

**DERBYSHIRE COUNTY COUNCIL**

**CABINET**

**27 January 2015**

**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 and 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 2014 the Council had a General Reserve balance of £43.075m, compared to a projection in the Revenue Budget Report in February 2014 of £38.730m.

The unplanned movements on the reserve were:

- Difference in projected and actual outturn for the year of £3.071m
- Increase to the VR/VER Provision £2.161m
- Correction to the 2012-13 DSG carry forward £0.126m
- Fund pension shortfall from General Reserves (£0.850m)
- Interest on Insurance Fund (£0.109m)
- Other Minor Differences (£0.055m)

The following significant commitments against the balance for 2014-15 are as follows:

- 2013-14 Outturn Report; Departmental Carry Forwards £5.392m;
- Provisional Five Year Financial Plan 2014-15 to 2018-19; Adult Care Demographic Growth £4.000m;
- 2014-15 Revenue Budget; One-Off Budget Support £3.645m.

The projected General Reserve position for 2014-15 is summarised as follows:

	£m
<b>Opening Balance at 1 April 2014</b>	<b>43.075</b>
Departmental Carry Forwards	-5.392
Adult Care Demographic Growth	-4.000
One-Off Budget Support	-3.645
Elvaston Castle (as approved by Cabinet 6 May 2014)	-0.080
Support for changes to Adult Care Client Contributions	-0.258
Previous Year Approvals including £0.124m Equal Pay Legal Fees	-0.127
Forecast 2014-15 underspend	9.283
2013-14 Outturn - Contribution to General Reserve	2.365
Transfer from Earmarked Reserves	2.260
<b>Projected Balance at 31 March 2015</b>	<b>43.481</b>

This excludes the request for use of underspends which will be considered as part of the 2014-15 outturn report. The projected movements on the General Reserve are shown in the table below:

	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m
<b>Opening Balance</b>	<b>43.481</b>	<b>35.141</b>	<b>29.512</b>	<b>24.512</b>
Plus Expected Contributions	12.000	10.000	7.000	5.000
Less Use	-20.340	-15.629	-12.000	-9.000
<b>Closing Balance</b>	<b>35.141</b>	<b>29.512</b>	<b>24.512</b>	<b>20.512</b>

### Contributions

Projected Underspends on risk management and debt charges budgets

12.000	10.000	7.000	5.000
<b>12.000</b>	<b>10.000</b>	<b>7.000</b>	<b>5.000</b>

### Use

Projected Overspend/Prior Year Commitments  
Elections  
Broadband Project  
VR/VER  
Adult Care Demographic Growth  
Support for changes to Adult Care Client Contributions  
General Revenue Budget Support  
Previous Year Approvals

8.000	7.000	6.000	5.000
0.000	0.000	1.000	0.000
2.190	0.000	0.000	0.000
0.000	2.000	2.000	2.000
3.000	2.000	1.000	0.000
0.516	0.129	0.000	0.000
6.633	4.500	2.000	2.000
0.001	0.000	0.000	0.000
<b>20.340</b>	<b>15.629</b>	<b>12.000</b>	<b>9.000</b>

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 Budget Requirement	Closing General Reserve	
		£m	£m	
<b>Forecast</b>	<b>2013-14</b>	524.549	43.075	<b>8.21%</b>
	<b>2014-15</b>	511.385	43.481	<b>8.50%</b>
	<b>2015-16</b>	488.845	35.141	<b>7.19%</b>
	<b>2016-17</b>	471.542	29.512	<b>6.26%</b>
	<b>2017-18</b>	475.482	24.512	<b>5.16%</b>
	<b>2018-19</b>	478.072	20.512	<b>4.29%</b>

### 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 £204.344m were held at 31 October 2014. Of this, £57.417m (28.10%) is available to support future spending. Details of the outstanding balances are categorised (as outlined in the Reserves Policy) in the table below.

<b>Portfolio</b>	<b>Grants</b>	<b>Committed Liabilities</b>	<b>Funding Capital</b>	<b>Other</b>	<b>Not Controlled by</b>	<b>Total</b>
					<b>Council</b>	
ASC	0.000	9.040	0.000	0.000	0.000	<b>9.040</b>
CAYP	3.497	6.842	3.070	12.933	0.713	<b>27.055</b>
CS	0.000	0.000	7.230	24.235	19.419	<b>50.884</b>
HAC	0.388	0.825	0.000	1.855	0.000	<b>3.068</b>
HTI	2.081	7.701	10.590	0.592	0.071	<b>21.035</b>
SPEDB	0.000	1.190	5.219	17.802	0.000	<b>24.211</b>
<b>Total</b>	<b>5.966</b>	<b>25.598</b>	<b>26.109</b>	<b>57.417</b>	<b>20.203</b>	<b>135.293</b>
Schools	0.000	0.000	0.000	0.000	69.051	<b>69.051</b>
<b>Total</b>	<b>5.966</b>	<b>25.598</b>	<b>26.109</b>	<b>57.417</b>	<b>89.254</b>	<b>204.344</b>

ASC = Adult Social Care

CAYP = Children and Younger People

HAC = Health and Communities

CS = Council Services

HTI = Highways, Transport and Infrastructure

SPEDB = Strategic Policy, Economic Development & Budget

The following Earmarked Reserves have a balance in excess of £5m and represent around 56% of the total balance excluding schools and capital balances:

**Insurance and Risk Management** (£13.607m held at 31 October 2014; Council Services; Not Controlled by Council) - established to meet the costs of liabilities and claims incurred but not yet made against the Council. The adequacy of this balance is regularly verified by independent actuaries

**Corporate Resources Underspends** (£10.541m held at 31 October 2014; Council Services; Other) - building projects which have received Member approval but have not yet started and to support the portfolio in the achievement of its savings targets.

