



Title of report: Annual review of Earmarked Reserves – 2025/26

Meeting: Cabinet

Meeting date: Thursday 5 February 2026

Report by: Leader of the Council (Section 9E)

Classification

Open

Decision type

Budget and policy framework

Wards affected

All Wards

Purpose

To note and review the earmarked reserves held by the council.

Recommendation(s)

That:

- a) The earmarked reserves and balances held by the council at 31 March 2025 are reviewed and confirmed as prudent to meet future financial commitments and risks; and
- b) The Earmarked Reserves and General Balances Policy Statement 2026/27 is approved and forecast balances to 31 March 2027 are noted.

Alternative options

1. There is no alternative option to undertaking a review. Alternative use of earmarked funds could be proposed, this is open for Cabinet to determine. However should that mean that funds required for an earmarked purpose are no longer available 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. Earmarked reserves represent amounts set aside for future expenditure; to support specific corporate priorities or for general contingencies and cash flow management. The General Fund balance is not allocated, or earmarked, for a specific purpose but represents a strategic reserve to be used in the event of a major incident or emergency.
3. It is considered prudent to maintain a level of reserve balances commensurate with risk and an assessment to confirm the adequacy and robustness of balances is undertaken annually by the Section 151 Officer as part of the budget setting process.
4. This Earmarked Reserves and General Policy Statement 2026/27, at Appendix 1, sets out the council's approach to maintaining appropriate levels of reserves and general balances to meet known future commitments and to mitigate against unforeseen future events
5. The Council's useable revenue reserves are split between a general reserve (the General Fund) and earmarked reserves that are held for certain purposes. Part of the Council's General Fund is held as a strategic reserve to cover emergency events such as unforeseen financial liabilities or natural disasters.
6. The General Fund reserve is maintained at a minimum level of between 3% and 5% of the net revenue budget. As at 31 March 2025 the general reserve balance totalled £10.1m, being 4.3% of the council's 2025/26 approved net revenue budget.
7. The council's earmarked reserve balances at 31 March 2025 totalled £80.7 million comprising £16.8 million of reserves held for liabilities and risk, £14.1 million held for budget resilience, £9.3 million which represent fund to support strategic priorities, £1.8 million of accounting reserves, £27.0 million in grants and contributions and £11.7 million of balances held on behalf of schools.
8. Earmarked reserve balances at 31 March 2025, detailed at Annex A of Appendix 1, include £18.0 million grant funding carried forward to 2025/26. This represents amounts of grant funding received, with no outstanding grant conditions attached, which have not yet been applied to relevant expenditure. In accordance with the principles of the CIPFA Code of Practice on Local Authority Accounting and relevant accounting standards, these amounts are treated as earmarked reserves to be carried forward for application in future accounting periods.
9. Forecast earmarked reserve balances for the 2025/26 and 2026/27 financial years are noted at Annex A, Appendix 1. At 31 March 2026, the forecast balance of earmarked reserves is £65.2 million, £41.6 million at 31 March 2027. These balances will increase as new grants are received in future accounting periods.
10. The Quarter 2 2025/26 Budget Report presented to Cabinet in November 2025 reports a forecast overspend of £7.0 million at Quarter 2, before management action estimated at £3.3 million to reduce the forecast overspend to £3.7 million. Any overspend in 2025/26 must be funded using the council's available reserves and a review of reserve balances will be undertaken as part of the process to finalise the outturn position for the year.
11. The Medium-Term Financial Strategy identifies the key financial risks that could affect the council's financial position and resilience over the medium-term period. The council's financial strategy aims to minimise the use of reserves in the medium term and to replenish them to support future sustainability, enable the council to respond to unexpected changes and to invest in the continued transformation and improvement of its services.

12. As funding pressures continue, the council will need to consider opportunities to replenish reserve balances, as part of the future financial strategy, to build and protect financial resilience to mitigate against future financial risks.

Community impact

13. The use of reserves 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.

Environmental Impact

14. The council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.

Equality duty

15. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations, and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services. An equality impact screening checklist will be completed for budget proposals and where necessary a full Equality Impact Assessment will be performed. Equalities will be considered during the delivery of the service to ensure that the Council has regard to any potential effects on those with protected characteristics.

Resource implications

16. The use of reserves will mean permanent depletion of those reserves unless budget is set aside to replenish those reserves or additional grant funding is received. Incurring expenditure against earmarked reserves will be subject to approval following the usual governance processes which will detail the resource implication of each proposal.
17. An assessment to confirm the adequacy and robustness of balances is undertaken annually by the Section 151 Officer as part of the budget setting process.

Legal implications

18. The council is required to set a balanced budget each year under Section 31A of the Local Government Finance Act 1992, which includes having regard to the level of reserves needed for meeting estimated future expenditure when calculating the council tax requirement.
19. Section 151 of the Local Government Act 1972 requires the council to make arrangements for the proper administration of their financial affairs and ensure that one of its officers (also referred to as the S151 officer) has responsibility for the administration of those affairs.
20. Under section 25 of the Local Government Act 2003, the S151 officer has a duty to report on the robustness of estimates and adequacy of reserves when the authority is setting its annual budget and council tax requirement.
21. The review of earmarked reserves does not have in itself any legal implications, using reserves to manage risks is a prudent approach.

Risk management

22. Maintaining reserves for risk mitigation and an annual review of reserve balances is recommended by The Chartered Institute of Public Finance and Accountancy (CIPFA) as best practice. The risks mitigated by funds held in earmarked reserves and the General Fund are highlighted in Appendix 1.

Consultees

23. None.

Appendices

Appendix 1 – Earmarked Reserves and General Balances Policy Statement 2026/27

Background papers

None identified.