



FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

COUNCIL

2 February 2022

Report of the Executive Director, Corporate Services and Transformation

Reserves Position and Reserves Policy

1. Divisions Affected

1.1 County-wide.

2. Key Decision

2.1 This is not a Key Decision.

3. Purpose

3.1 For Council to note the current and forecast positions for both General and Earmarked Reserves and the updated Reserves Policy. This report should be read alongside the following reports to this Council meeting: the Budget Consultation Results Report for 2022-23, the Revenue Budget Report 2022-23 and the Capital Programme Approvals, Treasury Management and Capital Strategies for 2022-23 Report.

4. Information and Analysis

Reserves Policy

- 4.1 Section 43 of the Local Government Finance Act 1992 requires precepting authorities in England and Wales to assess the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 4.2 A range of safeguards are in place to prevent local authorities over-committing themselves financially. These include:
- The requirement to set a balanced budget as detailed in Section 43 of the Local Government Finance Act 1992.
 - The Chief Finance Officer's (S151 Officer) duty to report on the robustness of estimates and adequacy of reserves when the Council is considering its budget requirement as set out in Section 27 of the Local Government Act 2003.
 - Legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the Chief Finance Officer (S151 Officer) has responsibility for the administration of those affairs as set out in Section 151 of the Local Government Act 1972.
- 4.3 These requirements are reinforced by Section 114 of the Local Government Finance Act 1988, which requires the Chief Finance Officer to report to Council if there is, or is likely to be, unlawful expenditure or an unbalanced budget.
- 4.4 The Council has in place a Reserves Policy which ensures the Council meets its statutory obligations and sets out the framework within which decisions are made regarding the level of reserves.
- 4.5 In line with this framework the balance and level of Earmarked and General Reserves are regularly monitored to ensure they reflect a level adequate to manage the risks of the Council.

- 4.6 In a letter in August 2021, the Department for Levelling Up, Housing and Communities (DLUHC) has proposed an additional categorisation of local authority Earmarked Reserves in order to increase understanding and transparency around the purpose for which Earmarked Reserves are held. DLUHC intend to collect this data in local authorities' annual Revenue Outturn and Revenue Account Returns. To allow Officers and Members a comparison with the Council's existing Reserves Policy, the tables in the body of this report have been re-presented in Appendix Three, analysed according to the categories DLUHC has proposed.
- 4.7 The Reserves Policy was last approved by Cabinet on 26 January 2016. The following key amendments are proposed in this report:
- Clarifies that Earmarked Reserves are not available to the Council for use in setting its ongoing base budget.
 - Revises the approval limits for the creation of new Earmarked Reserves to:
 - Up to £100,000 – Executive Director in consultation with the Director of Finance & ICT.
 - Between £100,000 and £500,000 – Cabinet Member.
 - Above £500,000 – Cabinet.
 - Clarifies the authorisation for the transfer of amounts between Earmarked Reserves.
 - Clarifies that a review of Earmarked Reserves balances will be conducted on an annual basis and reported to Cabinet.
 - Revises the categorisation of Earmarked Reserves to align with that proposed by DLUHC.
- 4.8 A copy of the updated Reserves Policy has been included at Appendix Four.

General Reserve

- 4.9 The Council's General Reserve position was last reported to Cabinet on 29 July 2021, as part of the Revenue Outturn Report 2020-21. The level of General Reserve projections has been updated as part of the updated Five Year Financial Plan 2022-23 to 2026-27, which is included in the Revenue Budget Report 2022-23, also for consideration at this Council meeting. The General Reserve balance is forecast to be between £10m and £39m over the medium term.

4.10 It is recognised that the forecast General Reserve balance over the medium term is lower than would be preferred. Restorative measures will be utilised over the period of the Five Year Financial Plan to build back up the balance of the General Reserve. There are further options around the funding of planned capital investment projects which could release in excess of £30m of revenue contributions to fund capital expenditure which could alternatively be funded from additional borrowing and the money utilised instead to ensure that the Council's General Reserve position remains at a reasonable, risk-assessed level.

