

## APPENDIX 4

### Reserves Policy 2025/26

#### Middlesbrough Council

##### 1. Background

- 1.1. The Council is required to maintain adequate financial reserves. Reserves are an integral part of sound financial management, they help the Council plan for future spending commitments, balance the budget and manage unpredictable financial pressures.
- 1.2. Sections 32 and 43 of the Local Government Finance Act 1992 require councils to consider the level of reserves when setting a budget requirement. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Section 151 Officer) to report formally to Council on the adequacy of proposed reserves when setting the budget and council tax requirement. This is completed at the Council through the Robustness Statement. The accounting treatment for reserves is set out in the Code of Practice on Local Authority Accounting.
- 1.3. CIPFA issued [Local Authority Accounting Panel \(LAAP\) Bulletin No.99](#), Guidance Note on Local Authority Reserves and Balances in July 2014. CIPFA also issued [CIPFA Bulletin 13 Local Authority Reserves and Balances](#) on 28 March 2023. Compliance with the guidance is recommended in CIPFA's Statement on the Role of the Chief Financial Officer in Local Government. In response to the above requirements, this policy sets-out the Council's approach for compliance with the statutory regime and relevant non-statutory guidance for the Council's cash backed usable reserves.
- 1.4. All reserves will be categorised as per the Local Authority Accounting Practice guidance, into groupings.
- 1.5. Within the Statement of Accounts for General Fund Earmarked Reserves, all individual reserves are reported and will include a description of the purpose of the reserve.
- 1.6. Earmarked reserves will be reviewed regularly as part of the in-year monitoring and accounts closure process and annually as part of the budget setting process, to determine whether the original purpose for the creation of the reserve still exists and whether or not the reserves should be released in full or in part or require topping up based on known/expected calls upon them.
- 1.7. Particular attention will be paid in the annual review to those reserves whose balances have not moved over a two-year period, other than the General Fund, for further detail see Section 3 Management and governance.



<p><b>Earmarked Reserves (unusable)</b></p> <p><b>Annex B</b></p>	<p>These arise out of a requirement under legislation and proper accounting practice either to accumulate revaluation gains or as adjustment accounts to comply with statutory accounting requirements. These reserves are not backed by cash resources and therefore cannot be used for any other purpose. Hence, these reserves are not available to fund expenditure. These will generally be excluded from any discussion where the Council talks about its level of reserves.</p>
---	--

1.9 The Chartered Institute of Public Finance and Accountancy (CIPFA) recommend that the following factors should be taken into account when considering the level of reserves and balances:

- Assumptions regarding inflation and interest rates.
- Estimates of the level and timing of capital receipts.
- The capacity to manage in-year demand led pressures.
- Ability to activate contingency plans if planned savings cannot be delivered.
- Risks inherent in any new partnerships.
- Financial standing of the authority (level of borrowing, debt outstanding etc.)
- The authority's record of budget management and ability to manage in year budget pressures.
- Virement and year-end procedures in relation to under and overspends.
- The general financial climate.
- The adequacy of insurance arrangements.

1.10 Each local authority must make its own decisions about the level of reserves it hold, taking into account all of the issues referred to above and the advice of the s151 Officer. The level of the general fund reserve will be a matter of judgement which will take account of the specific risks identified through the various corporate processes. It will also take account of the extent to which specific risks are supported through earmarked reserves.

1.11 The Council earns interest on the investment of its cash balances through its Treasury Management operations. This revenue income supports its general spending plans. By holding cash balances, the Council effectively internalises some of its borrowing, therefore avoiding interest charges on external debt. Balances held in reserves therefore help to reduce on-going revenue expenditure.

