

DERBYSHIRE COUNTY COUNCIL

CABINET

26 January 2016

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 28 January 2014 and no further amendments are proposed in this report. A copy of the Policy has been included as Appendix One.

General Reserve

As at 31 March 2015, the Council had a General Reserve balance of £55.201m. To date, there has been use of the balance which is summarised in the table below:

	£m
Balance as at 1 April 2015	55.201
Housing Support	-0.784
Staveley Town Council	-0.300
Revenue Budget 2015-16 one-off budget support	-6.634
Revenue Outturn 2014/15 approvals	-4.852
Previous Cabinet approvals/Other	-2.105
Balance as at December 2015	<u>40.526</u>

The following significant commitments against the balance are as follows:

- European Union funded projects (Cabinet 3 November 2015) - £1.115m
- ICT Strategy - £1.057m
- Voluntary Redundancy - £9.000m
- Revenue Budget Support - £9.389m

The recent review of Earmarked Reserves undertaken by the Council (see below) has identified a sum of £15.878m which is no longer required and which will be returned to the General Reserve. It is proposed to create a number of Earmarked Reserves from the outstanding balance, some of which were previously commitments against the outstanding balance, details of which are as follows:

- Budget Management - £12.500m – to support the management of the revenue budget in 2016-17 and 2017-18
- Community Priorities - £4.000m - a one-off allocation to support a programme of activities designed to support the thriving communities initiative in both the pilot and non-pilot areas. A report will be brought to a future Cabinet meeting to set out how this resource will be allocated.
- Broadband – £2.190m - support for the Digital Derbyshire project

- Uninsured financial loss - £13.000m – through a strategic review of its corporate risk register the Council has identified a shortfall in the Insurance Fund to cover uninsured losses.

The projected movements on the General Reserve are shown below:

	2015-16	2016-17	2017-18	2018-19	2019-20
	£m	£m	£m	£m	£m
Opening Balance	55.201	35.229	22.037	19.559	14.686
Plus Expected Contributions	26.853	4.500	5.500	2.500	2.500
Less Use	(46.825)	(17.692)	(7.978)	(7.373)	(4.000)
	35.229	22.037	19.559	14.686	13.186

Contributions

Budget Monitoring Report - Projected Underspend	10.335	4.000	5.000	2.000	2.000
Contributions from Earmarked Reserve	15.878	0.500	0.500	0.500	0.500
Staveley Town Council Loan	0.640	0.000	0.000	0.000	0.000
	26.853	4.500	5.500	2.500	2.500

Use

Prior Year Commitments	4.813	4.000	0.000	2.000	2.000
Contributions to Earmarked Reserves (previous commitments)	31.690	0.000	0.000	0.000	0.000
Elections	0.000	0.000	1.000	0.000	0.000
Demolitions	1.000	0.000	0.000	0.000	0.000
ETE - EU funded projects	0.000	0.371	0.371	0.373	0.000
ICT Strategy	0.000	0.000	1.057	0.000	0.000
Home to School Transport	0.000	0.000	0.400	0.000	0.000
Secondary Schools Budget	0.000	0.000	0.150	0.000	0.000
Complex Inquiry	0.500	0.000	0.000	0.000	0.000
Staveley Town Council Loan	0.640	0.000	0.000	0.000	0.000
Housing related support - delayed cut	0.784	0.000	0.000	0.000	0.000
VR/VER	0.000	3.000	3.000	3.000	0.000
Adult Care Demographic Growth	3.000	0.000	0.000	0.000	0.000
Support for changes to Adult Care					
Client Contributions	0.516	0.129	0.000	0.000	0.000
General Revenue Budget Support	3.117	10.192	2.000	2.000	2.000
Cabinet Approvals	0.765	0.000	0.000	0.000	0.000
	46.825	17.692	7.978	7.373	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	
2015-16	495.897	35.229	7.1%
2016-17	483.660	22.037	4.6%
2017-18	470.605	19.559	4.1%
2018-19	481.556	14.686	3.0%
2019-20	496.180	13.186	2.7%

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 £171.260m were held at 24 November 2015. Of this total, £54.800m (32%) 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	0.000	1.525	0.000	0.000	0.000	1.525
ChS	6.652	5.383	0.849	10.074	0.000	22.958
CS	0.000	0.000	0.000	27.515	23.466	50.981
HAC	0.362	0.360	0.000	-1.390*	0.000	-0.668
HTI	2.124	7.451	14.720	0.807	0.061	25.163
SPEDB	0.000	1.051	0.280	17.794	0.000	19.125
Total	9.138	15.770	15.849	54.800	23.527	119.084
Schools	0.000	0.000	0.000	0.000	52.176	52.176
Total	9.138	15.770	15.849	54.800	75.703	171.260

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

* The debit balance in the HAC portfolio, Other category, will be cleared by 31 March 2016, once the forecast 2015-16 underspend on the Public Health Ring-Fenced Grant budget is achieved.

