

DERBYSHIRE COUNTY COUNCIL

CABINET

21 January 2021

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. This report should be read alongside the following reports to this meeting: the Budget Consultation Results Report for 2021-22, the Revenue Budget Report 2021-22 and the Capital Programme Approvals, Treasury Management and Capital Strategies for 2021-22 Report.

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 & ICT) 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 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 last reported to Cabinet on 30 July 2020, as part of the Revenue Outturn Report 2019-20. The level of General Reserve projections have been updated as part of the updated Five Year Financial Plan 2021-22 to 2025-26, which is included in the Revenue Budget Report 2021-22, also for consideration at this Cabinet meeting. The General Reserve balance is forecast to be between £10m and £24m over the medium term.

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

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 £229.138m were held at 1 April 2020. Of this total, £91.314m (40%) is available to support future spending. Details of the balances are categorised in accordance with the Reserves Policy below.

	Grants	Committed Liabilities	Funding Capital	Other	Not Controlled by Council	Total
Portfolio	£m	£m	£m	£m	£m	£m
AC	0.046	3.807	30.000	0.000	0.000	33.853
CGR	0.000	0.581	0.000	0.114	0.000	0.695
CS	5.263	26.975	0.000	75.293	23.372	130.903
HC	7.747	0.079	0.040	0.258	2.142	10.266
HTI	1.266	1.800	0.758	12.647	0.767	17.238
SLCT	0.368	1.581	0.000	1.488	0.865	4.302
YP	4.843	1.626	0.000	1.513	0.002	7.984
Total	19.533	36.449	30.798	91.313	27.148	205.241
Schools	0.000	0.000	0.000	0.000	23.897	23.897
Total	19.533	36.449	30.798	91.313	51.045	229.138

AC	= Adult Care
CGR	= Clean Growth and Regeneration
CS	= Corporate Services
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 (£26.124m held at 1 April 2020; Corporate Services; Committed Liabilities) – 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 (£28.295m held at 1 April 2020; Corporate Services; Other) – £1.612m is held to fund future capital expenditure. The balance of £26.683m has arisen as a consequence of the Council's strategic decision to fund its capital expenditure in 2018-19 and 2019-20 from additional borrowing rather than its revenue budget and is held to support the management of revenue budgets over the medium term. The Revenue Budget Report 2020-21 approved the use of one-off support for the revenue budget of £1.000m from this balance and it will again be used for one-off support for the revenue budget in 2021-22, as noted in the Revenue Budget Report 2021-22. Further contributions to this Earmarked Reserve, in the region of £2m, should be possible in 2021-22.

Economy Transport and Environment (ETE) Prior Year Underspends (£9.810m held at 1 April 2020; 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 2024.

Public Health (£7.424m held at 1 April 2020; Health and Communities; Grants) – the carried forward balance of the ring-fenced Public Health Grant.

Planned Building Maintenance (£5.275m held at 1 April 2020; 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 (£30.000m held at 1 April 2020; 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.

Insurance and Risk Management (£20.085m held at 1 April 2020; 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 (£16.431m held at 1 April 2020; Corporate Services; Other) - to support the management of revenue budgets over the medium term. The Revenue Budget Report 2020-21 approved the use of one-off revenue support of £13.816m from this balance. The use of the remaining balance has been forecast in the Revenue Budget Report 2021-22.

The Council's Earmarked Reserve balances were reviewed during Autumn 2020. Departments have agreed to release £9.212m 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, but the balance of that reserve, including this transferred balance, is expected to be fully used in supporting one off expenditure in the Revenue Budget Report 2021-22, as explained above. Details of the balances to be released are shown in Appendix One.

It is also proposed to establish an earmarked reserve to support the Thriving Communities project and to transfer £0.167m to this reserve from the Derbyshire Challenge Fund.

The table below summarises the forecast movement in Earmarked Reserves from the date of the review to 31 March 2021.

Portfolio	Reserves Brought Forward at 01.04.2020	Planned Net Contribution /(Use) 2020-21	Amounts to be Released to Budget Management Reserve	Forecast Reserves Carried Forward at 31.03.2021
	£m	£m	£m	£m
AC	33.853	(3.853)	0.000	30.000
CGR	0.695	(0.556)	0.000	0.139
CS	130.903	(20.588)	(9.107)	101.208
HC	10.265	(0.265)	0.000	10.000
HTI	17.238	1.337	(0.080)	18.495
SLCT	4.303	(1.303)	0.000	3.000
YP	7.984	(1.258)	(0.025)	6.701
Total	205.240	(26.486)	(9.212)	169.542
Schools	23.897	0.000	0.000	23.897
Total	229.138	(26.486)	(9.212)	193.440

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
31.03.2020	19.534	66.448	0.798	91.313	27.148	205.241
31.03.2021	13.812	62.441	0.546	66.948	25.796	169.543
31.03.2022	9.487	40.564	0.170	46.459	23.838	120.518
31.03.2023	7.497	24.249	0.015	37.493	22.105	91.359
31.03.2024	6.246	22.973	0.010	33.110	20.426	82.765

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 electronically by 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 £9.212m Earmarked Reserves released to the Budget Management Earmarked Reserve.
- (iv) approves the transfer of £0.167m from the Derbyshire Challenge Fund to a newly established earmarked reserve to support the Thriving Communities project.

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	Business Rates Relief Grant		5.000						5.000
CS	Equal Pay		0.277						0.277
CS	Business Rates Appeals		0.330						0.330
CS	Uninsured Financial Loss		3.500						3.500
HTI	PSA1 Reward Grant					0.080			0.080
YP	Assisted Boarding							0.025	0.025
Total		0.000	9.107	0.000	0.000	0.080	0.000	0.025	9.212

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