## **2 Strategic Context**

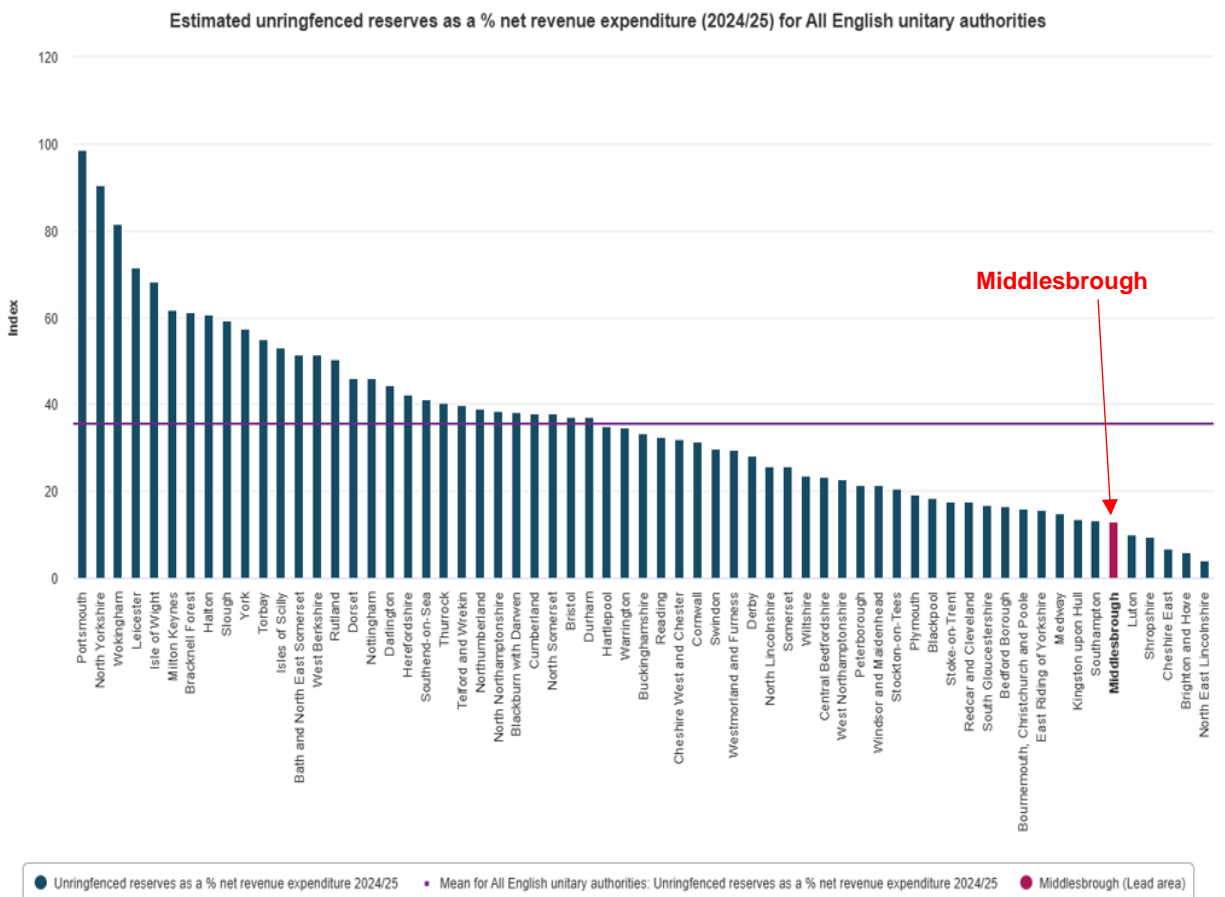
2.1 In previous years the Council has faced a shortfall in funding compared to the level of service demand that it is experiencing. It must review its priorities and redesign and transform its services over the period of the MTFP to deliver cost reduction and efficiency to achieve a budget that is financially sustainable over the medium term.

2.2 As outlined in the 2024/25 Reserves Policy, to achieve financial sustainability, the Council is currently engaging in a range of innovative and transformational

activities in order to reduce future costs of service delivery. Due to the previously critically low level of reserves, which were and therefore insufficient to support innovation and transformation expenditure, the primary source of funding for transformation is utilising of capital receipts from asset sales through the Flexible Use of Capital Receipts (FUoCR) Strategy, in accordance with Government regulations.

