

## **Appendix 1: Note on Earmarked Reserves and Peppercorn Leases**

### **Note on Earmarked Reserves**

Earmarked reserves are an essential part of local authority financial strategy and are funds that have been set aside for specific purposes. Unlike the General Fund, which provides a buffer against unforeseen financial pressures, earmarked reserves balances are held to support planned projects, manage known risks and meet future liabilities.

Their use ensures that resources are available when needed and that the authority can deliver its strategic objectives.

KCC holds reserves balances under a number of categories which are detailed below. Significant balances held within each category are detailed for additional context. The reserve balances as at 31 March 2025 as per the draft Statement of Accounts is also provided. This is part of Note 24 of the accounts on page 93.

### **Vehicles, plant, and equipment (VPE)**

These are reserves for the replacement and acquisition of vehicles, plant, and equipment. They are supported by an asset management plan showing the projected replacement timeline and cost. These reserves help to reduce fluctuations in spend. Most of these reserves have an Asset Management Plan (AMP) and annual reserve contributions.

Within the VPE reserve is £16.1m balance for Commuted Sums, which is an earmarked balance held to cover future maintenance costs of infrastructure assets. There is £1.8m held for Highways Renewals.

### **Smoothing Reserves**

These are reserves which are used to manage large fluctuations in spend or income across years, for example Private Finance Initiative (PFI) equalisation reserves. These reserves recognise the differences over time between the unitary charge and PFI credits received. Other smoothing reserves cover emergency conditions, unfunded social care issues and funds to cover additional costs in leap years.

### **Major Projects**

These reserves are for future spending on projects. Major projects include transformational programmes in adults and children's social care and ICT projects such as the implementation of Oracle Cloud.

### **Partnerships**

These are reserves resulting from our partnerships and are ringfenced for the benefit of the partnership or are held for investing in strategic priorities. A key example of this is the investment in East Kent Opportunities LLP, a joint venture in which Kent County Council holds a 50% stake alongside Thanet District Council.

Due to a statutory override accounting rule introduced when the Safety Valve programme was launched, within Partnerships is £36.2m in a Safety Valve Reserve. This will ultimately offset against the DSG Adjustment Account (which is an unusable reserve).

### **Grants and External Funds**

These reserves are for unspent grants which we are not required to repay, but which have restrictions on what they may be used for, and time limited projects funded from ringfenced external sources.

### **Departmental Under/Overspends**

This reserve relates to the re-phasing of projects/initiatives and bids to use underspends at the year-end which are approved as roll forwards into the following year. These are subject to approval by Cabinet.

### **Insurance Reserve**

This is a reserve for the potential cost of insurance claims in excess of the amount provided for in the insurance fund provision (for potential or contingent liabilities).

### **Public Health reserve**

As set out in the Local Authority Circular issued for the Public Health grant, any unused funds at the end of the financial year have been placed into a reserve and are to be used to meet eligible public health spend in future years.

### **Special funds**

These are reserves held primarily to facilitate the implementation of economic development and tourism initiatives and policy and regeneration expenditure. The balance in this reserve includes an amount for annual upkeep of the Old Rectory office space in Northfleet, which is a Grade II listed building.

<b>Earmarked Reserve category</b>	<b>Balance at 31 March 2025</b>
VPE	23.1m
Smoothing	111.8m
Major Projects	34.5m
Partnerships	44.5m
Grant & External Funds	7.7m
Departmental Over/Underspends	0.6m
Insurance	12.2m
Public Health	16.7m
Special Funds	0.8m
<b>Total</b>	<b>252.0m</b>

### **Note on Peppercorn Leases where KCC is the Tenant**

Peppercorn leases are lease agreements where the rent is set at a nominal amount - typically a symbolic sum such as £1 per year.

These arrangements are often used in the public sector to facilitate the use of land and buildings without imposing a financial burden on the authority. As lessee, KCC benefits from peppercorn leases in several ways, particularly in enabling service delivery and strategic asset use at minimal cost.

During our implementation process for IFRS 16 Leases, 27 leases were identified at peppercorn rates. Under the accounting guidance, these assets were valued at 01/04/24 and recorded as right of use assets on our balance sheet. The table below summarises the information we hold on peppercorn leases:

Number of leases	27
Total ROU asset value on transition	£4.3m
Average value	£0.16m

Infrastructure colleagues manage these lease agreements, however in a broad sense the cost efficiency of peppercorn leases allow KCC to occupy land and buildings without incurring significant rental costs. Some of our peppercorn leases are long term, and securing long-term access to sites that are critical for service delivery allows a focus on service provision rather than property costs.

### **Peppercorn leases where KCC is the Landlord**

KCC has 179 (excluding Academies) peppercorn lease arrangements, 36 of these leases are for land value is over £1m (Net Book Value NBV) . Some of these relate to leases that are historical and can be in place for the following reasons:

- Supporting service delivery where KCC are commissioning services or delivery services
- To support regeneration policy objectives
- Historical arrangements
- Temporary use
- Statutory directions e.g school leases where KCC is required by statute to transfer the land (194 leases with Academies)
- Control e.g KCC has sold the asset under a long lease but retained the freehold