

**DERBYSHIRE COUNTY COUNCIL**

**CABINET**

**28 January 2014**

**Report of the Director of Finance**

**RESERVES POSITION  
(COUNCIL SERVICES)**

**1 Purpose of the Report**

To note and approve where necessary:

- the transfer of Earmarked Reserves to the General Reserve where they are no longer required for their original purpose; and
- transfers to and from the General Reserve as detailed in the report below.

**2 Information and Analysis**

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 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.

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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 1 October 2013 and no further amendments are proposed in this report.

### Earmarked Reserves

Earmarked Reserves are a means of building up funds to meet known or predicted liabilities. Funds should be used for the item for which they have been set aside, or be transferred in whole or in part to the General Reserve if it is found that they are no longer required.

To ensure that Earmarked Reserves are fit for purpose, the Reserves Policy requires balances to be reviewed quarterly and formally reported to Cabinet at least annually. A summary of Earmarked Reserves movements in the financial year to 31 December 2013 is shown below:

Department	Balance at 31.03.2013 £m	Previously Agreed Transfers to General Fund 2013/14 £m	Approved (Use of)/ Contributions to Reserves 2013/14 to Date £m	Adjusted Earmarked Reserve Balance £m
Adult Care	1.060	0.000	0.940	2.000
CRD	13.541	(0.291)	3.546	16.796
CAYA	17.002	(1.060)	11.364	27.306
Corporate	28.278	(0.211)	17.343	45.410
HACS	1.915	(0.285)	(0.796)	0.834
ETE	17.377	(3.710)	6.759	20.426
<b>Total Excl. Schools</b>	<b>79.173</b>	<b>(5.557)</b>	<b>39.156</b>	<b>112.772</b>
Schools Balance & DSG	59.326	0.000	(0.134)	59.192
<b>All Earmarked Reserves</b>	<b>138.499</b>	<b>(5.557)</b>	<b>39.022</b>	<b>171.964</b>

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During the current financial year to date, £5.555m of Earmarked Reserve balances which were no longer required have been transferred to General Reserves. Of these transfers to the General Reserve, £5.163m of transfers were approved by Cabinet on 1 October 2013. A further £0.232m and £0.160m have been transferred to the General Reserve from Earmarked Reserves in respect of CRD 2012/13 underspends and CACS Library Restructure respectively. A further £0.002m has been identified as no longer required for the purposes originally approved and it is proposed that this balance, which relates to the Landfill Allowances Trading Scheme, is transferred to the General Reserve.

A net contribution of £33.467m to Earmarked Reserves has been made during the financial year in accordance with specific approval from Cabinet. As a result the value of Earmarked Reserves at 31 December 2013 is £171.966m.

A large part of the contributions are commitments previously held against the General Reserve for which earmarked reserves have now been created. Details of these were set out in the Cabinet report of 1 October 2013. The following Earmarked Reserves have been created since that report:

- £0.100m towards GIS system replacement and £0.070m towards a speech recognition system agreed as part of the Communications Division revenue outturn.
- £0.065m for Breakfast Club funding for vulnerable children agreed in a Cabinet Report on 10 September 2013.
- £0.100m for the set-up cost of a schools catering online payments project agreed by Cabinet.
- £0.119m towards the additional cost of an enhancement of the Advice Service in Children's Centres, agreed by Cabinet on 22 October 2013.
- £0.230m for grants received from the Department of Communities and Local Government for Troubled Families.
- £0.100m to fund investment in support for secondary schools agreed by Cabinet.
- £0.300m to cover 2013/14 minor work schemes under £0.010m previously charged to capital agreed as part of an October 2013 Cabinet Report on CRD 2012/13 underspends.

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Earmarked Reserves balances have been analysed into the specified categories as outlined in the Reserves Policy and are shown below:

	<b>Grants</b>	<b>Committed Liabilities</b>	<b>Funding a Capital Scheme</b>	<b>Other</b>	<b>Not Controlled by Council</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Adult Care</b>	0.000	2.000	0.000	0.000	0.000	<b>2.000</b>
<b>CRD</b>	0.670	6.687	0.000	7.363	2.076	<b>16.796</b>
<b>CAYA</b>	27.069	4.450	4.674	15.644	34.661	<b>86.498</b>
<b>Corporate</b>	2.200	16.253	0.000	7.803	19.154	<b>45.410</b>
<b>HACS</b>	0.360	0.099	0.000	0.375	0.000	<b>0.834</b>
<b>ETE</b>	2.348	4.460	4.436	9.182	0.000	<b>20.426</b>
	<b>32.647</b>	<b>33.949</b>	<b>9.110</b>	<b>40.367</b>	<b>55.891</b>	<b>171.964</b>

The following seven Earmarked Reserves represent around 60% of this balance and are individually in excess of £5m:

- £15.200m Equal Pay - to support the liability associated with equal pay cases lost. Reserve approved in the Reserves Policy Cabinet report of 1 October 2013.
- £13.862m Insurance - actuarial valuation by an independent expert has confirmed the amount required in this reserve which has been reported to and agreed by Cabinet.
- £5.239m Change Management - to support Transformation Services change management projects on a one-off basis.
- £34.256m Schools Balances - the accumulated difference between budgets awarded to schools each year and expenditure of those budgets. These balances are retained by schools under School Finance Regulations and are for the Governing Body of each school to determine how they should be deployed.
- £14.297m Dedicated Schools Grant (DSG) Central Element - ring-fenced and subject to School Finance Regulations, School Forum consideration, Cabinet approval and potentially Secretary of State approval. Various pressures on school funding outlined in the School budget report to Cabinet in January 2014 mean that this reserve will reduce by approximately £6.9m in 2014/15, £4.7m in 2015/16 and £4.7m in 2016/17 but will be added to by in-year DSG underspend for 2013/14 of approximately £6.5m.