- 2.3 The Council has reviewed its asset base and a plan for asset rationalisation was approved by the Executive in November 2023. This has resulted in an Asset Disposal Programme that is managed as part of the Council’s Transformation Programme. Compliance with the Asset Disposal Programme remains fundamental to the Council’s ability to successfully deliver transformation.
- 2.4 Over the term of the MTFP, the Council will need to maintain a minimum General Fund Balance and to build up and maintain an increased level of earmarked revenue reserves in order to improve its financial resilience. Based on 2024/25 budget figures, the Council has one of the lowest levels of unringfenced reserves as a proportion of net revenue expenditure compared to all unitary councils as illustrated below in Figure 1.

**Figure 1**



Source: Local Government Association

**Middlesbrough = 6th lowest**  
 Note: this graph is drawn from Government returns data based on budgets at the start of the 2024/25 financial year, so should be used as a guide as balances will have changed since then

### **3 Management and governance**

- 3.1 New reserves may be created at any time and approved by the Executive upon recommendation by the s151 Officer.
- 3.2 For each earmarked reserve held there will be a clear protocol setting out:
- The reason for/purpose of the reserve
  - How and when the reserve can be used
  - A profile over which the reserve is intended to be utilised showing expected contributions to and from the reserve, with an end date for its existence.
- 3.3 The s151 Officer shall approve the draw down of reserves provided that they are for the purpose for which the reserve has been established. The use of reserves will be reported as part of the quarterly budget monitoring report to the Executive.
- 3.4 The s151 Officer will review the use of reserves in accordance with the planned profile periodically through the financial year and as a minimum at accounts closure and budget setting. Protocols will be updated as appropriate.
- 3.5 All protocols will have an end date and at that point any balance will be transferred to the general reserve. If there is a genuine reason for slippage, then the protocol will be updated and submitted through Financial Planning for agreement by the S151 Officer or referred to the Executive as appropriate.
- 3.6 Ongoing recurring costs should not be funded from reserves unless part of a smoothing reserve and approved as part of the MTFP. The short-term use of reserves may be agreed to provide time to plan for a sustainable funding solution in the following financial year. Decisions on the use of reserves may be delayed until financial year-end and will be dependent on the overall financial position of the Council rather than the position of just one service area or directorate.
- 3.7 Council will consider a report from the s151 Officer on the adequacy of the level of reserves as part of the annual budget-setting process.
- 3.8 The Council will review and update the Reserves Strategy and Policy annually as part of the budget setting process.

