085	9.612	14.767	0.878	0.020	27.362
SPEDB	0.000	3.138	0.114	1.137	0.000	4.389
Total	13.381	16.698	15.582	65.313	27.533	138.507
Schools	0.000	0.000	0.000	0.000	52.648	52.648
Total	13.381	16.698	15.582	65.313	80.181	191.155

ASC = Adult Social Care

ChS = Children's Services

HAC = Health and Communities

CS = Council Services

HTI = Highways, Transport and Infrastructure

SPEDB = Strategic Policy, Economic Development and Budget

Details of the Earmarked Reserves balances at 28 October 2016 are given in Appendix Two. The following Earmarked Reserves have a balance that is in excess of £5m:

Insurance (£18.988m held at 28 October 2016; 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 such evaluation was reported to Cabinet in September 2015 and the value of the fund at that point in time was in the middle of the expected range.

Uninsured Financial Loss (£13.000m held at 28 October 2016; 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 (£10.900m held at 28 October 2016; Council Services; Other) - to support the management of revenue budgets over the medium term.

Corporate Resources Prior Year Underspend (£7.834m held at 28 October 2016; Council Services; Other) – held to fund planned building maintenance and to support the portfolio in the achievement of its savings targets.

Insurance Maintenance Pool Scheme (£6.238m held at 28 October 2016; Council Services; Not Controlled by Council) – contributions from schools received in respect of larger building schemes. The current scheme ends in March 2018 and it is assumed that any unspent balances will be returned to schools.

Change Management (£5.740m held at 28 October 2016; 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.

Highways Maintenance Reinvestment (£5.197m held at 28 October 2016; Highways, Transport and Infrastructure; Funding Capital Project) – held for Accelerated Highways Maintenance, which is a “Spend to Save” project. It is forecast that this reserve balance will be used by 31 March 2017.

Broadband Project (£6.121m held at 28 October 2016; Highways, Transport and Infrastructure; Funding Capital Project) – held to support the Digital Derbyshire project. Phase 1 is due to be substantially completed in 2016-17.

Children's Services Prior Year Underspend (£6.266m held at 28 October 2016; 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 2018.

Earmarked Reserves were reviewed at 28 October 2016. Departments have agreed that of the total Earmarked Reserves at that date, £1.047m will be returned to the General Reserve by 31 March 2017. The table below summarises the forecast movement in Earmarked Reserves from the date of the review to 31 March 2017.

Portfolio	Actual Reserves at 28.10.16 £m	Additional Use Planned £m	Additional Contributions £m	Return to General Reserve £m	Forecast Reserves at 31.3.17 £m
ASC	9.482	-2.995	3.543	0.000	10.030
ChS	18.862	-5.858	0.360	0.000	13.364
CS	77.065	-25.871	7.561	-0.500	58.255
HAC	1.347	-0.704	0.000	-0.051	0.592
HTI	27.362	-8.782	0.005	-0.382	18.203
SPEDB	4.389	-2.079	0.000	-0.114	2.196
Total	138.507	-46.289	11.469	-1.047	102.640
Schools	52.648	-0.013	0.000	0.000	52.635
Total	191.155	-46.302	11.469	-1.047	155.275

Details of the Earmarked Reserves that will be returned to the General Reserve by 31 March 2017 are given in Appendix Two.

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 £m	Committed Liabilities £m	Fund Capital Projects £m	Other (General Purpose) £m	Not Controlled by Council £m	Total Reserves £m
31.3.17	11.339	13.359	9.444	43.825	24.673	102.640
31.3.18	8.131	6.313	4.339	25.110	19.172	63.065
31.3.19	7.019	2.652	2.332	22.581	19.272	53.856
31.3.20	5.341	0.978	0.724	20.575	19.372	46.990
31.3.21	4.224	0.482	0.566	19.307	19.472	44.051

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 Members:

- (i) note the current position on General and Earmarked Reserves
- (ii) approve the Reserves Policy.

