

Reserves & balances policy statement

Introduction

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

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.
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.
4. This policy statement is concerned with general balances and earmarked reserves as defined 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.
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.
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

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 £17m to £21m. 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 2017. The council has applied none of this to support the 2017/18 budget. Going into 2018/19 the Director of Finance recommends the level of general balances remains the same. This reflects the on-going high level of uncertainty and risk the council faces.

9. The level of earmarked reserves will vary according to specific prevailing financial circumstances, in particular linked to risk and uncertainty and are therefore reviewed regularly and adjustments reported to and supported through Cabinet decisions.
10. In this context the Director of Finance's report on the budget for 2018/19 recommends holding general balances of £21.3m.

Proposed policy for 2018/19

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.
12. Given the reduction in funding that the Council has experienced over recent years, and continuation of the reduction, retention of the Council's general balances and reserves will be essential in order to mitigate the risk of future uncertainties and non-delivery of savings programmes designed to meet the funding reduction
13. 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. If reserves are depleted disproportionately in a financial year, the council should plan to replenish these in future years to be confident of being in a position to manage future risks safely.