

DERBYSHIRE COUNTY COUNCIL

CABINET

21 November 2019

Report of the Director of Finance & ICT

RESERVES POSITION
(STRATEGIC LEADERSHIP, CULTURE AND TOURISM)

1 Purpose of the Report

To note the current and forecast positions for both General and Earmarked Reserves and to approve the Reserves Policy.

2 Information and Analysis

Reserves Policy

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.

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 (Director of Finance's) 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 (Director of Finance) has responsibility for the administration of those affairs as set out in Section 151 of the Local Government Act 1972.

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.

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.

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.

General Reserve

The Council's General Reserve position was reported to Cabinet on 11 July 2019, as part of the Revenue Outturn Report 2018-19. The level of General Reserve projections have been updated as part of the updated Five Year Financial Plan 2019-20 to 2023-24, reported to Cabinet on 11 September 2019. General Reserves are forecast to be between £18m and £48m over the medium term.

Earmarked Reserves

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.

Earmarked Reserves totalling £233.447m were held at 1 April 2019. Of this total, £125.625m (54%) is available to support future spending. Details of the balances are categorised in accordance with the Reserves Policy below.

Portfolio	Grants £m	Committed Liabilities £m	Funding Capital £m	Other £m	Not Controlled by Council £m	Total £m
AC	22.709	0.250	0.000	0.000	0.000	22.959
CS	0.000	0.000	0.000	111.153	23.950	135.103
EDR	0.000	0.718	0.114	0.000	0.000	0.832
HC	7.933	0.119	0.000	0.241	2.000	10.293
HTI	1.378	1.042	4.988	11.734	0.590	19.732
SLCT	0.374	2.145	0.000	1.041	0.431	3.991
YP	5.447	1.986	0.000	1.456	0.002	8.891
Total	37.841	6.260	5.102	125.625	26.973	201.801
Schools	5.524	0.079	0.000	0.000	26.043	31.646
Total	43.365	6.339	5.102	125.625	53.016	233.447

AC = Adult Care
CS = Corporate Services

EDR	= Economic Development and Regeneration
HC	= Health and Communities
HTI	= Highways, Transport and Infrastructure
SLCT	= Strategic Leadership, Culture and Tourism
YP	= Young People

The following Earmarked Reserves have a balance that is in excess of £5m:

Loan Modification Gains/Losses (£28.440m held at 1 April 2019; Corporate Services; 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.

Revenue Contributions to Capital Expenditure (£17.081m held at 1 April 2019; Corporate Services; Other) – £0.489m is held to fund future capital expenditure. The balance of £16.592m has arisen as a consequence of the Council's strategic decision to fund its capital expenditure in 2018-19 from additional borrowing rather than its revenue budget.

Economy Transport and Environment (ETE) Prior Year Underspends (£9.286m held at 1 April 2019; Highways Transport and Infrastructure; Other) – held to finance anticipated overspends in the ETE 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 2021.

Public Health (£7.601m held at 1 April 2019; Health and Communities; Grants) – the balance carried forward of the ring-fenced Public Health Grant.

Planned Building Maintenance (£6.282m held at 1 April 2019; Corporate Services, Other) – there are a number of building projects that are funded from this budget. Cabinet agree a schedule to be funded from this budget.

Older People's Housing Strategy Reserve (£22.676m held at 1 April 2019; Adult Care; Funding Capital Project) – held to fund a £30.000m capital investment in Older People's housing.

Insurance and Risk Management (£20.070m held at 1 April 2019; Corporate Services; 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.

Budget Management (£30.792m held at 1 April 2019; Corporate Services; Other) - to support the management of revenue budgets over the medium term. The Revenue Budget Report 2019-20 approved the use of one-off revenue support of £9.463m from this balance. The use of further one-off amounts have been forecast in the Five Year Financial Plan 2019-20 to 2023-24.

The Council's Earmarked Reserve balances were reviewed during Summer 2019. Departments have agreed to release £1.015m from balances, which will be used to maintain the Council's General Reserve at an adequate risk assessed level over the medium term. Details of the balances to be released are shown in Appendix One.

The table below summarises the forecast movement in Earmarked Reserves from the date of the review to 31 March 2020.

Portfolio	Reserves Brought Forward at 01.04.2019	Planned Net Contribution /(Use) 2019-20	Amounts to be Released to General Reserve	Forecast Reserves Carried Forward at 31.03.2020
	£m	£m	£m	£m
AC	22.959	(0.283)	0.000	22.676
CS	135.103	(37.929)	(0.800)	96.374
EDR	0.832	(0.611)	(0.115)	0.106
HC	10.292	(4.857)	0.000	5.435
HTI	19.732	(9.338)	(0.020)	10.374
SLCT	3.991	(1.852)	(0.050)	2.089
YP	8.892	(1.613)	(0.030)	7.249
Total	201.801	(56.483)	(1.015)	144.303
Schools	31.646	(3.748)	0.000	27.898
Total	233.447	(60.231)	(1.015)	172.201

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 £m	Committed Liabilities £m	Funding Capital £m	Other £m	Not Controlled by Council £m	Total £m
31.03.2019	37.841	6.260	5.102	125.625	26.973	201.801
31.03.2020	30.906	2.887	2.699	82.325	25.486	144.303
31.03.2021	25.720	2.014	2.542	60.711	23.535	114.522
31.03.2022	23.503	1.856	2.561	47.242	21.817	96.979
31.03.2023	22.783	1.816	2.624	39.623	21.506	88.352

3 Financial Considerations

As set out above.

4 Other Considerations

In preparing this report the relevance of the following factors has been considered: legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property, transport and social value considerations.

5 Background Papers

Papers held in Technical Section, Room 137, County Hall.

6 Key Decision

No.

7 Is it necessary to waive the call-in period?

No.

8 Officer's Recommendations

That Cabinet:

- (i) notes the current position on Earmarked Reserves;
- (ii) notes the details of the balances to be released from Earmarked Reserve balances;
- (iii) approves the allocation of £1.015m Earmarked Reserves released to the General Reserve.

PETER HANDFORD
Director of Finance & ICT

APPENDIX ONE

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

Portfolio	Reserve	AC £m	CS £m	EDR £m	HC £m	HTI £m	SLCT £m	YP £m	Total £m
CS	Change Management		0.300						0.300
CS	Computer Purchasing		0.500						0.500
EDR	D2N2 Demand Stimulation			0.100					0.100
EDR	D2N2 Digital Growth			0.015					0.015
HTI	IT Reserve					0.019			0.019
HTI	Procurement Support					0.001			0.001
SLCT	D2N2 Visitor Economy						0.050		0.050
YP	IT System reserve							0.030	0.030
Total		0.000	0.800	0.115	0.000	0.020	0.050	0.030	1.015

AC = Adult Care; CS = Corporate Services; EDR = Economic Development and Regeneration;
 HC = Health and Communities; HTI = Highways, Transport and Infrastructure;
 SLCT = Strategic Leadership, Culture and Tourism; YP = Young People