POLICY STATEMENT ON BALANCES AND RESERVES

INTRODUCTION

1. This paper sets out the Council's policies underpinning the maintenance of a level of unapplied balances within the Council's accounts.

STATUTORY POSITION

2. A local authority is not permitted to allow its spending to exceed its available resources so that overall it would be in deficit. Sections 32 and 43 of the Local Government Finance Act 1992 require authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
3. Reserves can be held for three main purposes:

   - a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing, this forms part of general reserves;
   - a contingency to cushion the impact of unexpected events or emergencies, this also forms part of general reserves;
   - a means of building up funds often referred to as earmarked reserves, to meet known or predicted liabilities.

4. This policy statement is concerned with general balances and earmarked reserves as defined in the first two bullet points of paragraph 3 above.

PURPOSE OF BALANCES AND RESERVES

5. The Council has traditionally maintained a small general balance in order to provide a contingency against unforeseen overspendings or a major unexpected event. In recent years, budgetary control and financial management has been of such a high standard that a contingency for the former event has not been required. The last major unforeseen event was the Great Storm of October 1987, when the reserves permitted emergency works to be carried out as an immediate response to the crisis.
6. There is no generally recognised official guidance on the level of balances to be maintained, the key principles are that the level should be justifiable in the context of local circumstances, and council taxpayers' money should not be tied up unnecessarily.

7. Whilst general balances are unallocated, earmarked reserves are held for specific purposes and to mitigate against potential future liabilities.

8. Balances can, by definition, only be used once. Therefore, where balances are applied to support spending, they should only be used for one-off or non-recurring spending or investment.

LEVEL OF BALANCES AND RESERVES

9. In recent years it has been considered prudent to maintain a minimum level of available general balances of between 2.0% to 2.5% of the net budget requirement, i.e. between £15m to £19m. This is normally sufficient to cover unforeseen circumstances and the risk of higher than expected inflation. However, in these unprecedented times of economic hardship and fiscal austerity; together with the budget having to make assumptions on the levels of future funding in the context of a fundamental review of local government funding; and on the on-going significant level of savings required; it is advisable to hold balances to cover the real possibility of the assumptions being incorrect. The level of earmarked reserves will vary according to specific prevailing financial circumstances, in particular linked to risk and uncertainty.

10. In this context the Chief Finance Officer report on the budget for 2012/13 recommends:

- holding general balances of £30m;
- providing a contingency within the revenue budget of £8m in respect of the risks in achieving efficiency savings included in budget proposals;
- the creation of an earmarked reserve to cover for the risks to the Council's funding in the event that economic conditions deteriorate. For 2012/13, this reserve will hold £4.4m;
- the creation of an earmarked reserve to cover for the risk of interest rate changes. For 2012/13 this reserve will hold £3.2m.

PROPOSED POLICY FOR 2012/13

11. General balances should only be held for the purposes of:

- helping to cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
- a contingency to cushion the impact of unexpected events or emergencies.

10. The application of general balances should only be for one-off or non-recurring spending or investment or to smooth the effect of government funding reductions that have a disproportionate impact in any one year.