### **4. Level of General Fund Balance Usable Reserves**

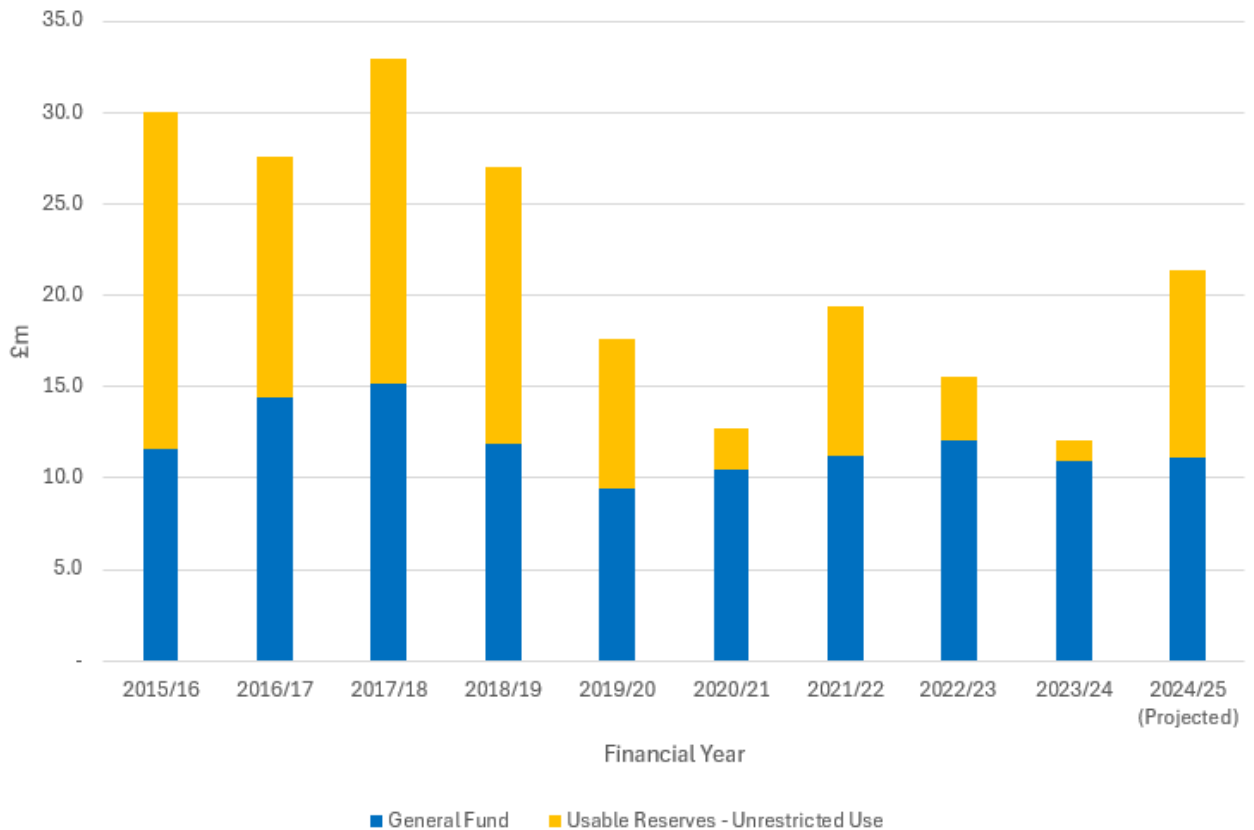
- 4.1 In previous years, the level of the total value of the Council's unrestricted usable reserves and General Fund Balance had declined as shown in Figure 2 below which weakened the Council's financial resilience in terms of its ability to be able to respond to unforeseen cost pressures and left the Council in a financially fragile position. During 2024/25 rebuilding of these reserves has commenced, as detailed in the 2024/25 Reserves Policy, the 2023/24 Collection Fund surplus, realised in

2024/25, has been applied to rebuild the General Fund Balance and earmarked unrestricted usable reserves to rebuild financial resilience as follows:

	Contribution to Reserve £m
General Fund Reserve	0.114
Financial Resilience Reserve	6.211
Legacy Accounts Reserve	1.000
Change Fund Reserve	1.000
	<b>8.325</b>

4.2 Based upon the forecast outturn at Quarter Three the forecast balance at 31 March 2025 on the unrestricted usable reserves is £10.269m and on the General Fund Balance is £11.100m.

**Figure 2 – Movement in unrestricted reserves 2015/16 to 2024/25**



**General Fund Balance**

4.3 The level of the General Fund Balance is a matter for the Council to determine having had regard to the advice of the s151 Officer. The General Fund balance, coupled with a sufficient level of usable reserves, is necessary to manage risk and uncertainty around future government funding and increasing demand and cost of adults and children’s services and SEND transport for which the Council has statutory duties that must be met.

