



Agenda Item

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

CABINET

1 February 2024

Report of the Director of Finance & ICT

Reserves Position and Reserves Policy
(Corporate Services and Budget)

1. Divisions Affected

1.1 County-wide.

2. Key Decision

2.1 This is not a Key Decision.

3. Purpose of the Report

3.1 To note the current and forecast positions for both General and Earmarked Reserves and to approve the Reserves Policy. This report should be read alongside the following reports to this meeting: the Budget Consultation Results Report for 2024-25, the Revenue Budget Report 2024-25 and the Capital Programme Approvals, Treasury Management and Capital Strategies for 2024-25 Report.

4. Information and Analysis

Reserves Policy

- 4.1 Sections 32 and 43 of the Local Government Finance Act 1992 require 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 Sections 32 and 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 25 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 It is important to note reserves can only be used once and when the balance of a reserve has been depleted there will be no more funding available in the reserve to support expenditure.
- 4.7 The Reserves Policy was last approved by Cabinet on 2 February 2023. The Policy has been amended to include the following requirement in respect of Earmarked Reserves:

- All transfers between reserves, together with the use or drawdown of reserves is subject to the prior approval of the Chief Finance Officer (S.151) or a person designated for that purpose by the Chief Finance Officer.

4.8 A copy of the Reserves Policy has been included at Appendix Five for approval by Cabinet.

General Reserve

4.9 The Council's General Reserve position was last reported to Cabinet on 23 November 2023, as part of the Performance Monitoring and Budget Monitoring/Forecast Outturn 2023-24 as at Quarter 2 (30 September 2023) Report. As at 31 December 2023, the balance on the General Reserve is £28m. The level of the General Reserve is forecast to be around £25m over the period of the FYFP. In the Audit Commission's 'Striking a Balance' report published in 2012, the majority of Chief Finance Officers at the national level regarded an amount of between three and five per cent of councils' net spending as a prudent level for risk-based reserves. Over the medium term the Council's forecast figure is between 3.2% and 3.5%.

4.10 There is no planned further call on the Council's General Reserve forecast balance of £25m, either to meet 2023-24 revenue budget overspends as currently forecast, or for one-off support for the Revenue Budget in 2024-25. It is anticipated that these will be met using Earmarked Reserves releases (which will initially be released back to the General Reserve) and Earmarked Reserves as set out in paragraphs 4.21, 4.24 and 4.27. However, any overspends in services over and above those currently projected would see the General Reserve balance fall below £25m, once the reserves available for budget management have been depleted.

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 £272.373m were held at 1 April 2023. Of this total, £59.004m (22%) was available to support future spending. Details of the balances, categorised in accordance with the Reserves Policy, are detailed in Appendix Two.

- 4.13 The Council's 2022-23 Revenue Outturn position was an underspend of £4.680m. However, this was after one-off substantial support from the use of £54.789m of Earmarked Reserves, of which £21.003m were for planned service pressures. At Quarter 3, the forecast 2023-24 Outturn position is a £34.071m overspend after one-off support from the use of £37.997m of Earmarked Reserves, of which £23.707m were for planned service pressures. The 2024-25 Revenue Budget plans for one-off support from the use of £21.206m of Earmarked Reserves. The Council has been utilising its reserves to manage its budget to meet inflationary, demand and pay award cost pressures; however, as reserves balances decline this will not be sustainable in the medium term.
- 4.14 Other than Schools Reserves, the following Earmarked Reserves had a balance that was in excess of £5m at 1 April 2023:
- 4.15 **Loan Modification Gains/Losses** (Balance: £23.114m held at 1 April 2023 | Council Portfolio: Corporate Services and Budget | Reserves Category: Contractual Commitments) – to meet the cost of higher interest charges arising on restructured loans which were remeasured when International Financial Reporting Standard 9 was adopted.
- 4.16 **Business Development and Economic Recovery Fund** (Balance: £6.785m held at 1 April 2023; £2.035m held at 14 December 2023 (£3.750m was transferred to the Budget Management Earmarked Reserve and £1.000m drawn for delivery of the Cultural Framework) | Council Portfolio: Corporate Services and Budget | Reserves Category: Planned Revenue Spend) – to support the Council's and wider County recovery from the impacts of the Covid-19 pandemic.
- 4.17 **Covid-19 Local Authority Emergency Grant** (Balance: £6.407m held at 1 April 2023; £0.000m held at 14 December 2023 (balance was transferred to the Budget Management Earmarked Reserve) | Council Portfolio: Corporate Services and Budget | Reserves Category: Grants) – non-ringfenced emergency grant to support local authorities with the cost pressures experienced through the Covid-19 pandemic.
- 4.18 **Business Rates Risks** (Balance: £6.568m held at 1 April 2023 | Council Portfolio: Corporate Services and Budget | Reserves Category: Specific Risks) – to help mitigate future volatility the Council may experience in respect of business rates receipts.

