

Reserves and Balances Policy Statement

Introduction

This statement 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 local authority is not permitted to allow its spending to exceed its available resources so that overall it would be in a deficit. Section 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.

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 the general fund;
- A contingency to cushion the impact of unexpected events or emergencies, this also forms part of the general fund, and;
- A means of building up funds often referred to as earmarked reserves, to meet known or predicted liabilities.

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

Purposes of balances and reserves

The Council has a long-standing policy of maintaining a small general balance to mitigate against unforeseen overspendings or a major unexpected event.

Although there is no generally recognised official guidance on the level of general balances to be maintained, the key determining factor to the level is that it must be justifiable in the context of local circumstances, and council taxpayer's money should not be tied up unnecessarily. The Council's external auditor, and the Section 151 Officer, comments on the level of balances and reserves as part of the annual audit of the Council's financial position and at the time of budget setting respectively.

While general balances are unallocated, earmarked reserves are held for specific purposes.

Level of balances and reserves

Due to the serious financial challenges facing the Council, the level of general balances and reserves has become unusually low for a council of this size. A prudent level could be 3%-5% of the sum of council tax plus settlement funding i.e.

between £10m and £17m. This is normally enough to cover unforeseen circumstances and the risk of higher than expected service pressures. The Council is holding a brought forward balance of £12.704m at 1 April 2019 and forecasts a carry forward balance at 31 March 2022 of £18.615m. The Section 151 Officer recommends that this balance be increased further over the MTFP (2019-22) to mitigate against ongoing uncertainty of local government funding because of the Governments proposed changes and the lack of a Spending Review beyond 2019/20.

The level of earmarked reserves will vary annually, and it is noticeable that the level of usable reserves have been replenished during 2018/19 to help improve the councils financial resilience.

Proposed Policy for 2019/20

In view of the on-going uncertainty, general balances ought to be further strengthened as proposed in the MTFP to mitigate against future risks.

With regard to earmarked reserves, firm plans for repaying in full the negative reserves should be developed and implemented as soon as possible.

Going forwards, the Section 151 Officers approval must be sought before any service can draw down on a reserve (earmarked or general) so that a view can be made at the time as to the appropriateness of this use of funds in accordance with the financial circumstances facing the council at the time.