

Policy statement on reserves & balances

Introduction

A.5.1. 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.5.2. 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.5.3. 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.5.4. This policy statement is concerned with general balances and earmarked reserves as defined above.

Purpose of Balances and Reserves

A.5.5. The Council has traditionally maintained a small general balance in order to provide a contingency against unforeseen overspendings or a major unexpected event.

A.5.6. 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.5.7. While general balances are unallocated, earmarked reserves are held for specific purposes and to mitigate against potential future liabilities.

Level of Balances and Reserves

A.5.8. 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 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. Going into 2012/13 the Chief Finance Officer recommended that the level of general balance was increased, to a maximum of £30m, in recognition of the unprecedented austerity agenda and anticipated future high level of service reductions & efficiencies likely to be required in future years.

A.5.9. The level of earmarked reserves will vary according to specific prevailing financial circumstances, in particular linked to risk and uncertainty.

A.5.10. In this context the Chief Finance Officer report on the budget for 2013/14 recommends:

- holding general balances to £16.8m, combined with;
- providing a risk contingency within the revenue budget of £13m (increased from £8m in 2012/13) to mitigate against the risk of non-delivery of the service reductions & efficiencies included in budget proposals;
- the creation of an earmarked Revolving Investment & Infrastructure Fund to cover the capital financing costs of long-term investment in initiatives that will deliver savings and enhance income in the longer term, thus increasing the Council's long term financial resilience.

Proposed Policy for 2013/14

A.5.11. 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.5.12. 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.