Earmarked Reserves

4.11 Earmarked Reserves are a means of smoothing expenditure to meet known or predicted liabilities. Funds should be used for the item for which they have been set aside. Any funds no longer required should be transferred to the General Reserve.

4.12 Earmarked Reserves totalling £260.507m were held at 1 April 2021. Of this total, £89.760m (34%) is available to support future spending. Details of the balances, categorised in accordance with the Reserves Policy, are below.

| Portfolio | Grants £m | Committed Liabilities £m | Funding Capital £m | Other £m | Not Controlled by Council £m | Total £m |
|------------------|----------------------|---|-----------------------------------|---------------------|---|---------------------|
| AC | 0.000 | 0.000 | 16.103 | 1.539 | 0.000 | 17.642 |
| CGR | 0.000 | 0.505 | 0.114 | 0.000 | 0.000 | 0.619 |
| CSB | 12.767 | 52.164 | 7.279 | 69.532 | 20.580 | 162.322 |
| CSSG | 0.622 | 1.076 | 0.198 | 5.067 | 0.008 | 6.971 |
| HAT | 0.904 | 1.853 | 1.006 | 13.339 | 0.617 | 17.719 |
| HC | 15.450 | 0.021 | 0.040 | 0.237 | 0.021 | 15.769 |
| IE | 0.135 | 1.012 | 0.028 | 0.000 | 0.003 | 1.178 |
| SLCTCC | 0.270 | 2.736 | 0.000 | 0.046 | 0.310 | 3.362 |
| Total | 30.148 | 59.367 | 24.768 | 89.760 | 21.539 | 225.582 |
| Schools | 0.000 | 0.000 | 0.000 | 0.000 | 34.925 | 34.925 |
| Total | 30.148 | 59.367 | 24.768 | 89.760 | 56.464 | 260.507 |

AC = Adult Care
 CGR = Clean Growth and Regeneration
 CSB = Corporate Services and Budget
 CSSG = Childrens Services and Safeguarding
 HAT = Highways Assets and Transport

| | | |
|--------|---|---|
| HC | = | Health and Communities |
| IE | = | Infrastructure and Environment |
| SLCTCC | = | Strategic Leadership Culture and Tourism and Climate Change |

- 4.13 The following Earmarked Reserves have a balance that is in excess of £5m:
- 4.14 **Loan Modification Gains/Losses** (£25.254m held at 1 April 2021; Corporate Services and Budget; Other) – held to meet the cost of higher interest charges arising on restructured loans which were remeasured when International Financial Reporting Standard 9 was adopted.
- 4.15 **Covid-19 Recovery Fund** (£15.000m held at 1 April 2021; Corporate Services and Budget; Other) – held to support the Council’s and wider County recovery from the impacts of the Covid-19 pandemic.
- 4.16 **Covid-19 Local Authority Emergency Grant** (£11.248m held at 1 April 2021; Corporate Services and Budget; Grants) – non-ringfenced emergency grant to support local authorities with the cost pressures experienced through the Covid-19 pandemic.
- 4.17 **Post Covid-19 Funding Risks** (£0.000m held at 1 April 2021; £14.000m held at 30 November 2021 (Created from 2020-21 underspends); Corporate Services and Budget; Other) – contingency against potential funding losses during the Covid-19 recovery period.
- 4.18 **Revenue Contributions to Capital Expenditure** (£44.584m held at 1 April 2021; Corporate Services and Budget; Other) – £14.227m is held to fund future capital expenditure. The balance of £30.357m has arisen as a consequence of the Council’s strategic decision to fund its capital expenditure in 2018-19, 2019-20 and 2020-21 from additional borrowing rather than its revenue budget and is held to support the management of revenue budgets over the medium term. Further contributions to this Earmarked Reserve, in the region of £2m, should be possible in 2022-23.
- 4.19 **Place Department: Prior Year Underspends** (£11.301m held at 1 April 2021; Highways Assets and Transport; Other) – held to finance anticipated overspends in the Place departmental budget because of a lag in the delivery of budget savings. These are expected to arise whilst delivering change in a managed way, to ensure that front line services are not unduly disrupted. It is forecast that this balance will be used by 31 March 2023.

