

### Reserves and balances policy

#### Background

Reserves and balances help councils cope with unpredictable financial pressures and plan for their future spending commitments. The level, purpose and planned use of reserves are important considerations for the Chief Finance Officer (CFO) and elected members to consider when developing the medium-term financial strategy and setting annual budgets.

This policy sets out the Council's approach to reserves and balances. The policy has regard to the Local Authority Accounting Panel (LAAP) Bulletin 99 'Local Authority Reserves and Balances' published by the Chartered Institute of Public Finance Accountants (CIPFA) in July 2014.

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 CFO.

Reserves are analysed into two categories: usable and unusable.

#### Types of usable reserve

The Council will maintain the following usable reserves:

- General reserve (sometimes known as general fund balance): to manage the impact of uneven cash flows and unexpected events or emergencies. The level of general reserve to be held is not specified, however the council uses a guide of 5% of annual net revenue expenditure;
- Specific reserves: sums set aside to meet known or predicted specific requirements. These reserves may be 'ring fenced' by statute and can only be used for their designated purpose.

Specific reserves will be maintained as follows:

- Reserves used to balance the medium term financial strategy (MTFS): one off monies factored as income in the MTFS to balance the budget;
- 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 can also maintain a number of other reserves that arise out of the interaction between legislation and proper accounting practices.

**'Unusable' reserves** are not resource-backed and therefore cannot be used, these are:

### **Revaluation Reserves**

- Revaluation Reserve - records unrealised gains in the value of property, plant and equipment.
- Available-for-Sale Financial Instruments Reserve – records unrealised revaluation gains arising from holding available-for-sale investments, plus any unrealised losses that have not arisen from impairment of the assets.

### **Adjustment Accounts**

- Pensions Reserve – reconciles the payments made for the year to various statutory pension schemes in accordance with those schemes' requirements and the net change in the authority's recognised liability.
- Capital Adjustment Account - reconciles the different rates at which assets are depreciated under proper accounting practice and are financed through the capital controls system.
- Financial Instruments Adjustment Account – reconciles the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under proper accounting practice and are required by statute to be met from the General Fund.

The Unequal Pay Back Pay Account - this is a specific accounting mechanism used to reconcile the different rates at which payments in relation to compensation for previous unequal pay are recognised under proper accounting practice and are required by statute to be met from the General Fund. This account is not applicable to Scotland.

□ Collection Fund Adjustment Account – this is a specific accounting mechanism used to reconcile the differences arising from the recognition of council tax and non-domestic rates income (England)) in the Comprehensive Income and Expenditure Statement to those amounts required to be charged by statute to the General Fund. For example, the credit balance on the Account shows that more tax has been collected on behalf of the authority and the precepting bodies (and central government in England for non-domestic rates income) than an authority is permitted to transfer out of the Collection Fund by 31 March. This account is not applicable to Scotland.

25. Other such reserves may be created in future where developments in local authority

accounting result in timing differences between the recognition of income and

expenditure under proper accounting practice and under statute or regulation.

### **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;
- Overall effectiveness of governance arrangements and the system of internal control;
- Robustness of the financial planning and budget-setting process;
- Effectiveness of the risk management process and the potential impact of risks identified; and
- 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 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. It has also considered the response to this report by CIPFA.

There are a range of safeguards in place that help to prevent the council over-committing itself financially. These include:

- the balanced budget requirement (sections 31A, 42A of the Local Government Finance Act 1992, as amended);
- 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;
- 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; and
- the requirements of the Prudential Code

These requirements are reinforced by section 114 of the Local Government Finance Act 1988 which requires the Chief Finance Officer to report to all the authority's councillors if there is, or is likely to be, unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

### **Use of reserves**

Judgements about, and use of reserves - to what extent they should be used or set aside to meet either specific or unforeseen future liabilities - can only be made locally, they cannot be prescribed nationally. Local decisions should be taken by

elected members having regard to clear and full information and advice provided by the CFO.

Uncertainty and risk is increasing but one thing is clear, use of reserves is not a long term solution for recurring funding.

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

January 2017