

Reserves Policy

1. This policy has been prepared to meet statutory requirements (Sections 32 and 43 of the Local Government Finance Act 1992) in connection with the calculation of the budget requirement when setting council tax. The Local Government Act 2003 also requires the Chief Finance Officer to review and report on the adequacy of reserves when a council sets its budget. The same Act empowers the government to set minimum levels of reserves in the event an authority fails to act prudently.

2. More generally, an agreed policy on reserves assists in medium term planning. The Chartered Institute of Public Finance and Accountancy issues guidance on reserves and balances. The most recent guidance reflects arrangements arising from the IFRS based Accounting Code of Practice as well as the impact of emergency events (e.g. Flooding/storms) and the current period of financial austerity; this policy is consistent with that guidance.

3. The format of the accounts accords with the requirements of International Financial Reporting Standards (IFRS), which gives some prominence to balances, and movements of balances, held in reserves as they are a key indicator of an organisation's financial health and resilience.

Reserves

4. Reserves are an essential part of good financial management. They help the Council to cope with unpredictable financial pressures, smooth out the impact of known spending requirements over time, and assist in funding any in-year overspends should they arise. They also assist in meeting the legal duty to close any budget gaps. They are the accumulated surplus of income over expenditure on an accruals, rather than cash, basis of accounting. There can be, and usually is, a difference between the total of reserves and accumulated cash balances.

5. Reserves can be usable or unusable. Usable reserves represent resources that are available to meet the Council's future liabilities. Unusable reserves are those which arise from accounting regulations, e.g. capital revaluations, pensions, and which relate to transactions which by statute cannot be put into or taken from the general reserve.

6. Accounting conventions differentiate between reserves and provisions; provisions being amounts charged to the income and expenditure accounts in respect of liabilities likely to be incurred from past events and where a reliable estimate of the liability is possible but where the timing and/or precise value of that liability is uncertain.

7. The Council holds three types of reserve

- General reserves (i.e. General fund balance) – by way of a working balance to manage cash flows and limit the need for temporary borrowing and to provide a contingency for unforeseeable events and emergency spending;
- Earmarked reserves – reserves set aside for a defined purpose to meet known or predicted future liabilities.
- Special reserve - This is really a sub category under earmarked reserves, but merits specific reference. Members have previously agreed that this fund will be used on a

phased basis for 'invest to save' projects and to support unavoidable fluctuations in contract prices as contracts are renewed. The balance in the special reserve has been used to provide a means of funding the implementation of alternative ways of working to assist the delivery of efficiencies required over the next five years. It may also be utilised to cushion the impact of any changes to New Homes Bonus and fund any budget adjustments that become necessary as a result.

8. Central Government has the power to set a minimum level of reserve for Council (under the Local Government Act 2003); however, this has only been used for specific Councils experiencing difficulties. The general national approach is for the Chief Finance Officer to review reserves in line with CIPFA guidance. The Council will adopt a risk based approach in considering the adequacy of individual reserves and the aggregate of all reserves. In reviewing reserves, immediate and medium term requirements and risks will be considered; in general the longer the planning timeframe the greater uncertainty to be applied to assumptions.

The general reserves:

9. The Council will maintain:

- a general reserve fund balance adequate to meet the needs of an in year working balance and as a second level of contingency; plus
- a general reserve adequate to provide a reasonable level of contingency and manage differences between the timing of any significant charges to the income and expenditure account and MTFS assumptions.

10. There is no formula by which relevant considerations may be captured to calculate the minimum, optimum or maximum level of general reserves or reserves in aggregate. Set out below is a minimum and maximum assessment that may be expected to apply during "normal" times. In the event that the general reserve falls outside of these boundaries, the Council will give consideration for any corrective action to be taken.

11. Subject to the risk considerations set out below, the aggregate balance on these reserves should normally not be expected to fall below the sum of the following;

- a) 5% of net revenue budget at the start of the financial year
- b) allowance for identified risks as calculated at the start of the financial year
- c) the Bellwin Threshold of 0.2% of net revenue budget (see note 1)

As at 1 April 2015, the above limits are quantified as follows

	£ (m)
Net revenue budget - 5% of £16.249m	0.8135
Identified risks	0.8730
Bellwin threshold	0.0325
Total	<u>1.7190</u>

The minimum value acknowledges the Council's exposure to variable interest rates, the degree to which services are bought in via contracts, the dependency on income streams with an in-year degree of uncertainty, risks associated with all regulatory services, the recent track record of spending within budget, plus the potential for error in any financial forecast.