Details of the Earmarked Reserves balances at 24 November 2015 are given in Appendix Two. The following Earmarked Reserves have a balance that are in excess of £5m and represent around 61% of the total balance, excluding schools and capital balances:

Insurance (£15.561m held at 24 November 2015; 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.

Corporate Resources Prior Year Underspend (£12.235m held at 24 November 2015; Council Services; Other) – held to fund planned building maintenance and to support the portfolio in the achievement of its savings targets. It is forecast that by 31 March 2016 this reserve balance will have reduced by £5.355m.

Change Management (£6.211m held at 24 November 2015; 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.

Equal Pay (£15.184m held at 24 November 2015; Strategic Policy, Economic Development and Budget) – the Council implemented the national Single Status Agreement in 2010 to ensure pay equality across relevant staff groups. In common with other authorities, the Council was facing a considerable number of equal pay claims relating to grading before single status and this reserve was held to settle equal pay disputes. Following progress in relation to the settlement of these disputes this reserve has been reassessed and £13.184m is to be released to the General Reserve by 31 March 2016. It is also forecast that a further £1.000m of this reserve balance will be used by then.

Highways Maintenance Reinvestment (£6.000m held at 24 November 2015; 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 2016.

Children's Services Prior Year Underspend (£7.733m held at 24 November 2015; 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 £3.512m of this balance will be used by 31 March 2016.

Earmarked Reserves were reviewed at 24 November 2015. Departments have agreed that of the total Earmarked Reserves at that date, £15.878m will be returned to the General Reserve by 31 March 2016. The table below summarises the forecast movement in Earmarked Reserves from the date of the review to 31 March 2016.

Portfolio	Actual Reserves at 24.11.15 £m	Additional Use Planned £m	Additional Contributions £m	Return to General Reserve £m	Forecast Reserves at 31.3.16 £m
ASC	1.525	-1.275	0.000	0.000	0.250
ChS	22.958	-7.392	0.760	-1.193	15.133
CS	50.981	-19.577	21.541	-0.613	52.332
HAC	-0.668	1.992	0.000	-0.187	1.137
HTI	25.162	-8.947	2.286	-0.462	18.039
SPEDB	19.125	-1.852	16.500	-13.423	20.350
Total	119.083	-37.051	41.087	-15.878	107.241
Schools	52.177	0.000	0.000	0.000	52.177
Total	171.260	-37.051	41.087	-15.878	159.418

Details of the Earmarked Reserves that will be returned to the General Reserve by 31 March 2016 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
31.3.16	8.542	25.062	8.467	42.582	22.588	107.241
31.3.17	6.590	18.329	6.262	30.804	18.602	80.587
31.3.18	5.937	3.470	0.388	10.550	15.430	35.775
31.3.19	5.447	1.036	0.263	9.427	14.987	31.160
31.3.20	5.126	1.000	0.186	6.397	14.540	27.249

3 Financial Considerations

As set out above.

4 Other Considerations

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

5 Background Papers

Papers held in Technical Section, Corporate Finance.

6 Key Decision

No.

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

No.

8 Officer's Recommendation

That Members note:

- (i) the current position on General and Earmarked Reserves
- (ii) approve the Reserves Policy
- (iii) approve the creation of the following Earmarked Reserves:

- Budget Management - £12.500m
- Community Priorities - £4.000m
- Broadband – £2.190m
- Uninsured financial loss - £13.000m.

