

Title of report: Annual review of earmarked reserves

Meeting: Cabinet

Meeting date: Thursday 21 December 2023

Report by: Cabinet member finance and corporate services

Report by: Director of Resources and Assurance

Report author: Head of Strategic Finance

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) **The earmarked reserves and balances held by the council at 31 March 2023 are reviewed and confirmed as prudent to meet future financial commitments and risks.**

Alternative options

1. There is no alternative option to undertaking a review of earmarked reserves and balances, it is considered to be best practice.
2. Alternative use of earmarked reserves could be proposed, this is open for Cabinet to determine. Not all earmarked reserves may be redirected, for example, the funds may be subject to conditions on spending.

Key considerations

3. Earmarked reserves are set aside from the general fund for future expenditure to support specific corporate priorities. They generally arise where funding exceeds expenditure, usually due to the timing of receipts being ahead of incurred expenditure. Earmarked reserves are one-off income streams and therefore cannot be utilised for ongoing budget expenditure commitments.
4. It is considered good practice to undertake an annual review of earmarked reserves to establish the continued need for each specific reserve and to ensure a prudent level of reserves to meet future anticipated commitments and financial risks. Appendix 1 details the significant balances within earmarked reserves totalling £81.8 million and the general fund balance of £9.6 million as at 31 March 2023.
5. The general fund is held as a strategic reserve to cover emergency unforeseen events. The council's policy is to maintain the general fund balance at a minimum level of between 3% and 5% of the net revenue budget. At £9.6 million, this is 5.5% of the 2022/23 net revenue budget.
6. In 2021, the councils' external auditors, Grant Thornton, published a document; Lessons from Public Interest Reports. This issued sector guidance on the minimum level of reserves advisable for Local Authorities, being "general fund reserves (including earmarked general fund reserves) should be a minimum of 5% of net spending and arguably should be somewhere between 5 and 10%". At £91.4 million, the council has reserve balances of 52% of the net revenue budget.
7. Earmarked reserves were last reviewed by Cabinet in September 2022, where the general fund balance was reported to be £9.6 million and earmarked reserves £96.5 million as at 31 March 2022. Since then, the general fund balance has remained the same, and earmarked reserves have decreased by £14.7 million, movements are detailed in Appendix 1.
8. Earmarked reserve balances at 31 March 2023 include £17.6 million grant funding carried forward to 2023/24. 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. The budget setting process for 2024/25 and refresh of the Medium Term Financial Strategy (MTFS) will include consideration of use of these reserves to provide spend to save initiatives, address corporate risks or one-off spend on corporate priorities.

Community impact

10. 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

9. 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.

10. 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.

Equality duty

11. 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 reserves 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.

Legal implications

14. The review of earmarked reserves does not have in itself any legal implications, using reserves to manage risks is a prudent approach.

Risk management

15. 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.

Consultees

16. None.

Appendices

Appendix 1 – Earmarked reserves and general fund balances

Background papers

None identified.