

## EARMARKED RESERVES AND GENERAL BALANCES POLICY STATEMENT 2025/26

### 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 2023/24 (RO Forms) as at 31 March 2024.
- 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 2025/26 has determined that a General Fund balance of £9.6 million, unchanged from 2024/25, should be maintained. This is equivalent to 4.1% of the proposed operating budget of £232.0 million for 2025/26 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 2024/25 Budget Report presented to Cabinet in November 2024 highlights a forecast overspend of £10.2 million before management and recovery action planned in 2024/25. The variance represents in-year cost pressures of £3.9 million arising as a result of increased demand and complexity of need in adult social care budgets, temporary accommodation, home to school transport and the under-delivery of the planning income target.
- 3.7 Cabinet approved the transfer of £11.0 million from the Business Rates risk reserve to establish a Budget Resilience Reserve (Contingency reserve) to mitigate against in-year cost pressures. As part of planned actions and management of any resulting in-year overspend, it is proposed that this reserve will be used to manage the impact of in-year cost pressures and volatility in demand across social care budgets in 2024/25.
- 3.8 The remaining balance will be carried forward at 31 March 2025 in the Budget Resilience Reserve to manage future emerging risks and in-year budgetary pressures over the medium term period. Allocation of reserve funding in each financial year will require application to the council's S151 Officer and Cabinet approval to ensure that appropriate measures have been taken within Directorates. At the end of each financial year, any unused balance will be considered as part of the annual review of earmarked reserves.
- 3.9 Whilst the proposed 2025/26 budget is informed by these cost pressures and relevant activity data to ensure the budget set is sufficient and appropriate, it is acknowledged that continuing volatility and high inflation in social care budgets presents a risk to the council's financial position in future years. The establishment of this reserve demonstrates a prudent approach to managing the risk of uncertainty in an area which represents a significant national challenge.

## **Earmarked Reserves**

- 4.1 Annex A sets out the audited earmarked reserve balances at 1 April 2024 and forecast balances at 31 March 2025 and 31 March 2026. 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 £55.6 million at 31 March 2025 and £45.7 million at 31 March 2026. 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 2025/26 and Medium Term Financial Strategy 2025/26 to 2028/29.
- 4.3 The General Fund Balance is forecast to be maintained at £9.6 million to 31 March 2026.
- 4.4 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.

**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.

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

**Fastershire Reserve:** This reserve represents the balance of gain share income received in respect of the Fastershire partnership between Herefordshire Council and Gloucestershire Council. This represents the council's proportion of gain share income received, which can only be spent on broadband delivery until 2028/29 after which time any restrictions are lifted. 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.

**Additional Pensions Costs Reserve:** This reserve is held to manage the impact of changes in the pension liability, e.g. in relation to the McCloud judgement.

**Settlement Monies Reserve:** This reserve represents balances held in relation to historic settlement claims awarded to the council. Cabinet approved use of this reserve includes annual funding for the Lengthsman Scheme in 2025/26 and 2026/27.

**Care Market Costs Reserve:** This reserve is held to manage expenditure within adult social care budgets. The budget amendment, approved by Council in February 2024, removed savings in the Children & Young People Directorate, part funded from funds held in this reserve. Once the outturn position for 2024/25 and the savings achieved are finalised, the funding requirement from this reserve will be confirmed.

**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.

**Technology Enabled Communities Reserve:** This reserve is held to fund the transformation of digital technology.

**Financial Resilience Reserve:** This reserve is held to manage financial risks across the council. The budget amendment, approved by Council in February 2024, removed savings in the Children & Young People Directorate, part funded from funds held in this reserve. Once the outturn position for 2024/25 and the savings achieved are finalised, the funding requirement from this reserve will be confirmed.

