

Reserves Policy

This policy established a framework within which decisions will be made regarding the level of reserves held by the Authority and the purposes for which they will be used and maintained.

Legislative/regulatory framework

The requirement for financial reserves is acknowledged in statute. Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

There are also a range of safeguards in place that help to prevent local authorities over-committing themselves financially. These include:

The balanced budget (or in England calculation of council tax) requirement: - England, Sections 31A, 42A of the Local Government Finance Act 1992, as amended - Wales, Sections 32 and 43 of the 1992 Act - Scotland, Section 93 of the Local Government Finance Act 1992 - Section 85 of the Greater London Authority Act 1999

Chief finance officers' duty to report on robustness of estimates and adequacy of reserves (under Section 25 of the Local Government Act 2003) when the authority is considering its budget requirement (England and Wales); Section 28 of the Act also requires budget monitoring 'from time to time' and take action to deal with any deterioration

The legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the chief finance officer/proper officer has responsibility for the administration of those affairs, Section 151 of the Local Government Act 1972, Section 95 of the Local Government (Scotland) Act 1973 and Section 1 of the Local Government and Finance Act (Northern Ireland) 2011

These requirements are reinforced by Section 114 of the Local Government Finance Act 1988, which required the Chief Finance Officer to report to Authority if there is, or is likely to be, unlawful expenditure or an unbalanced budget.

The requirements of the CIPFA Prudential Code

For statutory purposes, there is a single revenue reserve, the General Fund Balance. When reviewing their medium-term financial plans and preparing their annual budgets local authorities should consider the establishment of sub reserves (known as earmarked reserves) within the General Fund Balance and maintenance of general reserves. These can be held for three main purposes:

A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves

A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves

A means of building up funds, often referred to as earmarked reserves. Earmarked reserves may be reported separately but remain legally part of the General Fund.

The General fund is usually created through surpluses as a result of activities being postponed, cancelled or coming in under budget. The general reserve minimum balance is set a level of 2% of annual net expenditure plus £100k.

Risk Assessment

The assessment of risks should include external risks, such as Legal Costs, flooding, as well as internal risks, for example, the ability to deliver planned efficiency savings, IT business continuity etc. Statutory provisions require authorities to review at least once in a year the effectiveness of their system of internal control, which will include risk management. Strategic reviews will take place, taking into account the Corporate Risk Register to ensure we are able to bore the costs of risks, that would not otherwise be covered by insurance.

Policy aims

Adopt a transparent and accountable approach to managing the Authorities reserve levels as part of overall financial stewardship.

In establishing and approving the Medium Term Financial Forecast, “the Authority will ensure that it maintains a prudent level of reserves in line with best practice and relevant guidelines”.

Establish Earmarked (ringfenced) Reserves for any reason where it reasonably believes it may incur expenditure in the future, outside of the baseline budget allocation. These expenditure needs must be detailed and transparent to allow the CFO to understand the unbudgeted, financial priorities of each service

Ensure reserves are held at an adequate and appropriate level for the Authority’s needs. In order to assess the adequacy of unallocated general reserves when setting the budget, chief finance officers should take account of the strategic, operational and financial risks facing the authority.

Recognise the need to balance financial prudence with responsible financial management of precept funds

Recommended Levels & Accessing adequacy of reserves

As with any financial entity, it is essential that the Authority has sufficient reserves (general and earmarked) to finance both the day-to-day operations and future plans. We have no specific right to accumulate funds via the precept. Therefore, all reserves should be reviewed and justified regularly (i.e. at least annually). It is good practice to transparently publish both the level and rationale of all reserves.

Management & Governance- Earmarked Reserves

Earmarked Reserves will be established on a “needs” basis in line with anticipated requirements.

The creation of any new earmarked reserves will be subject to Member approval.

There is no upper limit to earmarked reserves, only that they must be held for genuine and identifiable purposes and projects, and their level should be subject to regular review and justification (Reviewed at budget monitoring and at budget setting) and should be separately identified and enumerated.

Earmarked reserve planned expenditure must be set out by the Department budget manager and authorised by the Chief Financial Officer. Any earmarked spend held for more than one year must be justified and reapproved by the CFO. If there is no justification to continue to hold the reserve, it will be released.

All Earmarked Reserves are recorded in a separate spreadsheet, updated by the Chief Financial Officer. This lists the amounts, and the purpose they are held for, including the plan to replenish or utilise reserves to meet future expected needs. This will be presented to the Resources committee quarterly.

The Chief Financial Officer reserves the right to reallocate earmarked reserves in the best interest of the Authority. If a specific reserve/reserve allocation is no longer considered relevant or there is an overriding financial requirement to fund a priority elsewhere virement can be considered. This will happen during the year as required, with a full review taking place at year end.

The Chief Financial Officer reserves the right to allocate year end surpluses in baseline budgets to the replenish reserves deemed appropriate, not necessarily those Departmental reserves where the surplus is borne.