12. In terms of a maximum level of reserve it should not be expected to exceed the sum of:

- (a) 40% of the net revenue budget requirement at the start of the financial year
- (b) The Bellwin Threshold of 0.2% of net revenue budget
- (c) Less any sum held as an insurance reserve

As at 31 March 2015 the above limits were as follows;

	£ (m)
Revenue budget - 40% of £16.249m (2015/16)	6.5000
Bellwin threshold of 0.2% of £16.249m	0.0325
Less Insurance reserve	<u>(0.0380)</u>
Total	<u><u>6.4945</u></u>

The actual net aggregate balance as @ 31st March 2015 was £5.986m

14. The primary risks to consider are:

- a) the assumptions which underpin the budget and the medium term financial strategy,
- b) the judgement of the consequent risk that those assumptions may prove to be wrong,
- c) the potential impact of the scale of variance of actual figures from those assumptions.

The key assumptions to consider are:-

- the potential volatility of government general and specific grants
- inflation and interest rates
- amount and timing of capital receipts
- delivery of planned efficiency and other savings
- expected growth in activity from demand led or discretionary expansion of services
- new partnerships and major capital schemes
- current and future availability of alternative funding sources
- future opportunity to commercialise services or raise fees/income

Earmarked Reserves

15. There is no maximum or minimum level of Earmarked Reserves. They are established only for well defined specific purposes and are generally expected to be applied within a five year period.

16. Where specific reserves are established to meet defined risks of indeterminate duration the need for and balance on the reserve will be reviewed and the likelihood and impact assessment of the risk will be reassessed as part of the Council's strategic risk management processes.

17. At 31 March 2015 earmarked reserves totalled £5.132m. Additions to Earmarked reserves in 2014/15 totalled a net £1.133m.

The overall earmarked reserves position for 2014/15 is given below:

	Balance at 1 April 2014	Contributions	Payments to Fund expenditure	Balance at 31 March 2015
	£'000	£'000	£'000	£'000
Cemetery Mausoleum	96cr	7cr	0	103cr
Children's Services	7cr	11cr	5dr	13cr
Climate Change Grant	53cr	0	4dr	49cr
Community Development	1cr	0	0	1cr
Community Right to Bid	29cr	17cr	1dr	45cr
DCLG Grants	492cr	788cr	40dr	1,240cr
DWP Additional Grants	27cr	40cr	25dr	42cr
Electoral Services	9cr	0	9dr	0
Environmental Warranty Reserve	209cr	0	0	209cr
Growth Area Fund	53cr	0	0	53cr
Homelessness	28cr	0	6dr	22cr
Housing Planning Delivery Reserve	243cr	128cr	112dr	259cr
Information Technology Reserve	293cr	0	141dr	152cr
Insurance Reserve	28cr	10cr	0	38cr
Leisure Management Reserve	49cr	20cr	0	69cr
Local Authority Mortgage Scheme	31cr	25cr	0	56cr
Museum Exhibits Reserve	13cr	0	0	13cr
Neighbourhood Plan Reserve	0	40cr	0	40cr
Office Move IT Works	7cr	0	0	7cr
Paintings Conservation	13cr	4cr	2dr	15cr
Performance Reward Grant Reserve	50cr	0	0	50cr
Personal Search Fees	152cr	36cr	3dr	185cr
Property Maintenance	28cr	30cr	0	58cr
S106 Monitoring	87cr	24cr	16dr	95cr
Special Reserve	1,767cr	0	47dr	1,720cr
Street Furniture	3cr	4cr	4dr	3cr
Street Name Plates	4cr	0	4dr	0
Taxi Licences Reserve	17cr	0	15dr	2cr
Town Centre Maintenance	30cr	9cr	2dr	37cr
Town Wide Review	180cr	0	11dr	169cr
Waste Reserve	0	387cr	0	387cr
Total Revenue Reserves	3,999cr	1,580cr	447dr	5,132cr

Reporting of reserves

18. As a minimum, the annual budget report and the final accounts report will set out opening balances, expected or actual transfers to and from reserves together with closing balances. The Strategic Director of Finance, Policy & Governance, as S151 officer, will comment on the adequacy of reserves in those reports.

19. During the year the adequacy of reserves will be reviewed as part of the financial "health check" monitoring with regard to any significant budget variances. If the balance on general reserves appears likely to move outside of the boundaries established, the need for corrective action will be considered in the next planned revenue monitoring report, or earlier if the Council's S151 officer so requires.

Governance arrangements in respect of reserves

20. Reserves will be set as part of the Medium Term Financial Strategy and Budget setting processes. These will be reviewed and monitored through the reporting mechanism to Committee, Cabinet and Council and considered as part of the Council's auditing and accounting practices. The use of general and earmarked reserves, are set out in Financial Regulations. Planned contributions to and withdrawals from specific reserves will be set out in the financial reports approved by full Council.

Note 1: Bellwin Scheme

This is a Government emergency financial assistance scheme which "reimburses local authorities for costs incurred on, or in connection with, their immediate actions to safeguard life and property or to prevent suffering or severe inconvenience as a result of a disaster or emergency in their area". The threshold defines the initial level of funding that an authority is expected to provide from its own resources.