- 4.4 For 2024/25, the General Fund has been replenished to £11.1m, a level equivalent to 7.75% of the net revenue budget. The s151 Officer recommends that the General Fund Balance should be maintained at a minimum level of at least 7% of the Net Revenue Budget over the period of the MTFP to 2028/29 as follows:

	Forecast Contribution to General Fund	Forecast General Fund Balance	Forecast Net Revenue Budget	General Fund Reserve as % of Net Revenue Budget
	£m	£m	£m	%
2024/25*	0	11.100	143.190	7.75
2025/26	0	11.100	143.304	7.75
2026/27	0	11.100	144.382	7.69
2027/28	0	11.100	148.621	7.47
2028/29	0	11.100	152.973	7.26

*\*2024/25 - £10.986m General Fund balance as at 31/03/24 was increased at the start of the year with £0.114m from the 23/24 Collection Fund Surplus*

### Financial Resilience Reserve (FRR)

- 4.5 In the 2024/25 Reserves Policy, the previous s151 Officer recommended that in addition to the General Fund Reserve, a Financial Resilience Reserve (FRR) be rebuilt and maintained in order to strengthen the Council's financial resilience. This Reserve has now been established, and its purpose is to manage the volatility of actual income and expenditure against budget estimates without calling upon the General Fund Balance given the uncertain environment within which the Council is managing its operations and increasing demand for statutory services. The s151 Officer recommendation is that the FRR should be at £10m by the end of 2025/26 and then at £20m by the end of the current MTFP period. The budgeted contributions to the FRR over the period are summarised below. At this stage, no drawdowns have been assumed, and it should be noted that any drawdown from the FRR in year will be required to be budgeted to replenish the FRR in the following financial year. Any underspend at final outturn will be transferred into the Council's FRR unless otherwise recommended by the s151 Officer.

	Forecast Contribution to Reserve	Forecast Contribution from Reserve	Forecast Financial Resilience Reserve Balance at end of year	Forecast Cumulative balance
	£m	£m	£m	£m
2024/25*	6.717	-	6.717	6.717
2025/26	3.836	-	3.836	10.553
2026/27	1.575	-	1.575	12.128
2027/28	5.377	-	5.377	17.505
2028/29	3.075	-	3.075	20.580

*\*2024/25 - £6.211m contribution to establish the Reserve was made at the start of the year from the 23/24 Collection Fund Surplus*

## Change Fund Reserve

- 4.6 The Council holds a Change Fund Reserve for the purpose of meeting the revenue costs of transformation and efficiency programmes, including meeting redundancy costs. However, the Council is now engaged in its Transformation Programme, expected to run until 2028/29, the main source of funding for which is Flexible Use of Capital Receipts (FUoCR) rather than Change Fund. As such, there are not expected to be any calls on the Change Fund in the next two financial years whilst the wider transformation progresses. The use of Change Fund is projected from 2028/29 when the Flexible Capital Receipts funded transformation programme is due to complete.

	Forecast Contribution to Reserve £m	Forecast Contribution from Reserve £m	Forecast Change Fund Balance at end of year £m	Forecast Cumulative balance £m
2024/25*	2.766	(0.300)	2.466	2.466
2025/26	0.730	-	0.730	3.196
2026/27	0.730	-	0.730	3.926
2027/28	0.730	-	0.730	4.656
2028/29	0.730	(0.730)	-	4.656

*\*2024/25 - Includes £1.036m b/fwd from 2023/24, and £1.000m additional contribution the start of the year from the 23/24 Collection Fund Surplus*

## Savings Delivery Risk

- 4.7 The scale of the Council's Transformation Programme and associated budget savings presents a significant challenge for which appropriate Transformation and Programme Management Governance arrangements are in place. Utilising the 2024/25 Collection Fund Surplus estimated to be £3.135m, which will be realised in 2025/26, prudent financial provision has been made in earmarked revenue reserves to offset the risk of slippage / non delivery and provide resilience in the event that savings are not realised at the required pace during 2025/26 and future years.