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 24 November 2015 with Amounts to be Returned to General Reserve

	Reserves at 24.11.15 £m	Return to General Reserve £m
Adult Social Care		
Care Home Providers	1.275	0.000
Adult Care IT System	0.250	0.000
Total Adult Social Care	1.525	0.000
Children's Services		
Provision of Places for 2 Year Olds	2.563	0.000
Tackling Troubled Families	4.008	0.000
Duke of Edinburgh Award	0.010	0.010
Other Grants	0.072	0.000
Capital Maintenance	1.051	0.000
Support and Aspiration Project	1.009	0.575
Support for Service Provision During Cuts Process	2.446	0.000
Educational Support for Children in Care	0.001	0.001
Other Committed Liabilities - Revenue	0.876	0.000
Foster Carers Adaptations	0.681	0.000
Foster Care Equipment	0.137	0.107
Other Committed Liabilities - Capital	0.031	0.000
Children's Services System	1.353	0.500
Allocated Prior Year Underspend	7.733	0.000
Other Reserves	0.987	0.000
Total Children and Young People	22.958	1.193
Highways, Transport and Infrastructure		
Road Safety Public Service Agreement 2 Grant	1.875	0.000
Waste Projects	0.025	0.015
Other Grants	0.224	0.000
Winter Maintenance	2.000	0.000
Derby and Derbyshire Road Safety Partnership	1.101	0.000
Waste Initiatives	0.388	0.129
Allocated Prior Year Underspend	3.066	0.000
Traffic Management Permits	0.136	0.036
Rights of Way	0.049	0.019
Countryside Volunteer Activities	0.035	0.005
Other Committed Liabilities - Revenue	0.676	0.000
Highways Maintenance Reinvestment	6.000	0.000
Broadband Project	4.856	0.000
IT Reserve	1.266	0.000

Public
APPENDIX TWO

Stockley Pond	0.166	0.166
Longhorse Bridge	0.060	0.060
Other Committed Liabilities – Capital	2.373	0.000
Derwent Valley Mills World Heritage Site	0.202	0.000
Other Reserves	0.664	0.032
Total Highways, Transport and Infrastructure	25.162	0.462

Strategic Policy, Economic Development and Budget

Troubled Families Initiative	0.213	0.000
Apprenticeship Scheme	0.167	0.067
Markham Vale Seymour Impact Assessment	0.100	0.000
Policy and Research Projects	0.451	0.150
Other Committed Liabilities - Revenue	0.120	0.000
Markham Vale Centre Extension Committed Liability - Capital	0.280	0.000
Equal Pay	15.184	13.184
Derbyshire Challenge Fund	1.355	0.000
Innovation and Transformation	0.960	0.000
Food and Drink Fair	0.022	0.022
Other Reserves	0.273	0.000
Total Strategic Policy, Economic Development and Budget	19.125	13.423

Council Services

Computer Reserve Fund	2.918	0.000
Property Package Reserve	1.955	0.000
Property DSO	4.302	0.000
Allocated Prior Year Underspend	12.235	0.000
Demolition of Buildings	1.000	0.000
Change Management	6.211	0.000
Insurance and Risk Management	17.524	0.000
Holmewood Business Park	0.203	0.203
Public Finance Initiative	1.822	0.000
Building Schools for the Future Wave 3	1.935	0.000
Registrars	0.165	0.150
South Normanton Joint Service Centre	0.090	0.090
VAT Reserve	0.095	0.080
Legal Fees Reserve	0.124	0.090
Other Reserves	0.621	0.000
Total Council Services	50.981	0.613

Health and Communities

Public Health Resource Fund*	-2.532	0.000
Public Health, Externally Funded Programmes	0.573	0.000
Derbyshire Literary Festival	0.016	0.016
Derbyshire Poet Laureate	0.015	0.015
Libraries Computer Replacement	0.066	0.066
Schools Library Service	0.066	0.066
Made In Derbyshire	0.010	0.010
Trusted Trader	0.031	0.014
Other Reserves	1.087	0.000
Total Health and Communities	-0.668	0.187

Total Earmarked Reserves

119.083 15.878

Balances held for and on behalf of schools

School Balances	38.725	0.000
Dedicated Schools Grant (DSG) – Formula Support	7.258	0.000
DSG – Standards Fund	2.075	0.000
DSG – New Schools	0.500	0.000
DSG – Schools Management Information System	1.000	0.000
DSG – Repooled Funds	1.219	0.000
DSG – Central Element	1.400	0.000
Total School Reserves	52.177	0.000

- * The debit balance on the Public Health Resource Fund will be cleared by 31 March 2016, once the forecast 2015-16 underspend on the Public Health Ring-Fenced Grant budget is achieved.