

Title of report: Annual review of Earmarked Reserves – 2022/23

Meeting: Cabinet

Meeting date: Thursday, 29 September 2022

Report by: Cabinet member Corporate Strategy and Budget

Classification

Open

Decision type

Non-key

Wards affected

(All Wards);

Purpose

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

Recommendation(s)

That:-

- (a) Note the Earmarked Reserves balances held at 31 March 2022 as at Appendix 1.**
- (b) Approve the following movements in reserves to fund the following projects:**
 - a. Implementation of countywide 20mph speed limit zones £1.2m.**
 - b. School travel plan support £0.31m**
 - c. Building retrofit and supply chain development £0.58m**
 - d. Further development of the Eastern River crossing business case £1m**
 - e. Reducing the backlog of Traffic regulation orders and carrying out further signing and lining £0.66m**

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 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. The implementation of program to introduce area wide 20mph speed limit zones in towns and villages, including all schools is designed to reduce injuries, fatalities and improves air quality it will also address increasing demand for speed reductions in residential areas.
4. The travel plan support for schools will provide a review of countywide school travel plan support, to include the provision of direct assistance to schools who are looking to update their existing school travel plans. It will also support the delivery of the Local Transport Plan and contribute towards the delivery of a number of County Plan objectives.
5. The Building Retrofit & Supply Chain Development will address a critical skills gap in retrofit market to mitigate achievement of carbon neutral standards, it will advantage local suppliers by strengthening supply chain and contribute to higher levels of carbon neutral standards.
6. The further development of the Eastern River crossing will enable the council to achieve the feasibility/options phases of the project that Contributes to the delivery of a key component of the Hereford Transport Strategy.
7. The reduction in the backlog of Traffic Regulation Orders (TRO) and signing and lining will address a maintenance backlog of signs and lines to affect public perception and council reputation. It will ensure that signs and lines are compliant with TRO's and any anomalies are eliminated and illegal parking is reduced and reduce the number of outstanding applications for TRO's
8. 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.
9. 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.
10. In line with the council's policy, this reserve is maintained at a minimum level of between 3% and 5% of the net revenue budget. As at 31 March 2022 the general reserve balance totalled £9.6m, being 6.0% of the council's 2021/22 approved net revenue budget. The remainder of the council's general reserve balance is held to support one-off, unforeseen financial costs and for smoothing the impact of the late delivery of savings plans.
11. 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.
12. The last annual review was undertaken in September 2021 which highlighted that at 31 March 2021 earmarked reserve balances were £105.6m and the General Fund stood at £9.1m. Estimated balances for 31 March 2022 were £84.8m and £9.1m respectively.

13. Actual earmarked reserve balances at 31 March 2022 were £96.5m and £9.6m giving a total of £106.1m against £114.7m at 31 March 2021. The increase of £0.5m for the General Fund is in line with the reported £0.5m underspend in the revenue budget outturn report which went to Cabinet on 26 May 2022. There has been a £9.1m decrease in Earmarked Reserves.
14. It should be noted that there are further amounts to be drawn down from earmarked reserves during 2022/23 including £11.49m to be drawn down from the Financial Resilience Reserve to fund the Children's Transformation work (Cabinet decision on 31 March 2022).
15. Earmarked Reserve balances at 31 March 2022 include £23.1m grant funding carried forward to 2022/23. This represents amounts of grant funding received, with no 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 2021/22 and relevant accounting standards, these amounts are treated as Earmarked Reserves at 31 March 2022 to be carried forward for application in future accounting periods. There are no conditions attached to these funds and therefore these amounts are not repayable by the council.
16. The refresh of the Medium Term Financial Strategy will also include a comprehensive review of earmarked reserves and their planned usage to determine whether any circumstances have changed.
17. The budget setting process will include considering the use of reserve funds to enable one-off spends that could provide spend-to-save initiatives, 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.
18. Cabinet is asked to review the balances of earmarked reserves listed in Appendix 1. 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

19. 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.
20. Before each reserve balance is spent a separate report will detail the expenditure plans and how they will specifically impact the community.

Environmental Impact

21. 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.
22. 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

23. 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.

24. 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

25. The use of reserve funding utilises existing resources but any use will mean permanent depletion of those reserves unless budget is set aside to replenish those reserves or additional grant funding is received. 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.
26. The implementation of countywide 20mph speed limit zones £1.2m and the school travel plans £0.31m will both be funded from the Public Health earmarked reserves. These are shown in appendix 1 under the heading grant funding carried forward. This is a movement of £1.51m.
27. The building retrofit and supply chain development project, £0.58m, the further development of the Eastern River crossing business case project, £1m and the reducing the backlog of Traffic regulation orders and carrying out further signing and lining £0.66m. Totalling £2.24m, will be funded from £1.75m from the settlements monies earmarked reserve, and £0.49m coming from a number of small grants included in the heading of grant funding carried forward.
28. This review does not change the budget approved by Council in February 2022 and is proposed in accordance with the Reserves Policy included in the Medium Term Financial Strategy approved at the same time.

Legal implications

29. The review of earmarked reserves does not have in itself any legal implications, including reserves to manage risks is a prudent approach.
30. The projects proposed to be funded by the proposed movements of reserves will all require their own decisions for implementation and the legal implications of the implementation will be addressed on a project by project basis.

Risk management

31. 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 1 - Earmarked Reserves and General Fund balances

Background papers

None identified