## Legacy Accounts and Audit Reserve

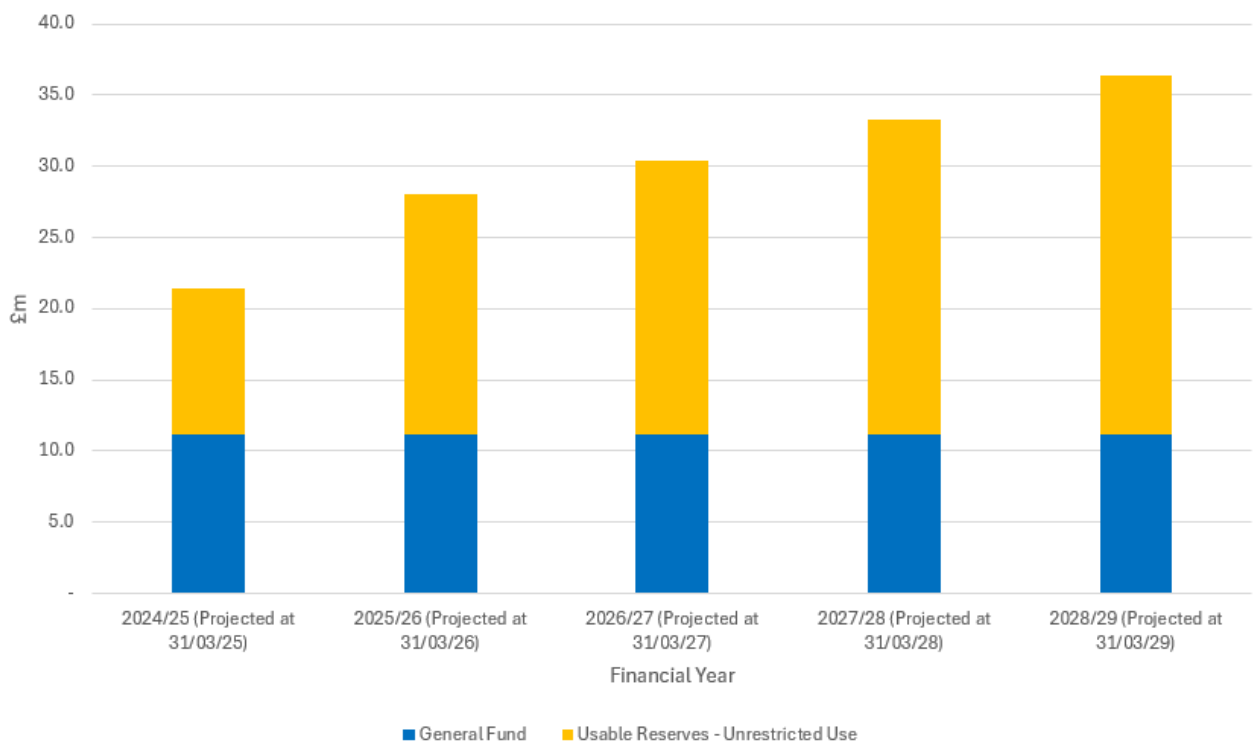
- 4.8 The Council currently has prior years Statements of Account that remain subject to the completion of the external audit, with the delay due largely to the impact of the national reset of the local authority audit market by MHCLG. As detailed in the 2024/25 Reserves Policy, an earmarked reserve of £1m was set aside to provide for unforeseen adverse audit adjustments that may arise in future periods from the conclusion of the clearing of the backlog legacy audits. Whilst these audits have now concluded, the Council's External Auditor has changed from Ernst Young to Mazars, and so for prudence this reserve has been left in place to cover any further adjustments which may be required arising from this change, in relation to changes in audit opinion relating to legacy accounts. Should this reserve not be required, it will be transferred to the Financial Resilience Reserve by the end of 2025/26.



## 5. Summary of forecast revenue reserves

- 5.1 As a result of these actions and a review of the Reserves Policy, the minimum level of the General Fund Balance will be set at a minimum of 7% of the Net Revenue Budget over the MTFP period to 2028/29. In the 2025/26 proposed budget the level is 7.75% equivalent to £11.1m.
- 5.2 The Council must continue to rebuild its unrestricted revenue reserves over the period of the MTFP. The balance on earmarked unrestricted usable reserves at 1 April 2025 is expected to be £10.269m.
- 5.3 Within unrestricted usable revenue reserves, the Financial Resilience Reserve (FRR) is required to be built up and maintained to at least £10m in 2025/26 and £20m by the end of 2028/29 to strengthen the Council’s financial resilience and to provide sufficient resilience to support the management of risks in the delivery of the revenue budget over the current MTFP period. Figure 3 shows the projected unrestricted usable reserves through to the end of 2028/29 after planned contributions, however this will depend on any unplanned drawdowns of reserves.

