

APPENDIX 7

Reserves Policy 2026/27

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.

General Fund Balance	<p>A minimum balance which is a contingency to cushion the impact of unexpected events or emergencies. This is the fund of last resort.</p> <p>The General Fund Balance 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>The General Fund Balance summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.</p>
Earmarked reserves (Usable) Annex A	<p>Usable Reserves are those reserves that can be applied to fund expenditure or reduce local taxation; They are usable reserves that are generally used to support the general fund position:</p> <ul style="list-style-type: none"> - to support financial sustainability which are used to help cushion the impact of uneven cash flows, avoid unnecessary temporary borrowing manage the impact of unexpected adverse impacts upon the general fund budget (e.g., a financial resilience reserve). - to meet known or predicted requirements or established by statute. The purpose of these reserves is to enable sums to be set aside for specific purposes or in respect of potential or contingent liabilities where the creation of a provision is not required or permitted.
Restricted	Use is subject to party restrictions / conditions upon their application. For example, the Council is restricted in the use, such as schools' balances which are held on behalf of schools and can only be spent by schools, and the Capital Grants Unapplied Account can only be used to finance the Capital Programme.
Unrestricted	The Council can determine the purpose and value of the reserve and has flexibility over its use.

<p>Earmarked Reserves (unusable)</p> <p>Annex 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>
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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 holds, 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

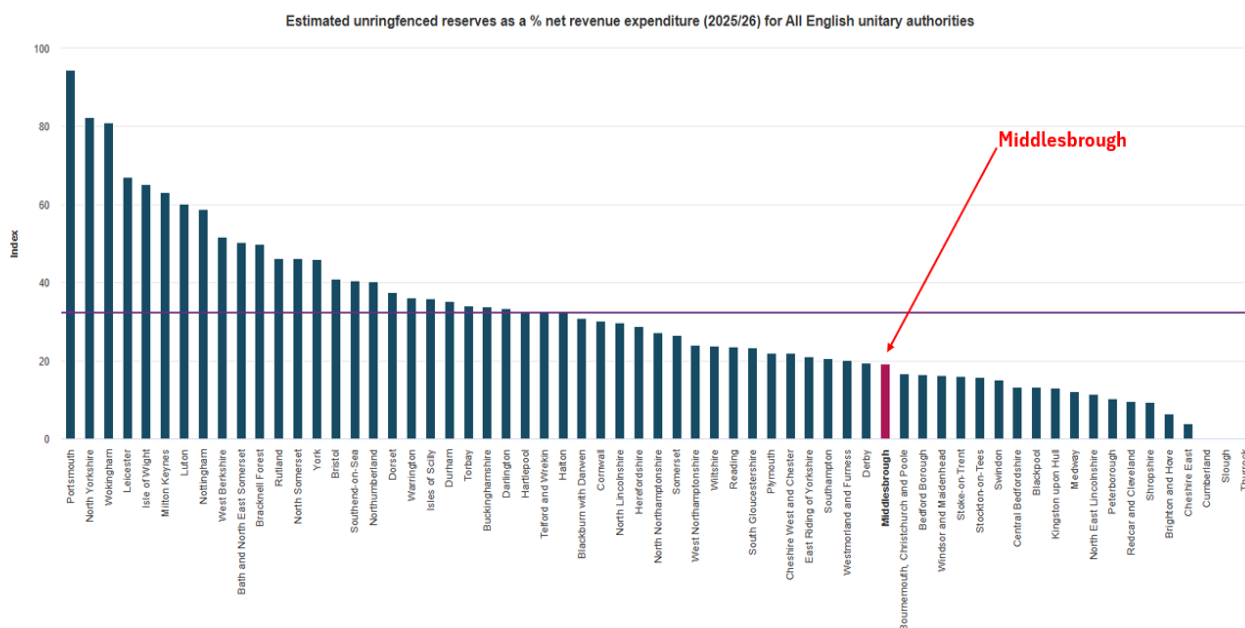
2.1 In previous years the Council faced a shortfall in funding compared to the level of service demand that it was experiencing. It therefore had to review its priorities and redesign and transform its services over the period of the MTFP to deliver cost reduction and efficiency to achieve a budget that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

