

Reserves & balances policy statement

Introduction

A.6.1. This paper sets out the council's policies underpinning the maintenance of a level of general balances and earmarked reserves within the council's accounts.

Statutory position

A.6.2. 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 balances and reserves needed for meeting estimated future expenditure when calculating the budget requirement.

A.6.3. Balances and 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 balances;
- a means of building up funds often referred to as earmarked reserves, to meet known or predicted liabilities.

A.6.4. This policy statement is concerned with general balances and earmarked reserves as defined above.

Purpose of balances and reserves

A.6.5. The council has traditionally maintained a small general balance in order to provide a contingency against unforeseen overspendings or a major unexpected event.

A.6.6. Although there is no generally recognised official guidance on the level of general balances to be maintained, the key factor is that the level should be justifiable in the context of local circumstances, and council taxpayers' money should not be tied up unnecessarily. The council's external auditor comments on the level of balances and reserves as part of the annual audit of the council's financial position.

A.6.7. While general balances are unallocated, earmarked reserves are held for specific purposes and to mitigate against potential future known or predicted liabilities.

Level of balances and reserves

A.6.8. 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 sum of council tax plus settlement funding, i.e. between £16m to £20m. This is normally sufficient to cover unforeseen circumstances and the risk of higher than expected inflation. The council brought forward £21.3 m general balances at 1 April 2014. The council has applied none of this to support the 2014/15 budget. Going into 2015/16 the Director of Finance recommends the level of general balances remains the same. This approach is considered prudent when combined with the policy of removing the risk

contingency from within the revenue budget, leaving general balances to provide mitigation against the risk of non-delivery of service reductions and efficiencies from 2015/16.

A.6.9. The level of earmarked reserves will vary according to specific prevailing financial circumstances, in particular linked to risk and uncertainty.

A.6.10. In this context the Director of Finance's report on the budget for 2015/16 recommends:

- holding general balances to £21.3m, combined with;
- removing the risk contingency within the revenue budget to nil (from £5m in 2014/15).

Proposed policy for 2015/16

A.6.11. 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.

A.6.12. The application of general balances and reserves can, by definition only be used once and should therefore only be applied 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.