

Meeting:	Cabinet
Meeting date:	Thursday 28 June 2018
Title of report:	Annual review of earmarked reserves
Report by:	Cabinet member corporate strategy and budget

Classification

Open

Decision type

Key

This is a key decision because it is likely to result in the council incurring expenditure which is, or the making of savings which are, significant having regard to the council's budget for the service or function concerned. A threshold of £500,000 is regarded as significant.

Notice has been served in accordance with Part 3, Section 9 (Publicity in Connection with Key Decisions) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

Wards affected

All wards

Purpose and summary

To approve proposed changes to earmarked reserves following the annual review.

Earmarked reserves are established to hold revenue balances to fund future year commitments over and above the annual budget requirement. They generally arise where funding exceeds expenditure, usually due to the timing of receipts being ahead of incurring expenditure. As a matter of good practice a review is undertaken each year to establish the continued need for reserves held for earmarked purposes to ensure resources can be used to best effect whilst maintaining a prudent level of reserves to meet future anticipated commitments.

The annual review has highlighted the proposed movement of £7.5m of reserve funding from two reserves held into alternative reserves, summarised below-

- Reduction of the sparsity reserve (£6.4m)

- Part utilisation of the minimum revenue provision reserve (£1.1m)
- Severe weather fund, proposed reserve addition of £1.4m
- Children’s wellbeing structural change, new reserve of £1.6m
- Adults and wellbeing provision of care cost, new reserve of £0.5m
- Road remedial works, £2.8m
- Living Wage, new reserve of £0.5m
- Health and wellbeing new reserve of £0.5m
- Legal services demand, new reserve £0.2m

Recommendation(s)

That:

(a) the following movements re earmarked reserves be approved:

- **the sparsity reserve be reduced by £6.4m**
- **the minimum revenue provision reserve be reduced by £1.1m**
- **the severe weather reserve be increased by £1.4m**
- **a new reserve of £1.6m established to support structural change in children’s wellbeing**
- **a new reserve of £0.5m established to support providing care costs in Adults and Wellbeing**
- **a new reserve of £2.8m established to support remedial road works**
- **a new reserve of £0.5m established to meet any future liabilities re living wage claims**
- **a new reserve of £0.5m established to support the community health and wellbeing requirements**
- **legal services demand, £0.2m**

Alternative options

1. To not approve the proposed earmarked reserve movements. This would mean reserves remain earmarked for the purposes currently stated and may not be used to support priority activity. The proposals follow an annual review and therefore the alternative option is not recommended.

2. To propose alternative movement of reserves. This is open for Cabinet to determine. However should that mean that funds that are required for an earmarked purpose are no longer available an alternative method of funding would need to be secured.

Key considerations

3. The council holds earmarked reserve balances to fund future year commitments over and above the annual budget requirement. Whilst ensuring that the overall annual budget is balanced, the council has been carefully building reserves to a prudent level to manage future financial risk and to support future financial needs, both foreseen and unforeseen.
4. The central government final financial settlement in preceding years resulted in an increase in the rural sparsity delivery grant allocated to Herefordshire. This additional funding was allocated to the sparsity earmarked reserve (as approved by Council as part of the annual budget setting process).
5. The annual review, undertaken by the s151 officer, invited suggestions from directors and senior management to address some of the comments raised by the Corporate Peer challenge in using some of our accumulated and unallocated reserves to meet the priorities of the corporate plan and address some of the current and future challenges.
6. Directors were asked to consider one-off spends that could prove spend to save initiatives, that would decrease risk in meeting planned savings targets in the Medium Term Financial Strategy or that would address the corporate risk assessment and provide greater confidence in delivering our corporate objectives. Proposals will not add to any base budget requirement going forward and are proposed to support the delivery of savings or target specific outcomes.
7. Part of the annual review included comparing the level of reserve balances held to our statistical neighbouring councils. This review concluded that, at 24% of net expenditure, the council has a similar level of reserve balances as those held by comparator councils, with the average being 23%.
8. The council's useable reserves are split between general reserves and earmarked reserves that are held for certain purposes. Part of the council's general reserve is held as a strategic reserve to cover emergency events such as unforeseen financial liabilities or natural disasters. This reserve is maintained at a minimum level of between 3% and 5% of the council's net revenue budget. As at 31st March 2018 the general reserve balance (which includes the collection fund reserve) totalled £9.4m, being 6.5% of the councils 2018/19 net expenditure. The remainder of the council's general reserve is held to support one-off and limited on-going revenue spending and for smoothing the impact of the late delivery of savings plans.
9. The council's earmarked reserves, which include school balances, are held to meet specific identified spending commitments. These reserves will only be used for the purpose for which they were created. Appendix 1 details the current earmarked reserve balance held, commitments already approved against these balances, proposed changes and proposed restated earmarked reserve purpose and balance.
10. Following a review of the existing earmarked reserves, the majority are proposed to be retained as the requirement remains unchanged however the utilisation of the sparsity reserve and part utilisation of the MRP reserve are proposed. The sparsity reserve was established following the receipt of the rural service delivery grant. The utilisation of this