- 4.19 **Homes for Ukraine Grant** (Balance: £10.415m held at 1 April 2023 | Council Portfolio: Health and Communities | Reserves Category: Grants) – the balance carried forward of ‘tariff’ grant, which can only be used to carry out activities set out in the Homes for Ukraine Scheme guidance. The Scheme enables eligible people fleeing from Ukraine to stay with a sponsor household in the United Kingdom.
- 4.20 **Bus Services Improvement Grant** (Balance: £6.357m held at 1 April 2023 | Council Portfolio: Health and Communities | Reserves Category: Grants) – the balance carried forward of Department for Transport grant funding provided for interventions designed to tackle barriers to increasing patronage of buses.
- 4.21 **Revenue Contributions to Capital Expenditure (RCCO)** (Balance: £59.783m held at 1 April 2023 | Council Portfolio: Corporate Services and Budget | Reserves Category: Specific Risks) – £8.351m is held to fund capital expenditure arising in 2023-24. The balance of £51.432m has arisen as a consequence of the Council’s strategic decision to fund its capital expenditure in financial years 2018-19 to 2022-23 from additional borrowing rather than its revenue budget and is held to mitigate risks and support the management of revenue budgets over the medium term. It is anticipated that this RCCO Earmarked Reserve will be used to fund the remainder of the Council’s one-off Revenue Budget pressures following depletion of the Budget Management Earmarked Reserve in 2024-25, referred to in paragraph 4.24), in addition to its anticipated use to meet any unmitigated 2023-24 overspend not covered by the Earmarked Reserve releases referred to in paragraph 4.27. Based on the currently forecast unmitigated overspend for 2023-24 and the level of one-off support required for the revenue budget for 2024-25, there is a sufficient balance on this RCCO Earmarked Reserve to enable this. Further contributions to this Earmarked Reserve, in the region of £6m, should be possible in 2023-24.
- 4.22 **Tackling Troubled Families** (Balance: £5.015m held at 1 April 2023 | Council Portfolio: Childrens Services and Safeguarding and Education | Reserves Category: Grants) – grant to be invested in services that contribute to achieving Supporting Families objectives.
- 4.23 **Public Health** (Balance: £7.751m held at 1 April 2023 | Council Portfolio: Health and Communities | Reserves Category: Public Health Grant) – the balance carried forward of the ring-fenced Public Health Grant.

- 4.24 **Budget Management** (Balance: £12.284m held at 1 April 2023; £4.516m held at 14 December 2023 | Council Portfolio: Corporate Services and Budget | Reserves Category: Budget Stabilisation) - to support the management of revenue budgets over the medium term. In 2023-24, £23.707m has been used for one-off revenue support, as approved in the Revenue Budget Report 2023-24 and £15.924m has been added to the reserve from a combination of underspends and transfers from other earmarked reserves as approved in the Revenue Outturn Report 2022-23. The Council's Budget Management Earmarked Reserve is forecast to be depleted in 2024-25, through partly funding the one-off pressures in the 2024-25 Revenue Budget (with the RCCO Earmarked Reserves funding the balance, as referred to in paragraph 4.21).
- 4.25 **Older People's Housing Strategy Reserve** (Balance: £12.766m held at 1 April 2023 | Council Portfolio: Adult Care | Reserves Category: Planned Capital Spend) – 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. Some of this balance is being used to mitigate the 2023-24 overspend on the Adult Care portfolio.
- 4.26 **Insurance and Risk Management** (Balance: £16.043m held at 1 April 2023 | Council Portfolio: Corporate Services and Budget | Reserves Category: Specific Risks) – 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 five years an actuary performs an independent evaluation of the fund balance and the level of contributions. An interim review is carried out mid-term. The actuarial evaluation completed in October 2020 confirmed that the total of this reserve and the insurance provision was adequate to meet current and anticipated liabilities. The Council is awaiting the outcome of the latest evaluation which was completed in the Autumn of 2023.

4.27 The Council's Earmarked Reserve balances were reviewed during Autumn 2023. Departments have agreed to the strategic decision to release £31.803m from balances to the General Reserve. Given the forecast overspend in 2023-24 it is anticipated that this funding will be needed to ensure that the Council's General Reserve position remains at the minimum required level. Details of the balances to be released are shown in Appendix Three.

