

EARMARKED RESERVES AND GENERAL BALANCES POLICY STATEMENT 2026/27

Introduction

- 1.1 This statement 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.
- 1.2 The council's 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.
- 1.3 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.

Legislative Framework

- 2.1 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.
- 2.2 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.
- 2.3 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.

Assessing the adequacy of reserves

- 3.1 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.
- 3.2 There are robust controls in place, as part of routine budget monitoring arrangements, to monitor in-year transfers to and from reserves and resulting reserve balances and these transactions are subject to review as part of the annual audit of the statutory accounts.
- 3.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Resilience Index is a comparative tool to support good financial management. The index shows a council's position on a range of measures associated with financial risk to highlight where additional scrutiny may be required. The data for the most recent index reflects figures obtained from the Revenue Expenditure and Financing England Outturn Report 2024/25 (RO Forms) as at 31 March 2025.
- 3.4 The reserve sustainability measure provides a measure of how long in years it will take for a council to run out of reserves if they continue to use them as they have and the

associated level of risk. This data highlights the council's reserve sustainability measure to be 'lower risk' and notes the council has average reserves relative to its nearest neighbour and other unitary authority comparator groups.

- 3.5 The risk assessment for 2026/27 has determined that a General Fund balance of £10.1 million, unchanged from 2025/26, should be maintained. This is equivalent to 4.3% of the proposed operating budget of £234.1 million for 2026/27 and equates to between two and three weeks of net expenditure. Details of this risk assessment are set out at Annex C.
- 3.6 The Quarter 2 2025/26 Budget Report presented to Cabinet in November 2025 highlights a forecast overspend of £7.0 million before management and recovery action planned in 2025/26. The variance represents in-year cost pressures of £5.6 million arising as a result of increased demand and complexity of need in adult social care budgets, temporary accommodation, and home to school transport and £1.4 million of savings targets assessed as at risk at Quarter 2 2025/26.
- 3.7 The Budget Resilience Reserve (Contingency reserve) was established in 2024/25 to mitigate against in-year cost pressures. It is proposed that £2.8 million of this reserve will be used to manage the impact of in-year cost pressures and volatility in demand across social care budgets in the Community Wellbeing Directorate in 2025/26.
- 3.8 The remaining balance of £4.2 million will be carried forward at 31 March 2026 and transferred to a centrally managed Contract Inflation Fund to manage inflationary increases which cannot be managed within Directorate budgets, with amounts transferred to Directorates through existing expenditure control processes when evidence of need has been demonstrated. At the end of the 2026/27 financial year, any unused balance will be considered as part of the annual review of earmarked reserves.

Earmarked Reserves

- 4.1 Annex A sets out the audited earmarked reserve balances at 1 April 2025 and forecast balances at 31 March 2026 and 31 March 2027. Annex B presents the reserve balances by category, noting reserves held for liability and risk, budget resilience, accounting purposes, to fund strategic priorities and those which represent grant and other balances to be carried forward for expenditure in future years.
- 4.2 Excluding schools' balances, earmarked reserves are forecast to be £53.5 million at 31 March 2026 and £29.9 million at 31 March 2027; a reduction of £23.6 million. This reduction includes £5.8 million application of grant funding, accounted for as Earmarked Reserves which is expected to be applied to relevant expenditure in 2026/27 and £6.0 million transfer of reserve balances to establish the Contract Inflation Fund.
- 4.3 This position does not take into account the cumulative Dedicated Schools Grant (DSG) deficit, accounted for as an unusable reserve as permitted by statutory instrument. Further detail in respect of the DSG deficit is included in the Draft Revenue Budget Report 2026/27 and Medium Term Financial Strategy 2026/27 to 2029/30.
- 4.4 The General Fund Balance is forecast to be maintained at £10.1 million to 31 March 2027.
- 4.5 A description of each reserve and explanation of risks to be managed and mitigated is set out below.

Business Rates Risk Reserve: This reserve is held to manage risks in the business rate regime including the impact of changes in the level of business rates income and uncertainty over appeals.

Waste Reserve: This reserve is held to manage risks and support future costs in respect of the council's waste collection and disposal contracts.

Budget Resilience Reserve: This reserve is held to mitigate the risk to the revenue budget of excessive cost pressures and volatility in demand across social care budgets.

Fastershire Reserve: This reserve represents the balance of grant funding received in respect of the Fastershire partnership between Herefordshire Council and Gloucestershire Council. This represents the council's share of grant funding received, with no grant conditions attached, which has 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.

Financial Resilience Reserve: This reserve is held to manage financial risks across the council.

Settlement Monies Reserve: This reserve represents balances held in relation to historic settlement claims awarded to the council.