PETER HANDFORD

Director of Finance

RESERVES POLICY

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 FYFP. 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.

Details of Earmarked Reserves held at 28 October 2016 with Amounts to be Returned to General Reserve

	Reserves at 28.10.16 £m	Return to General Reserve £m
Adult Social Care		
Public Health Grant	3.493	0.000
Public Health Grant Externally Funded Schemes	0.332	0.000
Other Grants	0.069	0.000
Adult Care Client Management System	0.250	0.000
Budget Cuts Shortfall	4.567	0.000
Budget Cuts Initiatives	0.771	0.000
Total Adult Social Care	9.482	0.000
Children's Services		
Provision of Places for 2 Year Olds Grant	2.563	0.000
Tackling Troubled Families Grant	4.071	0.000
Other Grants	0.324	0.000
Complex Enquiry	1.500	0.000
Unaccompanied Asylum Seeking Children	0.603	0.000
Care Leavers Internships	0.300	0.000
Other Committed Liabilities - Revenue	0.831	0.000
Foster Carers Adaptations - Capital	0.701	0.000
Children's Services System Replacement	0.853	0.000
Allocated Prior Year Underspend	6.266	0.000
Other Reserves	0.085	0.000
Primary Sickness Pooling Self Insurance	0.765	0.000
Total Children and Young People	18.862	0.000
Health and Communities		
Public Health, Externally Funded Programmes	0.444	0.000
Other Reserves	0.903	0.051
Total Health and Communities	1.347	0.051
Highways, Transport and Infrastructure		
Road Safety Public Service Agreement 2 Grant	1.867	0.000
Other Grants	0.218	0.000
Derby and Derbyshire Road Safety Partnership	1.001	0.000
Winter Maintenance	2.000	0.000
Allocated Prior Year Underspend	4.174	0.000

Public
APPENDIX TWO

D2 Enterprise Growth Fund	0.600	0.000
D2 Business Development	0.270	0.000
D2 Project	0.187	0.000
D2N2 Demand Stimulation	0.100	0.100
Other Committed Liabilities - Revenue	1.280	0.000
Highways Maintenance Reinvestment	5.197	0.000
Broadband Project	6.121	0.000
IT Reserve	1.109	0.282
Other Committed Liabilities – Capital	2.340	0.000
Derwent Valley Mills World Heritage Site	0.226	0.000
Other Reserves	0.672	0.000
Total Highways, Transport and Infrastructure	27.362	0.382

Strategic Policy, Economic Development and Budget

Markham Vale Centre Extension	0.114	0.114
Policy and Research Projects	1.048	0.000
Derbyshire Challenge Fund	0.987	0.000
Innovation and Transformation	0.780	0.000
Other Committed Liabilities - Revenue	0.323	0.000
Strategy Underspend	1.137	0.000
Total Strategic Policy, Economic Development and Budget	4.389	0.114

Council Services

Uninsured Financial Loss	13.000	0.000
Budget Management	10.900	0.000
Insurance Maintenance Pool	6.238	0.000
Computer Reserve Fund	3.610	0.000
Communities Priorities Programme	1.729	0.000
Property Package Reserve	1.629	0.000
Property DSO	1.887	0.300
Allocated Prior Year Underspend	7.834	0.175
Demolition of Buildings	0.784	0.000
Change Management	5.740	0.000
Insurance and Risk Management	18.988	0.000
Public Finance Initiative	1.679	0.000
Building Schools for the Future Wave 3	1.438	0.000
Other Reserves	1.609	0.025
Total Council Services	77.065	0.500

Total Earmarked Reserves

138.507	1.047
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Balances held for and on behalf of schools

School Balances	42.194	0.000
Dedicated Schools Grant (DSG) – Formula Support	2.238	0.000
DSG – Standards Fund	2.075	0.000
DSG – New Schools	0.500	0.000
DSG – Schools Management Information System	0.041	0.000
DSG – Repooled Funds	1.482	0.000
DSG – Central Element	4.118	0.000
Total School Reserves	52.648	0.000