4.28 The table below summarises the forecast movement in Earmarked Reserves for the year ending 31 March 2024.

	Reserves Brought Forward at 01.04.2023	Planned Net Contribution /(Use) 2023-24	Amounts to be Released to General Reserve	Forecast Reserves Carried Forward at 31.03.2024
Portfolio	£m	£m	£m	£m
AC	16.270	(7.176)	(6.000)	3.094
CGR	3.811	(2.456)	(0.723)	0.632
CSB	160.484	(38.112)	(13.934)	108.438
CSSGE	8.041	(2.863)	(4.377)	0.801
HAT	14.637	(3.907)	(0.762)	9.968
HC	22.561	(4.317)	(0.387)	17.857
IE	3.779	(1.711)	(1.375)	0.693
SLCTCC	8.841	(3.153)	(4.245)	1.443
Total	238.424	(63.695)	(31.803)	142.926
Schools	33.949	(0.276)	0.000	33.673
Total	272.373	(63.971)	(31.803)	176.599

Key

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

- 4.29 The table at Appendix Four 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.

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 Council's Reserves Policy which ensures that the Council meets its statutory obligations regarding its 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 Not applicable.

9. Appendices

- 9.1 Appendix One – Implications.
- 9.2 Appendix Two – Categorisation of Earmarked Reserves as at 1 April 2023 in accordance with the Reserves Policy.
- 9.3 Appendix Three – Amounts to be released from Earmarked Reserves.
- 9.4 Appendix Four – Projected Earmarked Reserves balances as at 31 March for the next five years.
- 9.5 Appendix Five – Reserves Policy.

10. Recommendations

That Cabinet:

- 10.1 Notes the current position on Earmarked Reserves.

- 10.2 Notes the details of the amounts to be released from Earmarked Reserves balances to the General Reserve.
- 10.3 Notes that the £31.803m released from Earmarked Reserves is expected to be fully required to mitigate the forecast 2023-24 overspend, with the balance being funded from the RCCO Earmarked Reserve held to support revenue budget management, and so ensure that the General Reserve balance remains at a minimum level.
- 10.4 Approves the Reserves Policy at Appendix Five to this report.

11. Reasons for Recommendations

- 11.1 The balance of both the General and Earmarked Reserves supports 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. The RCCO Earmarked Reserve is held to support revenue budget management.
- 11.3 To ensure Members are informed of the impact on the General Reserve position in the context of the significant overspend forecast in 2023-24.
- 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.

12. Is it necessary to waive the call in period?

- 12.1 No.

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Appendix One

Implications

Financial

- 1.1 As at 31 December 2023, the balance on the General Reserve is £28m. The level of the General Reserve is forecast to be around £25m over the period of the FYFP. Earmarked Reserves totalling £272.373m were held at 1 April 2023. Of this total, £59.004m (22%) is available to support future spending. Departments have agreed to release £31.803m from Earmarked Reserve balances; this is expected to be needed to mitigate the 2023-24 forecast overspend and ensure the Council's General Reserve balance remains at the minimum required level. Excluding schools balances, Earmarked Reserves balances are forecast to reduce from £238m at 31 March 2023 to £85m by 31 March 2027. The Reserves Policy has been amended to require that all use of, and transfers between, Earmarked Reserves will require the prior approval of the Chief Financial Officer or a designated person.

Legal

- 2.1 Section 25 of the Local Government Act 2003 requires precepting authorities in England to assess the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 2.2 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 Sections 32 and 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 Sections 25 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.

- 2.3 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.
- 2.4 The Financial Regulations included in Appendix 8(a) to the Constitution sets out the key controls in relation to the use of reserves and requires that the Council's Reserves Policy is reviewed on an annual basis.

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

Earmarked Reserves Position at 1 April 2023

Portfolio	Contractual Commitments £m	Grants £m	Planned Revenue Spend £m	Planned Capital Spend £m	Specific Risks £m	Budget Stabilisation £m	Other £m	Public Health Grant £m	DSG £m	Schools Balances £m	Total £m
AC	0.000	0.028	3.476	12.766	0.000	0.000	0.000	0.000	0.000	0.000	16.270
CGR	0.220	0.087	3.390	0.114	0.000	0.000	0.000	0.000	0.000	0.000	3.811
CSB	28.899	6.407	15.748	3.904	88.894	13.511	3.121	0.000	0.000	0.000	160.484
CSSGE	0.000	5.096	2.759	0.178	0.000	0.000	0.008	0.000	0.000	0.000	8.041
HAT	0.611	6.478	7.005	0.263	0.280	0.000	0.000	0.000	0.000	0.000	14.637
HC	0.171	12.268	1.110	0.000	0.000	0.000	1.261	7.751	0.000	0.000	22.561
IE	2.509	0.148	1.122	0.000	0.000	0.000	0.000	0.000	0.000	0.000	3.779
SLCTCC	1.914	0.434	6.162	0.000	0.000	0.000	0.331	0.000	0.000	0.000	8.841
Total	34.324	30.946	40.772	17.225	89.174	13.511	4.721	7.751	0.000	0.000	238.424
Schools	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.275	33.674	33.949
Total	34.324	30.946	40.772	17.225	89.174	13.511	4.721	7.751	0.275	33.674	272.373