**Figure 3 – Projected Unrestricted Reserves Balances from closing balance 2024/25 through to closing balance 2028/29**



- 5.4 The detail of the forecast balances on reserves as at 31/03/25 is included in the Revenue and Capital Budget Forecast Year-End Outturn position at Quarter Three 2024/25 to Executive on 5 February 2025.

## Annex A – General Fund & Earmarked Reserves

The Council holds a number of usable reserves, and these are listed below.

Reserve	Description
General Fund Balance	<p>This Fund is the statutory fund into which all the receipts of the Council are required to be paid in, and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise.</p> <p>This is a minimum balance which is a contingency to cushion the impact of unexpected events or emergencies. This is the fund of last resort. This reserve ultimately smooths the financial impact of unexpected events, major incidents and unforeseen risks.</p>
Capital Receipts Reserve	This reserve holds amounts received from the disposal of assets and is only available to fund future capital projects.
Capital Grants and Contributions Unapplied Reserves	These reserves hold amounts from Capital Grants and Contributions that have been recognised in the Comprehensive Income and Expenditure Statement in line with the accounting code of practice, but for which the associated capital expenditure has not yet been incurred.

### Earmarked Reserves

Reserve	Description
Schools Balances	This reserve holds the accumulated balances and the differences between the school budget and actual expenditure incurred in the year for all the Middlesbrough Council schools. In accordance with Government regulations and the Council's scheme of delegation for schools, these funds are carried forward and specifically earmarked for use by schools in future years.
Public Health	The Public Health Grant received by the Council is ring-fenced for use on public health services only. This reserve is for any amounts of grant not spent in year due to timing differences in service delivery.
Insurance Fund	The internal Insurance Fund was set up to cover all the Council's insurable risks. Only a limited amount of external insurance cover is provided for catastrophe or special risk incidents. The nature of the risks covered by the insurance reserve include fidelity guarantee, personal accident, employers' liability, fire, motor, marine, engineers, public liability and money losses.

Better Care Fund	<p>The Better Care Fund (BCF) has been established by the Government to provide funds to local areas to support the introduction of a fully integrated health and social care system. It is a requirement of the BCF that the Clinical Commissioning Group (CCG) and the Council establish a pooled fund for this purpose.</p> <p>Section 75 of the National Health Service Act 2006 gives powers to local authorities and CCGs to establish and maintain pooled funds to support the outcomes of the BCF.</p> <p>The Council has entered into a pooled budget arrangement with NHS Tees Valley Clinical Commissioning Group for the provision of health and social care services to meet the needs of the population of Middlesbrough. The services being commissioned or provided by the Council or Tees Valley Clinical Commissioning Group (TVCCG) depend upon the needs of the service recipient. The Council and TVCCG have an ongoing section 75 agreement in place for funding these services and this is reviewed annually. The Council is the host for this pooled budget and each partner's contribution is set out in the Better Care Fund section 75 agreement.</p> <p>This reserve is to hold balances from the pooled budget.</p>
Revenue Grants Unapplied	<p>In situations where there are no grant conditions or that conditions have already been met and expenditure has not yet taken place, any unspent grants/contributions are transferred to the Revenue Grants Unapplied at year-end. These have been recognised as income in prior years in the Comprehensive Income &amp; Expenditure Statement.</p>
Marton Library Section 106	<p>This reserve is held for the purpose set out in the Section 106 agreement.</p>
Housing Rental Sinking Fund	<p>This reserve is for the replacement of major capital expenditure, e.g., replacement windows and boilers, for properties owned by the Council and rented out.</p>
Financial Resilience Reserve	<p>The purpose of the Reserve is to meet unforeseen financial pressures that cannot ultimately be managed within directorate budgets.</p>
Change Fund	<p>The reserve has been set up to pay for the one-off costs associated with implementing change within services including the funding of invest to save projects, early retirements / voluntary redundancies and altering the way services are commissioned.</p>
Car Parking Reserve	<p>This reserve was created from other reserves to cover potential pressures relating to car parking income arising in future years due to the on-going impact of Covid.</p>
Elections Costs	<p>This reserve covers the cost of elections which occur every four years, The reserve is built up with a contribution from the elections budget each year, and then drawn down in the fourth year when local elections take place.</p>
Legacy Accounts Reserve	<p>This reserve has been created to cover potential outstanding legacy audit adjustments required to the accounts once outstanding audits for previous financial years have been completed.</p>