Whitecross PFI Reserve: This reserve represents the cumulative amount of unapplied funding received to date which will be utilised to finance the Schools PFI over the whole life of the project. The reserve also includes an amount to cover future Lifecycle Cost prepayments.

Unused Grants Carried Forward: This balance represents unspent grant monies, with no grant conditions attached, which has 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.

Other Reserves individual under £1.0 million: This balance represents individual Directorate reserves, less than £1.0 million. Transfers to and from these reserve balances are monitored and reported as part of routine financial monitoring arrangements.

Schools Balances: These balances are held on behalf of schools and are not funds available to the council.

- 4.6 The use of Earmarked Reserve balances is in accordance with the council's Financial Procedure Rules, which are approved annually by the Audit & Governance Committee.
- 4.7 All reserve balances are subject to a year-end review as part of the financial closedown process to finalise the outturn position for the year. This review is undertaken by the relevant corporate Director and S151 Officer and includes an assessment of the planned future use of each reserve. The outcome of this review is confirmed annually to Cabinet as part of reporting of the financial outturn position for the year for revenue and capital budgets.

ANNEX A Earmarked Reserve Balances

Table 1 Earmarked Reserve Balances at 31 March 2025 (audited) and 31 March 2026 and 31 March 2027 (forecast)

Reserve	Type	Audited Balance at 31/03/2025 £m	Forecast Balance at 31/03/2026 £m	Forecast Balance at 31/03/2027 £m
Business rates risk	Liabilities and risk	13.3	10.2	8.9
Waste	Budget resilience	7.1	4.8	0.1
Budget resilience	Budget resilience	7.0	4.2	-
Enterprise zone business rates growth	Strategic Priorities	3.0	2.7	-
Fastershire	Strategic Priorities	2.7	2.7	2.7
Financial resilience	Liabilities and risk	2.3	2.3	2.3
Settlement monies	Strategic Priorities	2.0	1.7	0.1
Whitecross school PFI	Accounting reserves	1.8	2.1	2.1
Public realm project	Strategic Priorities	1.6	0.9	-
RNC campus	Liabilities and risk	1.2	0.2	0.2
Unused grants carried forward	Grants and contributions	18.0	13.6	7.3
Other reserves individually under £1m	Grants and contributions	9.0	8.1	6.2
Total reserves excluding schools		69.0	53.5	29.9
Schools' balances	Schools	11.7	11.7	11.7
Total earmarked reserves		80.7	65.2	41.6
General fund balance		10.1	10.1	10.1
Total earmarked reserves and general fund		90.8	75.3	51.7

ANNEX B Categories of reserve

Reserve	Type
Business rates risk	Liabilities and risk
Waste	Budget resilience
Budget resilience reserve	Budget resilience
Enterprise zone business rates growth	Strategic Priorities
Fastershire	Strategic Priorities
Financial resilience	Liabilities and risk
Settlement monies	Strategic Priorities
Whitecross school PFI	Accounting reserves
Public realm project	Strategic Priorities
RNC campus	Liabilities and risk
Unused grants carried forward	Grants and contributions
Other reserves individually under £1m	Grants and contributions
Schools' balances	Schools

Reserve Type	Audited Balance at 31/03/2025 £m	Forecast Balance at 31/03/2026 £m	Forecast Balance at 31/03/2027 £m
Liabilities and risk	16.8	12.7	11.4
Budget resilience	14.1	9.0	0.1
Strategic Priorities	9.3	8.0	2.8
Accounting reserves	1.8	2.1	2.1
Grants and contributions	27.0	21.7	13.5
Schools	11.7	11.7	11.7
Total	80.7	65.2	41.6

ANNEX C Risk assessment for determining appropriate level of reserve balances 2026/27

Table 2 Risk assessed minimum level of general fund balances from 1 April 2026

Area of risk	£m	Explanation of risk/basis of assessment
Emergencies	2.3	Allowance of 1.0% of net operating budget to respond to the impact of major disaster/emergency
Service Demand/Demographics		
Adult's Social Care Services	4.5	5.0% of Community Wellbeing net budget for 2026/27
Children's Social Care Services	<u>2.9</u>	5.0% of Children & Young People net budget for 2026/27
	7.4	
Expenditure		
Inflation exceeds assumed increase	2.4	1.0% increase in assumed rate of inflation
Treasury Management Reserve	(0.8)	Mitigated by Treasury Management Reserve
Financial Resilience Reserve	<u>(1.2)</u>	Mitigated by Financial Resilience Reserve
	0.4	
Income		
Reduction in Business Rates/Council Tax income	-	Mitigated by balance maintained in business rates risk reserve
Minimum General Fund Balance	10.1	

Risk assessed level of Balances as % of net operating budget	4.3%
Net operating budget (spend per week)	£4.5m
Weeks of spend	2.2 weeks