

Business Support & Digital Overview and Scrutiny Committee

BRIEFING NOTE – No. 02/2024-25

Date: July 2024

Briefing paper to: All Members of the Business Support and Digital Overview & Scrutiny Committee

Medway Council earmarked reserves.

1. This purpose of this briefing note is to provide Members with the following information to assist them with an understanding as to the:

- Purpose of reserves
- Use of earmarked reserves
- Opportunity cost of holding reserves

2. Purpose of reserves

- 2.1. Medway Council is required to maintain adequate financial reserves to meet the needs of the organisation.
- 2.2. Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, there is no specified minimum level of reserves that an authority should hold and it is the responsibility of the Section 151 Officer to advise the Council about the level of reserves and to ensure that there are key protocols for their establishment and use.

3. Use of earmarked reserves

- 3.1. Earmarked reserves are held for five main reasons:

- **Renewals** – to enable services to plan and finance an effective programme of vehicle and equipment replacement and planned property maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
- **Carry forward of underspend** - some services commit expenditure to projects, but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.
- **Trading accounts** – In some instances surpluses are retained for future investment.

- **Insurance reserve** – to meet the estimate of future claims to enable the Council to meet the excesses not covered by insurance.
- **Other earmarked reserves** will be set up from time to time to meet known or predicted liabilities.

4. Use of reserves

- 4.1. Reserves can only be used once and so should not be held to fund ongoing expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. To the extent that reserves are used to meet short term funding gaps, they must be replenished in the following year. However, earmarked reserves that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established.
- 4.2. CIPFA guidance on Local Authority Reserves and Balances advises that a statement reporting on the annual review of earmarked reserves should be made to Council, at the same time as the budget is approved.
- 4.3. Decisions regarding movements in and out of general reserves or between earmarked reserves, should be taken in accordance with the virement rules as set out in the constitution.

5. List of Earmarked Reserves

- 5.1. The following is a current list of all the Council's general fund and housing revenue account earmarked reserves:

- 5.2. General fund

- HSE Decent Homes Loan Funds
- Balances held by schools under a scheme of delegation
- School Rev Contributions To Capital
- Revenue Contributions To Capital
- Development Plan Reserve
- Provision For Local Election
- Maintenance Of Graves Fund
- Cremator Repairs Fund
- Crematorium Gifts Fund
- Bereavement Services Reserves
- Rate Equalisation Fund
- Community Hubs Reserve
- Building, Repair and Maintenance Fund - Annual Programme
- ICT Reserve
- Reserve Fund Computer Development
- Developer Contributions - Commuted Sums Reserves
- Developer Contributions - Section 38 Reserves

- Developer Contributions - Section 106 Reserves
- Developer Contributions - Section 278 Reserves
- Dedicated Schools Grant Ring Fenced Safety Valve Reserve
- Economic Development Loans Fund
- Carry Forwards Reserves
- Ward Improvement Fund Reserve
- Homelessness Reduction Reserve
- Parish Grants Fund
- Mosaic Forms Development Reserve
- Brook Theatre Structural Survey Reserve
- Severance Payments Reserve
- South Medway Development Res
- Transformation Reserve
- Salix Repayments
- Health Education England Public Health Grant
- Medway Tunnel Maintenance
- Mayors Expenses Fund
- Unpresented Cheques Written Back
- Medway Archives and Local Studies Centre Donations
- Country Park Donations
- Museum Exhibits Fund
- Temple Manor Public Donations
- Eastgate House Chalet Donations
- Rochester Castle Donations
- Upnor Castle Public Donations
- Corn Exchange Deposits
- Bus Service Revenue Grants
- Reserve Fund Pier & Wharf
- Theatres Gift Vouchers
- Covid-19 Reserve Funding
- Collection Fund S.31 Grant Adjustment Reserve
- Insurance Reserve
- Dedicated Schools Grant Reserve

5.3. Housing Revenue Account

- HRA Computer Reserve Fund
- HRA Planned Maintenance Reserve Contribution to Capital

5.4. The values of earmarked reserves held in the balance sheet as at 31/03/24 can be found in Note 20 to the [Draft Financial Statements for 2023/24](#) (page 78) which can be accessed using the following link:

6. Opportunity cost of holding reserves

- 6.1. In addition to allowing the Council to manage unforeseen financial pressures and plan for known or predicted liabilities, there is a benefit to holding reserves in terms of the interest earned on funds which are not utilised. This investment income is fed into the budget strategy.
- 6.2. However, there is an “opportunity cost” of holding funds in reserves, in that these funds cannot then be spent on anything else. As an example, if these funds were used to repay debt the opportunity cost would equate to the saving on the payment of interest and the minimum revenue provision, offset by the loss of investment income on the funds. However, using reserves to pay off debt in this way would leave the Council with no funds to manage unexpected risks nor provide a mechanism to fund the planned expenditure for which the reserves were earmarked.
- 6.3. Given the opportunity costs of holding reserves, it is critical that reserves continue to be reviewed each year as part of the budget process to confirm that they are still required and that the level is still appropriate.

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