Savings Delivery Risk Reserve	This reserve has been created from the 2024/25 Collection Fund Surplus to offset the risk of slippage / non delivery of budgeted savings.
-------------------------------	---

## Annex B – Unusable Reserves

Unusable Reserves are those reserves held by the Council that cannot be utilised to provide services. This includes reserves that hold unrealised gains and losses and adjustment accounts which deal with situations where income and expenditure are recognised statutorily against the General Fund balance on a different basis from that expected by accounting standards as adopted by the Code. Unusable reserves cannot be used to fund expenditure e.g., cannot fund revenue spend on services or capital spend on projects.

Reserve	Description
Revaluation Reserve	The Revaluation Reserve contains the accumulated net gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The reserve only contains revaluation gains accumulated since 1 April 2007, the date when the Revaluation Reserve was constituted. Accumulated gains and losses accumulated before that date are consolidated into the Capital Adjustment Account. Amounts contained within this reserve will only become available to provide services (or limit resources in the case of losses) once the gains/losses are realised as the assets are disposed of.
Capital Adjustment Account	<p>The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction and enhancement as depreciation, impairment losses and amortisation are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with amounts set aside by the Council as finance for the costs of acquisition, construction, and enhancement.</p> <p>The Account also contains accumulated gains and losses on Investment Property and gains recognised on donated assets as well as revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.</p>
Deferred Capital Receipts	Deferred Capital Receipts are amounts that are to be received in instalments over an agreed period of time. They arise from mortgages on the sale of Council Houses, or repayment terms from other asset sales. These can only be used for financing new capital expenditure when the actual receipt is received. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

Financial Instrument Adjustment Account	This Account is held in accordance with the Code of Practice to write down over time the premiums paid on early debt repayment in order to spread the burden on Council Tax. This is a technical adjustment and has no impact on the overall financial position of the Council.
Pension Reserve	This reserve is used to reconcile the payments made for the year to various statutory pension schemes and the net change in the Council's recognised liability under IAS19 – Employee Benefits, for the same period.
Collection Fund Adjustment Account	The Collection Fund Adjustment Account holds the differences arising from the recognition of council tax and business rates income, in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.
Accumulating Compensated Absences Adjustment Account	The Accumulated Compensated Absences Adjustment Account reflects the value of compensated absences (employees time off with pay for holidays) earned but not taken in the year.
Dedicated Schools Grant Adjustment Account	From November 2020 The Local Authorities (Capital Finance and Accounting) Regulations (the 2003 Regulations) established new accounting practices in relation to the treatment of local authorities' schools budget deficits such that where a local authority has a deficit on its schools budget relating to its accounts for financial years from 1st April 2020, it must not charge the amount of that deficit to a revenue account. The local authority must record any such deficit in a separate account established solely for the purpose of recording deficits relating to its school's budget. The CIPFA local authority accounting code has determined this as the 'Dedicated Schools Grant Adjustment Account'. The new accounting practice has the effect of separating schools budget deficits from its General Fund revenue budget.