- 4.20 **Public Health** (£8.532m held at 1 April 2021; Health and Communities; Grants) – the balance carried forward of the ring-fenced Public Health Grant.
- 4.21 **Business Rates Pool** (£6.301m held at 1 April 2021; Corporate Services and Budget; Committed Liabilities) – contains gains to the Council from participating in a business rates pool along with other authorities in Derby and Derbyshire since 2015-16. It is anticipated that this funding will support the Council’s commitments to transition to a greener operating model in line with its Climate Change Policy.
- 4.22 **Budget Management** (£11.917m held at 1 April 2021; Corporate Services and Budget; Other) - to support the management of revenue budgets over the medium term. This balance has since been used for one-off revenue support, as approved in the Revenue Budget Report 2021-22. Subsequently, £9m has been added to the reserve as approved in the Revenue Outturn Report 2021-22 and £2.845m has been transferred from the General Reserve to fund the balance of one-off expenditure required by the Revenue Budget 2022-23. The use of further one-off amounts has been forecast in the Five Year Financial Plan 2021-22 to 2025-26.
- 4.23 **Planned Building Maintenance** (£6.553m held at 1 April 2021; Corporate Services and Budget, Funding Capital Projects) – there are a number of building projects that are funded from this budget. Cabinet agree a schedule to be funded from this budget.
- 4.24 **Older People’s Housing Strategy Reserve** (£16.103m held at 1 April 2021; Adult Care; Funding Capital Project) – revenue contributions to capital expenditure, held to fund capital investment in Older People’s housing. If required, this capital investment could alternatively be funded from additional borrowing and the money utilised instead to ensure that the Council’s General Reserve position remains at a reasonable, risk-assessed level.

- 4.25 **Insurance and Risk Management** (£17.105m held at 1 April 2021; Corporate Services and Budget; Not Controlled by Council) – the Council keeps its payments to external insurance companies to a minimum by self-insuring much of its insurable risk. To cover self-insured risk, a contribution in lieu of premium is paid into an insurance fund, which comprises this reserve to cover expected liabilities and an insurance provision to cover incurred liabilities. Every four years an actuary performs an independent evaluation of the fund balance and the level of contributions. The last actuarial evaluation, completed in May 2018, confirmed that the total of this reserve and the insurance provision was adequate to meet current and anticipated liabilities.
- 4.26 The Council's Earmarked Reserve balances were reviewed during Autumn 2021. Departments have agreed to release £3.707m from balances, which will be utilised to support the Council in achieving a balanced budget over the medium term. This amount will initially be held in the Budget Management Earmarked Reserve. The balance of that reserve, including this transferred balance, is expected to be fully used in supporting one off expenditure detailed in the Revenue Budget Report 2022-23. Details of the balances to be released are shown in Appendix Two.
- 4.27 The table below summarises the forecast movement in Earmarked Reserves for the year ending 31 March 2022.

| Portfolio | Reserves Brought Forward at 01.04.2021 | Planned Net Contribution /(Use) 2021-22 | Amounts to be Released to General Reserve | Forecast Reserves Carried Forward at 31.03.2022 |
|------------------|---|--|--|--|
| | £m | £m | £m | £m |
| AC | 17.642 | (0.039) | (1.500) | 16.103 |
| CGR | 0.619 | 2.044 | 0.000 | 2.663 |
| CSB | 162.322 | (12.612) | (1.171) | 148.539 |
| CSSG | 6.971 | (1.567) | 0.000 | 5.404 |
| HAT | 17.719 | (8.871) | (1.000) | 7.848 |
| HC | 15.769 | (9.659) | 0.000 | 6.110 |
| IE | 1.178 | (0.747) | 0.000 | 0.431 |
| SLCTCC | 3.362 | 1.032 | (0.036) | 4.358 |
| Total | 225.582 | (30.419) | (3.707) | 191.456 |
| Schools | 34.925 | (1.147) | 0.000 | 33.778 |
| Total | 260.507 | (31.566) | (3.707) | 225.234 |