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- £10.639m Unallocated Individual Schools Budget element of Dedicated Schools Grant - ring-fenced, subject to School Finance Regulations, School Forum consideration, Cabinet approval and potentially Secretary of State approval. Proposals for use have been discussed with the Schools Forum.
- £12.020m CAYA underspend - required to fund anticipated overspend in 2013/14 and 2014/15 as a result of budget pressures.

A more detailed list of Earmarked Reserves is available in the Council's Statement of Accounts for 2012-13.

### **General Reserve**

As at 31 March 2013 the Council had a General Reserve balance of £102.720m but had a number of commitments against that balance. Earmarked Reserves have been created to reflect these commitments, details of which were noted by Cabinet. There are two further calls on the General Reserve balance which require Cabinet approval, details of which are set out below.

- The balance on the Closed Landfill Waste Sites Earmarked Reserve of £0.284m was identified as no longer required and returned to General Reserves, as outlined in the 1 October 2013 Cabinet report. Expenditure of £0.005m has since been identified in respect of the gas extraction system at Barrow Hill. Therefore, it is requested that the expenditure is met from General Reserves.
- £0.830m Revenue Contribution to the Capital Programme - Buxton Crescent regeneration project. In October 2011 Cabinet approval was received to transfer a Corporate LABGI Earmarked Reserve balance of £0.830m to the General Reserve. LABGI funding ceased in 2010/11 and there had been no calls on the reserve for some time, so it was determined that the balance was no longer required. A need has since been identified in respect of the Buxton Crescent regeneration project and it is therefore proposed to contribute this revenue balance from the General Reserve to Capital.

A significant commitment against the General Reserve has been identified and it is proposed that a new Earmarked Reserve is created. The Council has for some time been in correspondence with representatives of Derbyshire Care Home owners who are questioning the level and calculation of fees the Council pays for residential care. The issue rests on the actual costs incurred by Care Home owners in comparison to fees paid by the Council. The Council has undertaken some work to establish the costs of running a Care Home at a local level and is working with the Care Home providers in determining

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appropriate fee levels. This has been highlighted in the Council's Revenue Budget reports 2012/13 and 2013/14, and also identified as a contingent liability in the 2012/13 Statement of Accounts. Initial estimates based on an offer made by the Council indicated that the cost of backdated fee increases may be up to £8m. It is proposed that an earmarked reserve is created to this value pending the outcome of a final agreement with the care home providers.

The Council receives over £1bn of income each year and there is occasional difficulty in identifying what it relates to. An amount of £0.152m has remained unallocated from before the implementation of SAP and will be transferred to the General Reserve.

The General Reserve position is summarised as follows:

	<b>General Fund £m</b>
<b>Opening Balance at 1 April 2013</b>	<b>102.720</b>
Approved in Outturn Report	(17.564)
2013/14 transfers already processed*	(16.084)
Approved 1 October 2013	(28.091)
Transfer from Earmarked Reserves	0.391
<b>Balance at 31 December 2013</b>	<b>41.372</b>
2013/14 Risk Management/Debt Charges Underspend	13.000
2013/14 Departmental Overspends	(6.959)
Gas extraction system expenditure	(0.005)
Contribution to Capital	(0.830)
Care Home Fees	(8.000)
Unidentified Income Receipts	0.152
<b>Projected Balance at 31 March 2014</b>	<b>38.730</b>
2014/15 – 2017/18 projected Risk Management/Debt Charges Underspend	20.000
2014/15 – 2017/18 projected Departmental Overspends	(15.000)
2014/15 – 2017/18 projected pay protection (redeployment)	(0.004)
2014-15 – 2017/18 future years budget support	(9.645)
2017/18 Council Elections	(1.000)
<b>Projected Balance at 31 March 2018</b>	<b>33.081</b>

\* 2013/14 transfers include:

- £7.201m - CAYA use of 2011/12 outturn approvals; and
- £8.000m - 2013/14 budget support.

### 3 Considerations

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality of

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opportunity, human rights, personnel, environmental, health, property and transport considerations.

### **4 Key Decision**

No.

### **5 Call-in**

Is it required that call-in be waived in respect of the decisions proposed in the report? – No.

### **6 Background Papers**

Papers held in Technical Section, Corporate Finance Room 208, County Hall.

### **7 OFFICER'S RECOMMENDATION**

That Cabinet:

1. notes the transfer of balances from the following Earmarked Reserves to the General Reserve as they are no longer required
  - £0.002m from Landfill Allowances Trading Scheme
  - £0.232m CRD 2012/13 underspends
  - £0.160m Library Restructure
2. approves £0.005m expenditure for the gas extraction system to be met from General Reserve;
3. approves contributions to the capital programme in respect of Buxton Crescent totalling £0.830m to be met from General Reserve;
4. approves the creation of a £8.000m Earmarked Reserve to reflect a significant commitment against the General Reserve pending the outcome of an agreement with care home providers over backdated fee increases;
5. approves the creation of further Earmarked Reserves totalling £1.084m to reflect commitments identified since the last Reserves Report.

**PETER HANDFORD**  
Director of Finance

17 January 2014