2.2 As first outlined in the 2024/25 Reserves Policy, to achieve financial sustainability the Council engaged in a range of transformational activities in order to reduce future costs of service delivery. Due to the critically low level of

reserves which existed at the time, which were insufficient to support transformation expenditure, the primary source of funding for transformation over the last few years has been the 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 reviewed its asset base and a plan for asset rationalisation was approved by the Executive in November 2023. This 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 Whilst the Council's financial position has improved over the last few years and the Council will receive additional Government funding from 2026/27 to 2028/29, there is still a need to undertake transformational activities in order to ensure financial resilience to the Council over the medium to longer term and enable the Council to meet the needs of its residents.
- 2.5 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 and to provide sufficient resilience to support the management of risks in the delivery of the revenue budget over the current MTFP period. Additionally, there is uncertainty regarding Government funding for 2029/30 onwards and that means reserves have had to be increased further than originally planned to provide for this uncertainty.
- 2.6 Based on 2024/25 figures, the Council had the 6th lowest level of unringfenced reserves as a proportion of net revenue expenditure compared to all unitary authorities. Whilst this has improved, with the Council now having the 20th lowest level, using 2025/26 figures as illustrated below in Figure 1, the level of unringfenced reserves is still below the average level. The plans for reserves in this Reserves Policy will take Middlesbrough's level to about the average of all unitary authorities.

Figure 1 – Estimated unringfenced reserves as a % of net revenue expenditure (2025/26) for all English unitary authorities



Source: Local Government Association

Middlesbrough = 20th lowest

Note: this graph is drawn from Government data returns based on budgets at the start of the 2025/26 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 drawdown 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 throughout 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.

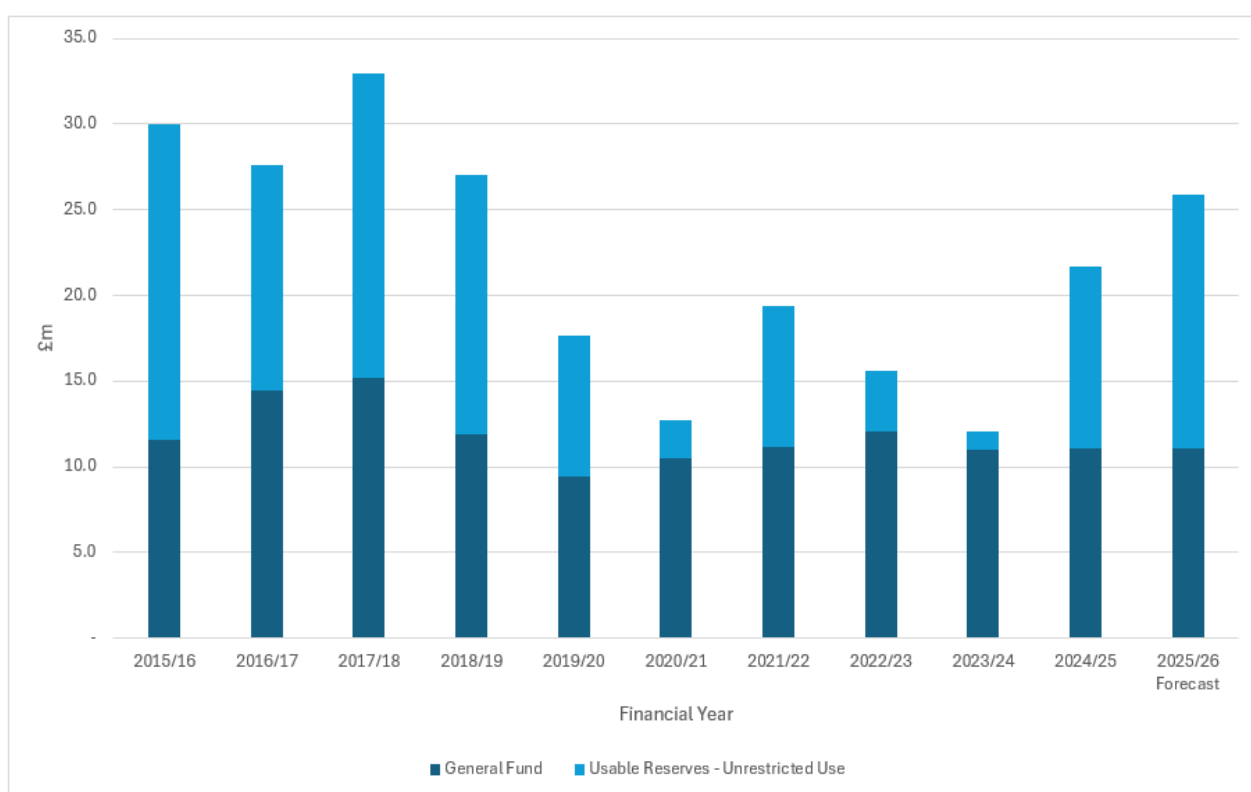
4. Level of General Fund Balance Usable Reserves