4.28 The table below categorises projected Earmarked Reserves balances at 31 March for the next five years, in accordance with the Reserves Policy. Schools balances have been excluded from this analysis.

| | Grants | Committed Liabilities | Funding Capital | Other | Not Controlled by Council | Total |
|------------|---------------|------------------------------|------------------------|--------------|----------------------------------|----------------|
| | £m | £m | £m | £m | £m | £m |
| 31.03.2021 | 30.148 | 59.367 | 24.768 | 89.760 | 21.539 | 225.582 |
| 31.03.2022 | 17.288 | 49.703 | 20.479 | 84.435 | 19.551 | 191.456 |
| 31.03.2023 | 13.824 | 39.907 | 12.354 | 53.486 | 18.309 | 137.880 |
| 31.03.2024 | 11.847 | 36.844 | 5.381 | 41.704 | 16.502 | 112.278 |
| 31.03.2025 | 11.256 | 35.007 | 0.092 | 35.035 | 15.889 | 97.279 |

5. Consultation

5.1 No consultation is required.

6. Alternative Options Considered

6.1 N/A – the Council is required to monitor and review the level of its reserves to ensure they are adequate to manage the risks of the Council. This is in accordance with the Reserve Policy which ensures the Council meets its statutory obligations regarding the level of reserves.

7. Implications

7.1 Appendix One sets out the relevant implications considered in the preparation of the report.

8. Background Papers

8.1 Held electronically by Financial Strategy Section, Financial Management & Strategy, Finance & ICT Division, County Hall.

9. Appendices

9.1 Appendix One – Implications.

9.2 Appendix Two – Amounts to be released from Earmarked Reserves.

9.3 Appendix Three – Recategorisation of Earmarked Reserves at 1 April 2021 in accordance with DLHUC proposals.

9.4 Appendix Four – Updated Reserves Policy.

10. Recommendations

That Council:

10.1 Notes the current position on Earmarked Reserves.

10.2 Notes the details of the amounts to be released from Earmarked Reserves balances.

10.3 Notes the allocation of £3.707m Earmarked Reserves released to the Budget Management Earmarked Reserve.

10.4 Notes the updated Reserves Policy.

11. Reasons for Recommendations

11.1 The balance of both the General and Earmarked Reserves support good financial planning.

11.2 Any funds in Earmarked Reserves which are no longer required for the item for which they have been set aside should be transferred to the General Reserve to ensure that the balance and level of Earmarked and General Reserves reflect a level adequate to manage the risks of the Council.

11.3 The allocation of additional funding to the Budget Management Earmarked Reserve will support the Council in setting a balanced budget in future years, through the use of one-off funding to support services.

11.4 A Reserves Policy ensures that the Council meets its statutory obligations and sets out the framework within which decisions are made regarding the level of reserves.

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This report has been approved by the following officers:

| | |
|---|--|
| <p>On behalf of:</p> <p>Director of Legal Services and Monitoring Officer Executive Director, Corporate Services and Transformation (S151 Officer) Managing Director</p> | |
|---|--|

Implications

Financial

1.1 As outlined in the body of the report.

Legal

2.1 As outlined in the body of the report.

Human Resources

3.1 None.

Information Technology

4.1 None.

Equalities Impact

5.1 None.

Corporate objectives and priorities for change

6.1 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None.