reserve is recommendation in line with the additional costs Herefordshire encounters due to its sparse nature. The cost of providing services and maintaining the road network in a rural sparse setting can be higher than urban counterparties due to the associated time and distance pressures.

11. The changes proposed are as follows:-

- a. Full utilisation of the sparsity reserve, £6.4m. This reserve was established following the uplift of the rural services delivery grant funding in the central government funding settlement. The utilisation of this funding is recommended for the purposes listed below.
- b. Part utilisation of the minimum revenue provision (MRP) reserve of £1.1m. This reserve was established following the MRP policy review in 2017/18, using £1.1m of this funding for the purposes listed below will leave a balance of £4.0m which is intended to be uplifted each year of the medium financial strategy term period and set aside to fund potential future year addition notional debt repayment costs.
- c. Severe weather fund, proposed reserve addition of £1.4m. This reserve was reduced to £nil during 2017/18, following the adverse weather conditions so it is proposed to increase this to £1.4m to fund potential bad weather related costs, for example in ensuring the rural road network remains navigable, in future years.
- d. Children's wellbeing structural change, new reserve of £1.6m. This is to target investment in three areas, being caseloads, performance management and demand management, to bring immediate and longer term benefits, avoid significant cost and provide support to strengthen Herefordshire's approach.
- e. Adults and wellbeing, new reserve of £0.5m. This is proposed to target the continuing health care provision throughout the rural county.
- f. Road remedial works, £2.8m. Following the impact of the winter weather on the county's road network it is proposed that this reserve funds remedial works required in addition to the programme revenue and capital works already approved. There will be remaining works required after this investment.
- g. Living wage liability reserve, new reserve of £0.5m. This is proposed to fund unknown liabilities that may arise following recent living wage announcements, no challenges have been received to date.
- h. Health and wellbeing new reserve of £0.5m, proposed to resource a combined approach to enhance the proactive activity towards promoting the county's residents public health and wellbeing projects with our strategic partners.
- i. Legal services demand, new reserve of £0.2m to meet potential court costs and counsel fees arising from childcare legal cases. The plan is to have in house staff lead on cases and CWB to take a more proactive approach which is expected to increase the demand for advice work from the legal team.

Community impact

12. The use of reserve funding proposals demonstrates how the council is using its financial resources to best deliver the priorities within the agreed corporate plan, health and safety obligations and corporate parenting responsibilities.

13. Before each reserve balance is spent a separate report will detail the expenditure plans and how they will specifically impact the community.

Equality duty

14.

Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
15. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. The proposals, if approved, will lead to a decision making process which will demonstrate how the implementation of the proposal will pay due regard to equality legislation.

Resource implications

16. The use of reserve funding utilises existing resources. The actual incurring of expenditure against earmarked reserves will be subject to approval following the usual governance processes which will detail the resource implication of each proposal.
17. This review does not change the budget approved by Council in January 2018 and is proposed in accordance with the reserves policy included in the medium term financial strategy approved at the same time.

Legal implications

18. The review of earmarked reserves does not have in itself a legal implication, including reserves to manage risks is a prudent approach.

Risk management

19. Maintaining reserves for risk mitigation is recommended by Cipfa as best practice. The minimum levels referred to in the report are in line with Cipfa recommended practices. The recent corporate review identified that reserve usage should be reviewed which has led to the review and the concluding proposals recommended.

Consultees

20. Political groups have been consulted with, no objections or comments have been received.

Appendices

Appendix 1 – earmarked reserves review proposals

Background papers

None