

## RESERVES POLICY

### Purpose of Reserves Policy

1. This policy establishes a framework within which decisions will be made regarding the level of reserves held by the Council and the purposes for which they will be maintained.

### Definitions

2. Accounting regulations identify two types of reserves: -
  - (a) Usable - funds held by the Council that are available to meet future expenditure
  - (b) Unusable - prescribed in accounting regulations, these do not impact directly upon Medium Term Financial Plan (MTFP), budget or Council Tax decisions. This Policy is not concerned with Unusable Reserves.
3. There are two types of Usable reserve:
  - (a) **General** – called the “*General Fund Balance*”, used to:
    - (i) Meet short-term unforeseeable expenditure and
    - (ii) Enable significant changes in resource or expenditure to be managed over the period of the MTFP
  - (b) **Earmarked** – held for specific purposes, some of which are established by statute, others are established at the discretion of the Council.
4. Statutory earmarked reserves are:
  - (a) Housing Revenue Account (HRA) balance
  - (b) Schools Reserves
5. The principal earmarked reserves created at the Council’s discretion are: -
  - (a) Departmental Reserves – to assist effective service and financial management within departments
  - (b) Insurance Fund – to provide financial cover against specified risks that are not covered by external insurance
  - (c) Usable Capital Receipts – income from sales of assets available to meet future capital expenditure
  - (d) Revenue Contributions to Capital Outlay – charges to previous years revenue accounts available to meet future capital expenditure
6. Details of all reserves, including in-year movements and year-end balances are contained in the Council’s annual Statement of Accounts.

## Statement of Policy

### General Fund Balance

7. The Council's MTFP will maintain a prudent minimum level of General Fund balance that is adequate to meet short-term unforeseen expenditure. The prudent minimum level will be determined by assessing the financial risks associated with meeting continuing obligations to provide services. The risk assessment will be reviewed annually and will have regard to:
  - (a) Statutory obligations to provide services that over-ride cost considerations.
  - (b) Reasonable public expectation, democratic and practical considerations that may over-ride cost considerations.
  - (c) The volatile nature of elements of some services, which make accurate prediction or close control of expenditure difficult.
  - (d) The likelihood of specified events occurring.
  - (e) The financial impact of events.
8. In exceptional circumstances, the actual level of the Council's General Fund balance may fall below the assessed prudent minimum level. This is consistent with the nature and purpose of a minimum level, which is to meet short-term unforeseen expenditure. Within three months of the actual level of GF balance falling below the prudent minimum level a plan will be agreed by full Council to restore the balance to the minimum prudent level as soon as practicably possible.
9. The Council will maintain a level of General Fund balance that is adequate to meet medium term shortfalls between projected resources available to the Council and planned levels of General Fund net expenditure. The appropriate level of reserves for this purpose will be determined by the Council's MTFP, which will be reviewed annually and will be subject to approval by a meeting of the full Council.
10. The Council will not maintain levels of General Fund balances that are excessive compared with appropriate minimum levels and planned use of reserves. In this context, "excessive" will be assessed and reviewed annually in the MTFP with regard to:
  - (a) The projected level of General Fund balance at the end of the MTFP, less the appropriate minimum level.
  - (b) The annual planned use of reserves in each year of the MTFP.
  - (c) The impact of sudden large changes in annual use of balances on services or Council Tax levels.
11. As a guide, the level of General Fund balance is likely to be regarded as excessive if at the end of the MTFP, it is projected to be:
  - (a) More than double the minimum prudent level *and*
  - (b) More than the minimum level plus the planned use of reserves over the term of the MTFP.

12. The prudent minimum level of General Fund Balance, the planned use of reserves and the planned level of reserves will be approved annually by Council as part of the MTFP.

### **Earmarked Reserves**

13. The purpose of “earmarking” reserves is to distinguish them from general reserves, which are available for use by the Council in its budget and Council Tax setting process. Earmarked reserves are identified as being likely to be required for specific purposes.
14. The Council will maintain earmarked HRA and Schools reserves in accordance with statutory requirements.
15. The Council will maintain discretionary earmarked reserves at appropriate levels, with regard to:
  - (a) Strategic objectives and service planning, particularly regarding events and planned developments that have financial resource implications.
  - (b) Forecast expenditure relating to specific issues, which is significant in the context of the MTFP and is exceptional, i.e. not expected to recur annually.
16. Cabinet will approve the purposes for which earmarked reserves are maintained. The planned level and the use of those reserves will be approved by Council in the MTFP.
17. Transfers between General Fund balance and earmarked reserves may be approved by Cabinet in the annual financial out-turn report, within the limits set in Financial Procedure Rules. Any proposed transfers beyond the limits delegated to Cabinet will be approved by Council.
18. Cabinet may propose transfers between General Fund balance and earmarked reserves in the annual review of the MTFP, which will be approved by Council.