

## 1. Background and Context

- 1.1. Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 require local authorities 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 (S151 Officer) to report formally on the adequacy of proposed reserves when setting a budget requirement. The accounting treatment for reserves is set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting.
- 1.2. CIPFA issued Local Authority Accounting Panel (LAAP) Bulletin No.99, Guidance Note on Local Authority Reserves and Balances in July 2014, which updated previous bulletins to reflect the new requirements of the International Financial Reporting Standards (IFRS) Code of Practice. In addition, during the period of financial austerity for the public sector, the Local Authority Accounting Panel considered it necessary to update the guidance on local authority reserves and balances. Compliance with the guidance is recommended in CIPFA's Statement on the Role of the Chief Financial Officer in Local Government.
- 1.3. This policy sets out the Council's approach to compliance with the statutory regime and relevant non-statutory guidance.
- 1.4. Reserves are an important part of the Council's financial strategy and are held to create long-term budgetary stability. They enable the Council to manage change without undue impact on the Council Tax and are a key element of its strong financial standing and resilience. The Council's key sources of funding face an uncertain future and the Council therefore holds earmarked reserves and a working balance in order to mitigate future financial risks.
- 1.5. Earmarked reserves are reviewed quarterly and reported to Cabinet as part of the budget monitoring, budget setting and close down processes, to determine whether the original purpose for the creation of the reserve still exists and whether the reserves should be released in full or in part. Particular attention is paid in review to those reserves where the balances have not moved over a long period of time.

## 2. Overview

- 2.1. The Council will maintain:
  - a General Fund general reserve;
  - a Housing Revenue Account (HRA) general reserve;
  - a number of earmarked reserves; and,
  - Capital Receipts and Capital Grants reserves.
- 2.2. Additionally, the Council is required to maintain unusable reserves to comply with accounting requirements although, as the term suggests, these reserves are not available to fund expenditure.

- 2.3. The level of the general reserve is a matter for the Council to determine having had regard to the advice of the S151 Officer. The level of the 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. The level will be expressed as a cash sum over the period of the general fund medium-term financial plan. The level will also be expressed as a percentage of the gross budget (to provide an indication of financial context). The Council's aim is to hold general reserves of between 5.00% (£42.827 million) and 7.50% (£64.240 million) of the gross revenue budget by the end of 2023-24.

### **3. Strategic Context**

- 3.1. The Council continues to face a shortfall in funding compared to spending demands and must annually review its priorities in order to address the shortfall.
- 3.2. Reserves play an important part in the Council's Medium-Term Financial Plan and are held to create long-term budgetary stability. They enable the Council to manage change without undue impact on the Council Tax and are a key element of its strong financial standing and resilience.
- 3.3. The Council holds reserves to mitigate future risks, such as increased demand and costs; to help absorb the costs of future liabilities; and to enable the Council to resource policy developments and initiatives without a disruptive impact on the Council Tax.
- 3.4. The Council relies on interest earned through holding reserves to support its general spending plans.
- 3.5. Reserves are non-recurrent money. The Council does not use reserves to meet ongoing financial commitments other than as part of a sustainable budget plan. The Council has to balance the opportunity cost of holding reserves in terms of Council Tax against the importance of interest earning and long-term future planning.

### **4. Purposes**

- 4.1. Reserves are therefore held for the following purposes, some of which may overlap:
- Providing a working balance e.g., Housing Revenue Account and General Fund general reserves;
  - Smoothing the impact of uneven expenditure profiles between years e.g., Collection Fund Smoothing Reserve;
  - Holding funds for future spending plans e.g., Capital reserves, Economic Regeneration Reserve;
  - Meeting future costs and liabilities where an accounting 'provision' cannot be justified;
  - Meeting future costs and liabilities to cushion the effect on services e.g., the Insurance Reserve for self-funded liabilities arising from insurance claims;

- To provide resilience against future risks; and,
- To create capacity e.g., Strategic Management Reserve.

4.2. All earmarked reserves are held for a specific purpose. This, together with a summary of the movement on each reserve, is reported quarterly.

4.3. The use of some reserves is limited by regulation e.g., the Collection Fund balance must be set against Council Tax levels. Reserves established through the Housing Revenue Account can only be applied within that account and the Schools' Reserves are also ring-fenced for their use.

## **5. Management and Governance**

5.1. All reserves are reviewed quarterly and reported to Cabinet as part of the Council's budget monitoring, budget preparation, and close down processes. The Council will consider the view and advice of the S151 Officer regarding the adequacy of the reserves in the annual budget-setting process. The budget report will contain an estimate of the reserves over the duration of the Medium-Term Financial Plan.

5.2. Creation of new reserves:

5.2.1. Cabinet will approve the creation of all new reserves on the recommendation of the Section 151 Officer.

5.3. Adding to or utilising existing reserves:

5.3.1. Earmarked Reserves and capital grants unapplied; requires completion of a movement in earmarked reserves form for each drawdown or addition to an existing reserve. These forms require approval from the relevant Executive Director or Service Director, and Section 151 or Deputy Section 151 Officer (in the absence of the S151 Officer), unless agreed otherwise by Cabinet.

5.3.2. General Fund general reserve and HRA general reserves; requires Cabinet approval up to £1.000 million and full Council approval over £1.000 million for each drawdown or addition to these reserves.

5.3.3. Capital Receipts (excluding HRA); in order to minimise the cost of borrowing all capital receipts available will be utilised in year to finance the Capital Programme.

5.3.4. Capital Receipts (HRA); the use of capital receipts will be managed in order to minimise the cost of borrowing whilst maximising the opportunities to secure grant funding.

5.4. The Council will review the Reserves Policy on an annual basis.