- 4.1 In 2023/24, the level of the total value of the Council's unrestricted usable reserves and General Fund Balance had declined to a critical level as shown in Figure 2 below. This 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. In 2024/25 rebuilding of these reserves commenced as detailed in the 2024/25 Reserves Policy, and this continued in 2025/26 and will continue over the period of the MTFP with contributions being applied to rebuild earmarked unrestricted usable reserves to improve financial resilience as follows:

	Contribution to Reserve			
	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Financial Resilience Reserve	3.388	2.216	2.966	3.716
Budget Smoothing Reserve	-	0.577	3.343	(3.920)
Change Fund Reserve	-	0.730	0.730	0.730
	3.388	3.523	7.039	0.526

- 4.2 Based upon the forecast outturn at Quarter Three 2025/26 the forecast balance at 31 March 2026 on the General Fund Balance is £11.100m and the unrestricted usable reserves is £14.837m.

Figure 2 – Movement in unrestricted usable reserves 2015/16 to 2025/26 forecast



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 unrestricted usable reserves, is necessary to manage risk and uncertainty mainly around any increases in demand for services the Council provides above that provided in the budget, in particular within adults and children's social care services, for which the Council has statutory duties that must be met.
- 4.4 For 2026/27, the s151 Officer recommends that the minimum balance on the General Fund Reserve should be maintained at a level of at least £11.1m over the

MTFP period to 2029/30. Whilst the value of the General Fund Reserve is the same as that in the 2025/26 Financial Reserves Policy, the percentage has reduced from 7.75% in 2025/26 to 5.53% in 2026/27 due to the increase in the proposed net revenue budget arising from the additional government funding and the rolling in of a number of grants into the Revenue Support Grant (RSG). The increase in other unrestricted usable reserves also means that this Reserve can be maintained at the same level. Details of this are shown below over the period of the MTFP:

	Forecast Contribution to General Fund	Forecast General Fund balance	Forecast Net Revenue Budget	General Fund Reserve as % of Net Revenue Budget
	£m	£m	£m	%
2025/26	-	11.100	143.304	7.75%
2026/27	-	11.100	200.675	5.53%
2027/28	-	11.100	225.265	4.93%
2028/29	-	11.100	241.231	4.60%
2029/30	-	11.100	250.017	4.44%

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 established and maintained in order to strengthen the Council's financial resilience. The purpose of this Reserve 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 2026/27 and then at least £20m by the end of the current MTFP period in 2029/30. 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 Budgeted Contribution to Reserve	Transfers into Reserve from Legacy Accounts Reserve	Forecast Contribution from Reserve	Forecast Financial Resilience Reserve changes in year	Forecast Cumulative balance on Reserve at end of year
	£m	£m	£m	£m	£m
Balance at end of 2024/25*					6.711
2025/26	2.836	1.000	-	3.836	10.547
2026/27	3.388	-	-	3.388	13.935
2027/28	2.216	-	-	2.216	16.151
2028/29	2.966	-	-	2.966	19.117
2029/30	3.716	-	-	3.716	22.833

*Financial Resilience Reserve established in 2024/25

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 at least the end of 2027/28, the main source of funding for which is Flexible Use of Capital Receipts (FUoCR) rather than Change Fund. As such, as the Change Fund has not been utilised in 2025/26, there will be no contribution made to the Change Fund in 2026/27, however a contribution of £0.730m each year will continue from 2027/28. 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 to continue from 2028/29 when the Flexible Capital Receipts funded transformation programme is due to complete.

	Forecast Budgeted Contribution to Reserve £m	Forecast Contribution from Reserve £m	Forecast Change Fund Reserve changes in year £m	Forecast Cumulative balance on Reserve at end of year £m
2025/26*	0.730	(0.730)	-	2.766
2026/27	-	-	-	2.766
2027/28	0.730	-	0.730	3.496
2028/29	0.730	(3.000)	(2.270)	1.226
2029/30	0.730	(1.956)	(1.226)	-

**2025/26 Budgeted Contribution not required due to Flexible Use of Capital Receipts funding of transformation expenditure*

Savings Delivery Risk Reserve

- 4.7 This Reserve was established in 2025/26 in order to offset the risk and provide financial resilience in the event of slippage / non delivery of planned budget savings. A contribution of £3.052m was made to the new Reserve at the start of 2025/26 by utilising the 2024/25 Collection Fund Surplus. It is currently forecast that £1.675m of this Reserve will be required to be utilised in 2025/26 to offset savings currently forecast as undeliverable in 2025/26. Whilst there are no additional budget savings currently planned in the updated MTFP for 2026/27 to 2029/30, there are still a large number of previous planned budget savings from previous years in the MTFP which have not been fully achieved. Full achievement of all these budget savings is still a significant challenge, and these are monitored as part of the budget monitoring arrangements. It is therefore recommended that the remaining forecast balance of £1.377m on the Savings Delivery Risk Reserve at 31/3/26 is maintained over the period of the MTFP to 2029/30.