**Severe Weather Fund:** This reserve is held to fund costs associated with adverse weather conditions.

**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.

- 4.5 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. The deposit of funds to an Earmarked Reserve enables the relevant body or person in the council (such as cabinet, individual cabinet member or officer) to utilise the Earmarked Reserve for the purposes that the reserve was created. The relevant body or person must follow standard decision-making protocols within the council's Constitution to utilise the funds.
- 4.6 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 2024 (audited) and 31 March 2025 and 31 March 2026 (forecast)**

Reserve	Audited Balance at 31/03/2024 £m	Forecast Balance at 31/03/2025 £m	Forecast Balance at 31/03/2026 £m
Business rates risk	19.7	8.7	9.0
Budget resilience	-	11.0	9.6
Waste	6.8	6.3	2.5
Fastershire	0.5	2.7	2.7
Additional pension costs	1.7	0.7	0.7
Settlement monies	2.8	2.0	1.7
Care market costs	1.0	-	-
Whitecross school PFI	1.8	1.8	1.8
Technology enabled communities	1.5	0.4	0.1
Financial resilience	3.1	1.8	1.8
Severe weather fund	1.0	0.6	0.6
Unused grants carried forward	17.3	15.0	13.3
Other reserves individually under £1m	6.1	4.6	1.9
<b>Total reserves excluding schools</b>	<b>63.3</b>	<b>55.6</b>	<b>45.7</b>
Schools' balances	9.9	9.9	9.9
<b>Total earmarked reserves</b>	<b>73.2</b>	<b>65.5</b>	<b>55.6</b>
General fund balance	<b>9.6</b>	<b>9.6</b>	<b>9.6</b>
<b>Total earmarked reserves and general fund</b>	<b>82.8</b>	<b>75.1</b>	<b>65.2</b>

## ANNEX B Categories of reserve

Reserve	Type
Business rates risk	Liabilities and risk
Budget resilience reserve	Budget resilience
Waste	Budget resilience
Fastershire	Strategic Priorities
Additional pension costs	Liabilities and risk
Settlement monies	Strategic Priorities
Care market costs	Budget resilience
Whitecross school PFI	Accounting reserves
Technology enables communities	Strategic Priorities
Financial resilience	Liabilities and risk
Severe weather fund	Strategic Priorities
Unused grants carried forward	Grants and contributions
Other reserves individually under £1m	Grants and contributions
Schools' balances	Schools

Reserve Type	Audited Balance at 31/03/2024 £m	Forecast Balance at 31/03/2025 £m	Forecast Balance at 31/03/2026 £m
Liabilities and risk	24.5	11.2	11.5
Budget resilience	7.8	17.3	12.1
Strategic Priorities	5.8	5.7	5.1
Accounting reserves	1.8	1.8	1.8
Grants and contributions	23.4	19.6	15.2
Schools	9.9	9.9	9.9
<b>Total</b>	<b>73.2</b>	<b>65.5</b>	<b>55.6</b>

## ANNEX C Risk assessment for determining appropriate level of reserve balances 2025/26

Table 2 Risk assessed minimum level of general fund balances from 1 April 2025

Area of risk	£m	Explanation of risk/basis of assessment
<b>Emergencies</b>	<b>2.3</b>	Allowance of 1.0% of net operating budget to respond to the impact of major disaster/emergency
<b>Service Demand/Demographics</b>		
Adult's Social Care Services	4.6	5.0% of Community Wellbeing net budget for 2025/26
Children's Social Care Services	3.0	5.0% of Children & Young People net budget for 2025/26
Less budget resilience reserve mitigation	<u>(3.5)</u>	Available balance Budget Resilience Reserve to manage risk in 2025/26
	<b>4.1</b>	
<b>Expenditure</b>		
Inflation exceeds assumed increase	<b>2.4</b>	1.0% increase in assumed rate of inflation
<b>Income</b>		
Reduction in Business Rates/Council Tax income	-	Mitigated by balance maintained in business rates risk reserve
<b>General Contingency</b>	<b>0.8</b>	Contingency to mitigate unforeseen events and risk
<b>Minimum General Fund Balance</b>	<b>9.6</b>	

<b>Risk assessed level of Balances as % of net operating budget</b>	<b>4.1%</b>
Net operating budget (spend per week)	<b>£4.5m</b>
Weeks of spend	2.2 weeks