AC	Adult Care
CGR	Clean Growth and Regeneration
CSB	Corporate Services and Budget
CSSGE	Children's Services and Safeguarding and Education
HAT	Highways Assets and Transport
HC	Health and Communities
IE	Infrastructure and Environment
SLCTCC	Strategic Leadership Culture and Tourism and Climate Change

Appendix Three

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

Portfolio	Reserve	AC £m	CGR £m	CSB £m	CSS GE £m	HAT £m	HC £m	IE £m	SLCT CC £m	Total £m
AC	Older People's Housing Strategy	6.000								6.000
CGR	Skills Training		0.109							0.109
CGR	Markham Environment Centre		0.114							0.114
CGR	Regeneration Kick-Start Feasibility Fund		0.500							0.500
CSB	GDPR			0.039						0.039
CSB	Business Development and Economic Recovery Fund			2.035						2.035
CSB	Business Rates Risks			6.567						6.567
CSB	Computer Purchasing CST Prior Year			1.605						1.605
CSB	Underspends			2.243						2.243
CSB	Derbyshire Challenge Fund			0.020						0.020
CSB	Demolition of Buildings Learning & Development System			0.100						0.100
CSB	Core System			0.499						0.499
CSB	Property Feasibility Studies			0.200						0.200
CSSGE	IT System				0.190					0.190

Public

Portfolio	Reserve	AC £m	CGR £m	CSB £m	CSS GE £m	HAT £m	HC £m	IE £m	SLCT CC £m	Total £m
CSSGE	Foster Carer Adaptations				0.134					0.134
CSSGE	Support & Aspirations				0.053					0.053
CSSGE	Tackling Troubled Families				4.000					4.000
HAT	IT Reserve					0.252				0.252
	Place Prior Year									
HAT	Underspends					0.510				0.510
HC	Grant Funding Prospectus						0.150			0.150
HC	Community Safety						0.007			0.007
HC	Trusted Trader						0.101			0.101
	Trading Standards COVID									
HC	enforcing						0.050			0.050
HC	Syrian Refugee Project						0.079			0.079
IE	Digital Growth							1.375		1.375
SLCTCC	Thriving Communities								0.004	0.004
SLCTCC	Library Restructure								0.160	0.160
SLCTCC	Policy & Research								0.196	0.196
	Sale Proceeds of Mobile									
SLCTCC	Libraries								0.038	0.038
SLCTCC	Climate Change								2.847	2.847
SLCTCC	Cultural Recovery Fund								0.500	0.500
	Community Managed									
SLCTCC	Libraries								0.500	0.500
Total		6.000	0.723	13.934	4.377	0.762	0.387	1.375	4.245	31.803

Appendix Four

**Projected Earmarked Reserves balances at 31 March for the next five years:
(Schools balances have been excluded from this analysis)**

	Contractual Commitments	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
31.03.2023	34.324	30.946	40.772	17.225	89.174	13.511	4.721	7.751	0.000	0.000	238.424
31.03.2024	29.303	15.579	5.616	4.299	73.491	4.516	1.209	8.912	0.000	0.000	142.925
31.03.2025	27.765	11.086	2.583	3.193	58.014	0.000	0.603	5.046	0.000	0.000	108.290
31.03.2026	25.397	7.767	1.334	2.966	50.564	0.000	0.543	1.205	0.000	0.000	89.776
31.03.2027	23.614	7.488	0.876	2.966	49.135	0.000	0.483	0.000	0.000	0.000	84.562



Reserves Policy

Mark Kenyon BA(Hons) FCPFA

Director of Finance & ICT

Approval and Authentication

Name	Job Title	Signature	Date
Mark Kenyon	Director of Finance & ICT		January 2024
Cabinet			1 February 2024

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 1992 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.

All transfers between reserves, together with the use or drawdown of reserves is subject to the prior approval of the Chief Finance Officer (S.151) or a person designated for that purpose by the Chief Finance Officer.

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.
- **Public Health Grant** – The balance of ring-fenced specific government grant. Any future spend from these reserves have to be used for public health, and in line with the conditions on the grant.
- **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.