Appendix Two

Details of Earmarked Reserves where an amount is to be released:

| Portfolio | Reserve | AC £m | CGR £m | CSB £m | CSSG £m | HAT £m | HC £m | IE £m | SLCTCC £m | Total £m |
|------------------|--------------------------------|------------------|-------------------|-------------------|--------------------|-------------------|------------------|------------------|----------------------|---------------------|
| AC | Telecare | 1.500 | | | | | | | | 1.500 |
| CSB | Chairs Fund Reserves | | | 0.061 | | | | | | 0.061 |
| CSB | Derbyshire Discretionary Fund | | | 0.007 | | | | | | 0.007 |
| CSB | Business Rates Appeals | | | 0.300 | | | | | | 0.300 |
| CSB | Community Priorities Programme | | | 0.803 | | | | | | 0.803 |
| HAT | Place: Prior Year Underspends | | | | | 1.000 | | | | 1.000 |
| SLCTCC | Creswell Crags | | | | | | | | 0.036 | 0.036 |
| Total | | 1.500 | 0.000 | 1.171 | 0.000 | 1.000 | 0.000 | 0.000 | 0.036 | 3.707 |

| | | |
|--------|---|---|
| AC | = | Adult Care |
| CGR | = | Clean Growth and Regeneration |
| CSB | = | Corporate Services and Budget |
| CSSG | = | Childrens Services and Safeguarding |
| HAT | = | Highways Assets and Transport |
| HC | = | Health and Communities |
| IE | = | Infrastructure and Environment |
| SLCTCC | = | Strategic Leadership Culture and Tourism and Climate Change |

Appendix Three

Recategorisation of Earmarked Reserves at 1 April 2021 in accordance with DLHUC proposals:

| Portfolio | Contractual Commitments | Covid Grants | Grants | Planned Revenue Spend | Planned Capital Spend | Specific Risks | Budget Stabilisation | Other | Public Health Grant | DSG | Schools Balances | Total |
|--------------|----------------------------|-----------------|--------------|-----------------------------|-----------------------------|-------------------|-------------------------|---------------|---------------------------|--------------|---------------------|----------------|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| AC | 0.000 | 0.000 | 0.000 | 1.539 | 16.103 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 17.642 |
| CGR | 0.302 | 0.000 | 0.000 | 0.203 | 0.114 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.619 |
| CSB | 45.756 | 12.515 | 0.253 | 5.240 | 7.279 | 64.496 | 11.917 | 14.864 | 0.000 | 0.000 | 0.000 | 162.320 |
| CSSG | 0.000 | 0.516 | 0.107 | 5.858 | 0.198 | 0.000 | 0.000 | 0.293 | 0.000 | 0.000 | 0.000 | 6.972 |
| HAT | 0.654 | 0.000 | 0.904 | 13.155 | 1.006 | 2.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 17.719 |
| HC | 0.136 | 4.900 | 2.019 | 0.122 | 0.040 | 0.000 | 0.000 | 0.021 | 8.532 | 0.000 | 0.000 | 15.770 |
| IE | 0.129 | 0.000 | 0.135 | 0.886 | 0.028 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 1.178 |
| SLCTCC | 0.318 | 0.000 | 0.270 | 2.085 | 0.000 | 0.000 | 0.000 | 0.689 | 0.000 | 0.000 | 0.000 | 3.362 |
| Total | 47.295 | 17.931 | 3.688 | 29.088 | 24.768 | 66.496 | 11.917 | 15.867 | 8.532 | 0.000 | 0.000 | 225.582 |
| Schools | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 34.925 | 34.925 |
| Total | 47.295 | 17.931 | 3.688 | 29.088 | 24.768 | 66.496 | 11.917 | 15.867 | 8.532 | 0.000 | 34.925 | 260.507 |

Appendix Three

The table below categorises projected Earmarked Reserves balances at 31 March for the next five years, in accordance with the DLUHC's proposal. Schools balances have been excluded from this analysis.