**Change Management** (£5.925m held at 31 October 2014; 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 31 October 2014; Strategic Policy, Economic Development and Budget) - to support the liability associated with equal pay cases lost.

**Highway Maintenance Reinvestment** (£6.000m held at 31 October 2014; Highways, Transport and Infrastructure; Funding Capital Project) - Accelerated Highways Maintenance, spend to save project.

**CAYP Prior Year underspend** (£12.020m held at 31 March 2014; Children and Younger People; Other) - to finance anticipated CAYP overspends due to the lag in savings delivery. Overspends from 2013-14 and 2014-15 of £1.769m and £1.888m (estimated) respectively will be transferred into the General Reserve, resulting in a balance of £8.363m ongoing. Any remaining balance will be available in the short term to help manage demographic pressures and the under-achievement of budget cuts target.

**Care Home Providers** (£8.000m held at 31 October 2014; Adult Social Care; Committed Liabilities) - it is expected that the balance of this reserve will be used during 2014-15 to cover the backdated fees to Care Home Providers.

The table below summarises the actual balances and projected balance as at 31 March each year on Earmarked Reserves in terms of the categories set out in the Reserves Policy. Schools balances have been excluded from this analysis.

Forecast		Grants	Committed	Fund	Other	Not	
		£m	Liabilities	Capital	(General	Controlled	Total
			£m	Projects	Purpose)	by	Reserves
				£m	£m	Council	£m
						£m	
	2013-14	5.547	32.523	13.739	57.005	19.961	128.775
	2014-15	6.120	13.939	14.829	52.554	20.246	107.688
2015-16	6.049	7.483	7.672	49.207	19.358	89.769	
2016-17	5.797	6.568	2.422	39.620	18.795	73.202	
2017-18	5.630	6.754	2.379	39.649	18.117	72.529	
2018-19	5.826	6.959	2.334	40.481	17.555	73.155	

### 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 the current position on General and Earmarked Reserves and approve the Reserves Policy.

PETER HANDFORD  
Director of Finance

19 January 2015

## **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 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.

**Details of Earmarked Reserves held as at 31 October 2014**

	<b>Amount £m</b>
<b>Adult Social Care</b>	
Care Home Providers	8.000
Adult Care IT System	0.250
Discretionary Fund	0.790
<b>Total Adult Social Care</b>	<b>9.040</b>
<b>Children and Young People</b>	
Prior Year underspend*	12.020
Single Children's System	1.591
Support & Aspiration project	1.937
Capital Maintenance	1.074
Capital Co-Location	2.387
UniFi Initiative	0.803
Tackling Troubled Families	2.772
Other Reserves (balance less than £1m)	4.471
<b>Total Children and Young People</b>	<b>27.055</b>
<b>Highways, Transport and Infrastructure</b>	
Grants (inc £1.9m Road Safety Public Service Agreement 2)	2.081
Committed Liabilities – Revenue	2.688
Committed Liabilities – Capital	10.590
Winter Maintenance	2.000
Partnership & Other Councils monies held by DCC	0.229
Single Asset Management System	0.250
Derwent Valley Mills World Heritage Site	0.153
Laboratory & Fleet Equipment	0.195
Waste Recycling Initiatives	0.391
Non Committed Reserves including previous years underspends	2.458
<b>Total Highways, Transport and Infrastructure</b>	<b>21.035</b>
<b>Strategic Policy, Economic Development and Budget</b>	
Troubled Families Initiative	0.172
Literacy	0.117
Fostering Publicity	0.090
Performance Management	0.050
Innovation Programme Support	0.050
Equal Pay	15.185
Derbyshire Challenge Fund	2.545
Invest to Save	0.075
GIS Procurement	0.100
Call Derbyshire automation - Speech recognition	0.070
Derbyshire Economic Partnership Committed Liability - Revenue	0.016
Apprenticeship Scheme Committed Liability - Revenue	0.368

**Public**  
**APPENDIX TWO**

Markham Vale Seymour Impact Assessment	0.100
3D Broadband Project Team Committed Liability - Revenue	0.121
Markham Vale Centre Extension Committed Liability - Revenue	0.363
Broadband Project Committed Liability - Capital	4.856
Food & Drink Fair General Uncommitted Reserves	0.022
Buxton Crescent Legal Fees Uncommitted Reserves	0.050
Grants Unapplied for Partnership Forum	0.030
The Mighty Creative	0.001
<b>Total Strategic Policy, Economic Development and Budget</b>	<b><u>24.381</u></b>
<b>Council Services</b>	
Computer Reserve Fund	2.792
Property Package Reserve	2.187
Property DSO	4.066
CRD Reserve	9.253
Building Maintenance	1.288
Change Management	5.925
Insurance and Risk Management	13.607
Holmewood Business Park	0.199
VAT	0.100
Public Finance Initiative	2.386
Building Schools for the Future Wave 3	0.982
South Normanton Joint Service centre	0.090
Registrar's	0.165
Funding to support Capital Projects	7.250
Other Reserves	0.444
<b>Total Council Services</b>	<b><u>50.884</u></b>
<b>Health and Communities</b>	
Public Health Resource Fund	0.673
Public Health, Externally Funded Programmes	0.829
Other Reserves	1.566
<b>Total Health and Communities</b>	<b><u>3.068</u></b>
<b>Total Earmarked Reserves</b>	<b><u>135.293</u></b>
<b>Balances held for and on behalf of schools</b>	
School Balances	37.797
Dedicated Schools Grant – Individual Schools Budget	16.323
Dedicated Schools Grant – Central Element	14.931
<b>Total School Reserves</b>	<b><u>69.051</u></b>

\* £1.874m has since been transferred to the General Reserve as approved in the 2013-14 Outturn report.