

Appendix I

Reserves and balances policy

Background

This policy sets out the Council's approach to reserves and balances. The policy has regard to LAAP Bulletin 77 'Local Authority Reserves and Balances', issued in November 2008.

In reviewing medium-term financial plans and preparing annual budgets, the Council will consider the establishment and maintenance of reserves for both the general fund and the housing revenue account. The nature and level of reserves will be determined formally by the Council, informed by the judgement and advice of the Chief Finance Officer (CFO).

Types of reserve

The Council will maintain the following reserves:

- general reserve: to manage the impact of uneven cash flows and unexpected events or emergencies;
- specific reserves: sums set aside to meet known or predicted specific requirements.

Specific reserves will be maintained as follows:

- risk reserve: to manage litigation and other corporate risks not otherwise recognised;
- transformation reserve: to fund the transformation programme to change, protect and improve Council services;
- service development reserve: to enable the Council to respond to the most urgent corporate priorities;
- infrastructure reserve: to fund infrastructure necessary to enable development across the borough;
- PFI reserve: to manage the profile of grants and payments in respect of PFI projects;
- financing reserve: to enable the effective management of the medium-term financial strategy;
- schools reserve: balances in respect of delegated school budgets;
- service reserves: funds set aside for specific purposes in respect of individual Council services; and
- capital receipts reserve: capital receipts not yet applied to capital expenditure.

The Council also maintain a number of other reserves that arise out of the interaction between legislation and proper accounting practices. These reserves, which are not resource-backed, will be specified in the annual Statement of Accounts.

Principles to assess the adequacy of reserves

The CFO will advise the Council on the adequacy of reserves. In considering the general reserve, the CFO will have regard to:

- the strategic financial context within which the Council will be operating through the medium-term;
- the overall effectiveness of governance arrangements and the system of internal control;
- the robustness of the financial planning and budget-setting process;
- the effectiveness of the risk management process and the potential impact of risks identified;
- the effectiveness of the budget monitoring and management process.

Having had regard to these matters, the CFO will advise the Council on the monetary value of the required general reserve.

The Council has also considered the Audit Commission's "Striking a Balance" report (December 2012) which outlines the need for elected members to ensure that their council's reserves are appropriate for local circumstances and the risk based considerations to facilitate this.

In considering specific reserves, the CFO will have regard to matters relevant in respect of each reserve, and will advise the Council accordingly.

Use of reserves

The use of reserves will be determined by the Policy & Resources Committee and make recommendations to Council informed by the advice of the CFO.