| | Contractual Commitments | Covid Grants | Grants | Planned Revenue Spend | Planned Capital Spend | Specific Risks | Budget Stabilisation | Other | Public Health Grant | DSG | Schools Balances | Total |
|------------|------------------------------------|-------------------------|---------------|--------------------------------------|--------------------------------------|---------------------------|---------------------------------|--------------|------------------------------------|------------|-----------------------------|----------------|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| 31.03.2021 | 47.295 | 17.931 | 3.688 | 29.088 | 24.768 | 66.496 | 11.917 | 15.867 | 8.532 | 0.000 | 0.000 | 225.582 |
| 31.03.2022 | 42.417 | 11.281 | 1.593 | 18.539 | 20.479 | 69.006 | 15.552 | 8.174 | 4.415 | 0.000 | 0.000 | 191.456 |
| 31.03.2023 | 39.507 | 11.133 | 0.855 | 8.231 | 12.354 | 61.522 | 0.000 | 2.442 | 1.836 | 0.000 | 0.000 | 137.880 |
| 31.03.2024 | 35.982 | 11.079 | 0.265 | 4.536 | 5.381 | 52.538 | 0.000 | 1.994 | 0.503 | 0.000 | 0.000 | 112.278 |
| 31.03.2025 | 33.881 | 11.079 | 0.178 | 3.892 | 0.092 | 46.538 | 0.000 | 1.620 | 0.000 | 0.000 | 0.000 | 97.280 |



Reserves Policy

Peter Handford BA (Hons) PGCert FCPFA

Executive Director, Corporate Services and Transformation

Approval and Authentication

| Name | Job Title | Signature | Date |
|----------------|---|------------------|-----------------|
| Peter Handford | Executive Director, Corporate Services and Transformation | | December 2021 |
| Cabinet | | | 24 January 2022 |

RESERVES POLICY

Introduction

This policy establishes a framework within which decisions will be made regarding the level of reserves held by the Council and the purposes for which they will be used and maintained.

Sections 32 and 43 of the Local Government Finance Act 2003 require local authorities to have regard to the level of resources needed to meet estimated future expenditure when calculating the annual budget requirement.

Definitions

Reserves are sums of money held by the Council to meet future expenditure. There are two principal types of reserves:

- (a) General - non-specific reserves which are kept to meet short term, unforeseeable expenditure and to enable significant changes in resources or expenditure to be properly managed over the period of the Council's Five Year Financial Plan (FYFP). The Council's general revenue reserves are held in the General Reserve Balance.
- (b) Earmarked Reserves which are held for specific purposes and which are established either by statute or at the discretion of the Council.

A summary of all reserves, including in year movements and year-end balances are contained in the Council's Statement of Accounts.

General Reserve Balance

The Council will maintain an adequate level of General Reserve Balance to:

- Provide a working balance to cushion the impact of uneven cash flows and avoid unnecessary short-term borrowing.
- Provide a contingency to cushion the impact of unexpected events or emergencies.
- Plan for potential major items of expenditure.

The appropriate level of reserves for this purpose will be determined by the Council's FYFP, which will be reviewed annually and will be subject to approval by a meeting of the Council's Cabinet. However, the Council will not maintain levels of General Reserve balances that are excessive compared with appropriate minimum levels. In this context, "excessive" will be assessed and reviewed annually in the FYFP with regard to:

- The projected level of General Reserve balance at the end of the FYFP, less the appropriate minimum level.
- The annual planned use of reserves in each year of the FYFP.
- The impact of sudden large changes in annual use of balances on services or Council Tax levels.

The adequacy of the General Reserve Balance will be determined by assessing the financial risks associated with meeting continuing obligations to provide services. The risk assessment will be reviewed annually.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance about the factors which should be taken into account in determining the overall level of reserves and balances. These are:

- Assumptions regarding inflation.
- Estimates of the level and timing of capital receipts.
- Treatment of demand-led pressures.
- Treatment of savings.
- Risks inherent in any new partnerships.
- Financial standing of the Authority (i.e. level of borrowing, debt outstanding, etc.).
- The Authority's track record in budget management.
- The Authority's capacity to manage in year budget pressures.
- The Authority's virements and year-end procedures in relation to under and over-spends.
- The adequacy of insurance arrangements.
- An assessment of external risks.
- Impact of major unforeseen events.
- Likely level of Government support following major unforeseen events.