Budget Smoothing Reserve

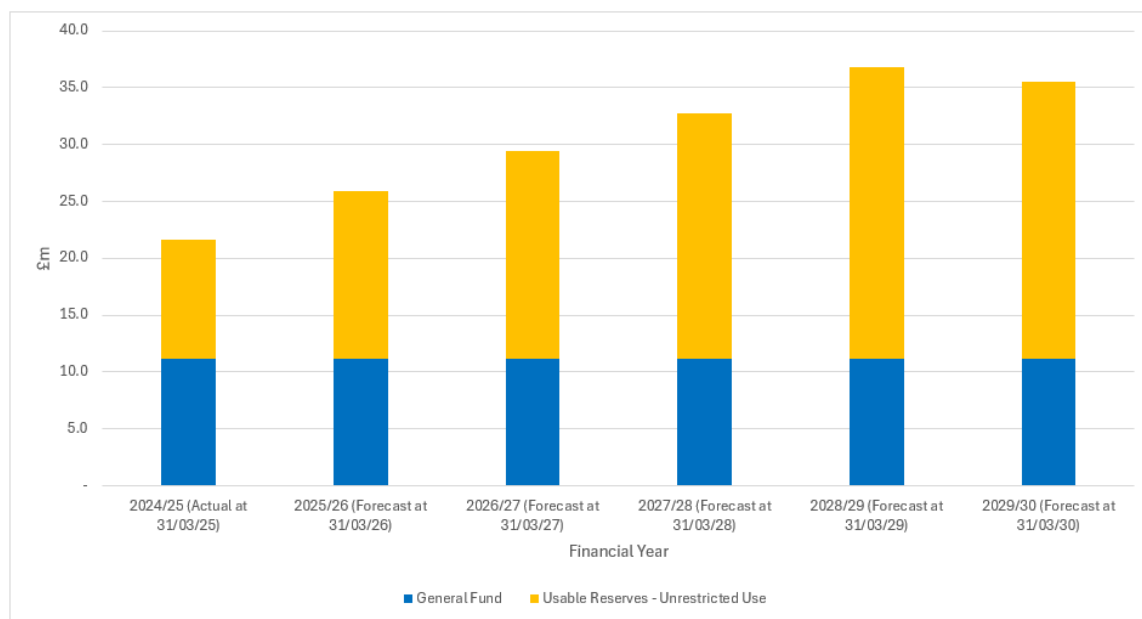
- 4.8 A new Reserve is to be established from 2026/27 to manage budget fluctuations and to smooth the short term impact of funding changes and cost pressures over the MTFP period. As mentioned in paragraph 2.5 there is uncertainty regarding Government funding for 2029/30 onwards and based on current projections there is a need to utilise this new Reserve to transfer additional Government funding estimated to be received in 2027/28 and 2028/29 to 2029/30, in order to enable a balanced

budget to be set for 2029/30. This Reserve will be reviewed regularly over the MTFP period as further information becomes available.

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 £11.1m over the MTFP period to 2029/30. In the 2026/27 proposed budget the level is 5.5% of the net revenue budget.
- 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 2026 is expected to be £14.837m.
- 5.3 Within unrestricted usable revenue reserves, the Financial Resilience Reserve (FRR) is required to be maintained to at least £10m in 2026/27 and at least £20m by the end of 2029/30 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 2029/30 after planned contributions, however this will depend on any unplanned drawdowns of reserves.

Figure 3 - Forecast Unrestricted Usable Reserves from closing balance 2024/25 through to closing balance 2029/30 (following planned contributions and drawdowns)



- 5.4 The detail of the forecast balances on reserves as at 31/3/26 is included in the Revenue and Capital Budget Forecast Year-End Outturn position at Quarter Three 2025/26 report to Executive on 4 February 2026.

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 catastrophes 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	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 & Expenditure Statement.
Marton Library Section 106	This reserve is held for the purpose set out in the Section 106 agreement.
Housing Rental Sinking Fund	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.
Financial Resilience Reserve	The purpose of the Reserve is to meet unforeseen financial pressures that cannot ultimately be managed within directorate budgets.
Change Fund	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.
Elections Costs	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.
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.
Budget Smoothing Reserve	This reserve has been created from 2026/27 and is a smoothing reserve to manage budget fluctuations and to smooth the short term impact of funding changes and cost pressures over the MTFP period.

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. These are mainly technical reserves in accordance with accounting policies and are required to be shown in the Statement of Accounts, however with the exception of the Dedicated Schools Grant Adjustment Account these are not included in the quarterly budget monitoring reports.

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 taxpayers 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.