

## **Title of report: Annual review of earmarked reserves**

**Meeting: Cabinet**

**Meeting date: Thursday 30 September 2021**

**Report by: Cabinet member corporate strategy and budget**

### **Classification**

Open

### **Decision type**

Non-key

### **Wards affected**

(All Wards);

### **Purpose**

To note and review the reserves held by the council.

Earmarked reserves are established to fund future year commitments over and above the annual budget requirement. They generally arise where funding allocations exceeds annual 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) The reserves position, detailed in appendix A, be noted.**

### **Alternative options**

1. There is no alternative to reviewing the position. 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 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.
3. Whilst ensuring that the overall annual budget is balanced, the council carefully maintains reserves at a prudent level to manage future financial risks and to support future financial needs, both foreseen and unforeseen.
4. 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 31 March 2021 the general reserve balance totalled £9.1m, being 5.7% of the council's 2021/22 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.
5. Earmarked reserves 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.
6. Due to the delay in completing the 2019/20 external audit work the last annual review was completed by Cabinet in October 2019. Since then earmarked reserves have grown significantly however this is mainly due to £23.8m Covid 19 funds being held in reserve as at the financial year end that are expected to be spent in 2021/22.
7. Unused grant balances held in reserves, which means any grant conditions have been met, are 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.
8. The budget setting process will include considering the use of reserved funds to enable one-off spends that could provide spend to save initiatives, or address corporate risks, or provide greater confidence in delivering our corporate objectives. Due to the one-off cost nature of these proposals these would not add to any base budget requirement going forward and would be proposed to support the delivery of savings or target specific outcomes.
9. Cabinet is asked to review the balances of earmarked reserves listed in Appendix A. The chief finance officer has completed his review of each reserve value, appropriateness and status of the earmarked reserve balances listed. This review concluded that the balances held remain reasonable and prudent in addressing some of the current and future challenges.

## **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.

## **Environmental Impact**

12. Herefordshire 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.
13. Whilst this is a factual summary and will have minimal environmental impacts, consideration will be made to minimise waste and resource use in line with the Council's Environmental Policy when spending reserved funds.

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

## **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 February 2021 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 annual review of balances held is also in line with best practice.

## **Consultees**

None

## **Appendices**

Appendix A - Earmarked reserves

## **Background papers**

None identified