The General Reserve Balance will be reviewed and projections on future balances will be made at key points during the financial year, namely as part of the budget setting process and update of the FYFP. In exceptional circumstances, the actual level of the Council's balance may fall below the level which is considered appropriate. This is consistent with the need to provide to meet short-term unforeseen expenditure. However, the actual level will be monitored against balances outlined in the FYFP. The plan will set out the level of planned balances, as well as confirming acceptable thresholds above or below the balance. If the balance falls outside of the planned tolerance levels, a plan will be agreed by the Council to restore balances to the appropriate level.

Earmarked Reserves

Departments may establish Earmarked Reserves from within their cash-limited budgets to properly reflect on-going financial commitments, fund future service developments or expenditure of an uneven nature. Earmarked Reserves are not available to the Council for use in setting its ongoing base budget. They are required for specific purposes and are a means of building up funds to meet known or predicted liabilities. These reserves have no upper threshold on them; however, individually their limit and purpose must be approved before they are created using the following approval limits:

- Up to £100,000 – Executive Director in consultation with Director of Finance & ICT.
- Between £100,000 and £500,000 – Cabinet Member.
- Above £500,000 – Cabinet.

Transfers between reserves shall be in accordance with the Scheme of Delegation and Financial Regulations, namely:

- Up to £100,000 – Executive Director
- Between £100,000 and £500,000 – Cabinet Member
- Above £500,000 – Cabinet

Transfers up to £100,000 between departments requires the authorisation of both relevant Executive Directors.

Balances carried forward from previous year's underspend will be allocated to a departmental reserve and proposals for their use will be subject to final approval by the Cabinet Member.

Balances should be reasonable for the purpose held and must be used for the item for which they have been set aside, if circumstances arise to which the reserve is no longer required for its original purpose, they should be transferred to the General Reserve. In order to establish that they are fit for purpose, there will be a review of balances on an annual basis, the outcome of which will be reported to Cabinet.

Earmarked Reserves will be analysed into the following categories:

- **Contractual Commitments** - Genuine liabilities that are known and current to the Council (this does not include holding a balance to cover possible future liabilities), such as PFI scheme obligations. It will also include money held on behalf of partnerships and other Councils.

- **Grants** – Any reserve that was created through the receipt of a grant (excluding Public Health and Dedicated Schools Grants). This could be due to the timing of the payment of the grant.
- **Planned future Revenue Spend** – Funding intended to meet the cost of Revenue expenditure which has yet to be incurred.
- **Planned future Capital Spend** – Amounts held to meet funding required by the capital programme.
- **Specific Risks** – Any reserve held for specific risks which can be named (this does not include balances held as general contingency or to stabilise the budget against a reduction in funding).
- **Budget Stabilisation** – Balances held to stabilise the budget against a reduction in funding.
- **Schools Reserves** - Balances which a scheme, made under Section 48 of the School Standards and Framework Act 1998, provides must be carried forward to be used for the purpose of schools. These amounts represent the amount of unspent schools' budgets.
- **Dedicated Schools Grant (DSG)** – The aggregate of these reserves should be consistent with the Council's return to the Department for Education (DfE) made under Section 251 of the Apprenticeships, Skills, Children and Learning Act 2009. This is the balance of ring-fenced specific government grant paid in support of the Council's schools' budgets which is as yet unspent.
- **Other** – All other earmarked reserve balances.

School Reserves

School balances are held for two main reasons; as a contingency against financial risks and to meet planned commitments in future years.

Schools are encouraged to retain, where possible, a modest balance towards future liabilities and potential need for replacement of equipment. In order to allow the local authority to monitor schools' financial positions, governing bodies will be asked to report to the local authority on the use which the schools intend to make of surplus balances. The local authority will focus particularly on those schools which have built up significant excessive uncommitted balances and/or where some level of redistribution would support improved provision across a local area.