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| Meeting: | Cabinet |
| Meeting date: | Thursday 24 October 2019 |
| Title of report: | Annual review of earmarked reserves |
| Report by: | Cabinet member finance and corporate services |

Classification

Open

Decision type

Non-key

Wards affected

(All Wards);

Purpose and summary

To note and approve the annual earmarked reserves 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.

Recommendation(s)

That:

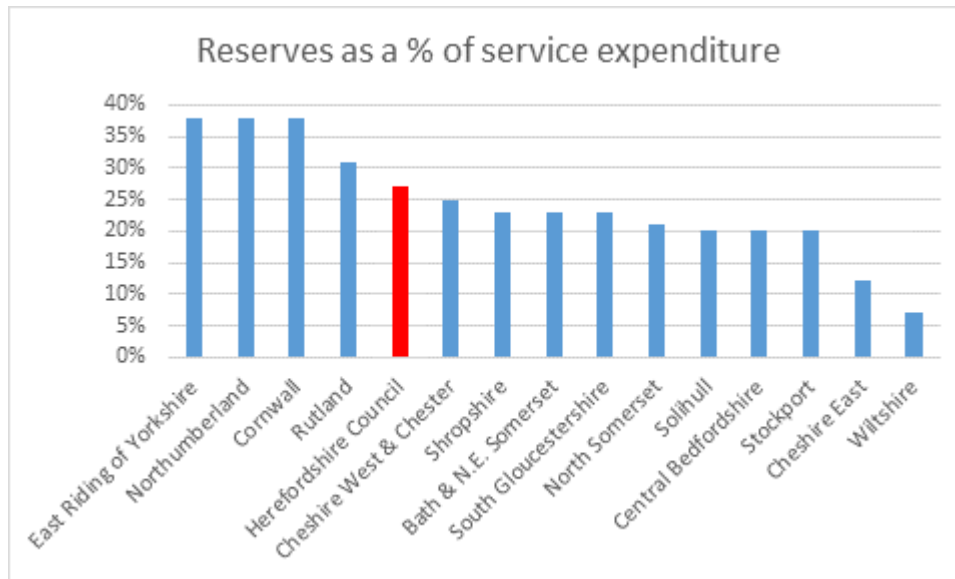
- (a) No specific changes be made to the reserve balances held, as shown in appendix 1, require approving from the annual review.**

Alternative options

1. To determine movements in reserves. Cabinet may determine to utilise some earmarked reserves for a different purpose; however should that mean those funds are subsequently required for their original purpose an alternative method of funding would need to be secured. Not all earmarked funds may be redirected for use – for example funding received from external sources for a specified purpose may not be able to be redirected if doing so would amount to a breach of funding conditions.

Key considerations

2. The council holds earmarked reserve balances to fund future year commitments over and above the annual budget requirement.
3. Earmarked reserves are sums specifically held to enable funds to be built up to meet known or predicted expenditure. They can be set up using one-off funds (such as year-end under-spends or grants) or by budgeting for a fixed amount to be taken from the revenue account each year and “saved” separately. Any expenditure then incurred within the year is taken from this “savings account”, thereby smoothing the impact on Council Tax. Appendix 1 provides a list of the balances held.
4. 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.
5. The council’s useable revenue 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 2019 the general reserve balance totalled £8.5m, being 5.6% of the councils 2019/20 net expenditure. The remainder of the council’s general reserve balance is held to support one-off and limited on-going revenue spending and for smoothing the impact of the late delivery of savings plans.
6. The annual review, undertaken by the chief finance officer, challenged the value, appropriateness and status of earmarked reserve balances. The review concluded that the balances held remain reasonable and prudent in addressing some of the current and future challenges.
7. Part of the annual review included comparing the level of reserve balances held to our statistical neighbouring councils. This review concluded that, at 27% of service expenditure, the council has a slightly higher than average level of reserve balances as those held by comparator councils, with the average being 24%, shown below:



8. 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. The table below summarises the current earmarked reserve balance held, commitments already approved against these balances, proposed increases and anticipated remaining balance.

| Directorate | Balance 01/04/2019 £m | (Drawdown) / addition in 19/20 £m | (Drawdown) / addition in 20/21 £m | Remaining balance £m |
|-----------------------------|-----------------------------|---|---|----------------------------|
| Adults & Communities | 2.5 | - | - | 2.5 |
| Children & Families | 2.1 | (1.3) | (0.3) | 0.5 |
| Central Total | 39.0 | 1.7 | 2.1 | 42.8 |
| Corporate Total | 1.2 | (0.2) | - | 1.0 |
| Economy & Place | 5.0 | (2.1) | (0.2) | 2.7 |
| School Reserves | 9.8 | (0.4) | (0.1) | 9.3 |
| Other small reserves | 0.7 | - | - | 0.7 |
| School unused grants | 3.1 | - | - | 3.1 |
| Public Health unused grants | 1.0 | - | - | 1.0 |
| Other unused grants | 2.5 | - | - | 2.5 |
| Grand Total | 66.9 | (2.3) | 1.5 | 66.1 |

9. On reviewing the above it was noted:-
 - a. The individual reserve purpose and value was challenged and reviewed for appropriateness and on-going need. Some minor within directorate streamlining and consolidating has been actioned, this is shown in Appendix 1.
 - b. Other unused grant balances held in reserves, which means any grant conditions have been met, are to be reviewed by each directorate as part of the budget setting process to ensure the funds are spent in accordance with the grant conditions or to determine if the fund is no longer needed for that purpose for consideration of either returning to funder or seeking an alternative use.

Community impact

10. 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.
11. Before each reserve balance is spent a separate report will detail the expenditure plans and how they will specifically impact the community.

Equality duty

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.
12. 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. As this report is a factual summary, we do not believe that it will have an impact on our equality duty.

Resource implications

13. 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.
14. This review does not change the budget approved by Council in February 2019 and is proposed in accordance with the reserves policy included in the medium term financial strategy approved at the same time.

Legal implications

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

Risk management

16. 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

None

Appendices

Appendix 1 Reserve balances held

Background papers

None identified