

RESERVES POLICY

Introduction

The establishment, monitoring and review of the levels of reserves and balances are an important element of the Council's financial management systems and financial standing.

The Chief Finance Officer (Section 151 Officer) is required by law to formally report to the Council their opinion on the adequacy of the Council's reserves. Irrespective of this, a well-managed authority is clear about the reserves it needs now and in the future to support its service aspirations, while at the same time delivering value for money within a climate of significant resource pressure and economic/social risk.

This Policy does not cover non-distributable reserves required to support financial accounting transactions e.g. the Revaluation Reserve, Capital Adjustment Account and Pension Reserve. (Non-distributable reserves are those that cannot be used for revenue or capital purposes.)

Reserves can be held for four reasons:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
- A contingency to cushion the impact of unexpected events or emergencies.
- A means of building up funds to meet known or predicted liabilities.
- A means of setting aside sums for future identified uses and / or investments

Such reserves are generally referred to as Earmarked Revenue Reserves.

What are Reserves?

There is no clear definition of reserves even though reference is made to reserves in legislation. The Chartered Institute of Public Finance and Accountancy (CIPFA) states 'amounts set aside for purposes falling outside the definition of provisions should be considered as reserves.' Provisions are required for any liabilities of uncertain timing or amount that have been incurred.

Generally there are two types of reserves, those that are available to meet revenue or in some cases capital expenditure (Usable) and those that are not available to finance revenue or capital expenditure (Unusable). Useable reserves result from events that have allowed monies to be set aside, surpluses or decisions causing anticipated expenditure to have been postponed or cancelled. They can be spent or earmarked at the discretion of the Council.

The Council must manage its reserves in accordance with its strategic longer term planning process.

Policy principles:

- The General Fund Balance will be maintained at a minimum of 15% of the net Revenue Budget to cover any major unforeseen expenditure.
- Earmarked revenue reserves will be maintained for specific purposes that are consistent with achieving Corporate Plan priorities and/or where they are required to account separately for Government funding streams.
- Reserves must only be used to fund one-off expenditure.
- Recurring expenses may only be funded from reserves if plans are in place to fund the ongoing costs and replenish the reserve within 12 months.
- Unplanned revenue income receipts will be held in a reserve pending future decisions as to their use.
- We aim to balance the Revenue Budget over the period of the MTFP without reliance on the use of reserves

November 2022