

Reserves Policy

The recommended reserves policy is as follows:

The first call on any under spend at the end of the year will be to add to reserves. A contribution to general balances will then be considered with regard to the size of the under spend, the underlying strength of the balance sheet and the need to support other priorities.

The rationale for this policy is set out below.

Councils need balances so that they can deal with unforeseen calls on resources without disrupting service delivery. It is the responsibility of each authority to set its level of reserves based on local conditions, but taking into account national factors. Although advice can be sought from the external auditor, it is not their responsibility to prescribe the appropriate level. However, the External Auditor expects the Council to review its reserves on an annual basis.

There is no statutory definition of a minimum level of reserves. The level of reserves is a balance between the risk facing the Authority and the opportunity costs of holding these balances.

The Council should at least be able to cope with a modest overspend in any one year and still be in a stable financial position.

The target level of reserves depends on:

- The degree of risk contained in the budget
- The effectiveness of budget monitoring and control during the year
- The effectiveness of balance sheet management during the year
- The extent to which the Council has earmarked reserves and provisions to deal with specific items.

The Council is continually working to improve financial management and in 2020/21 will continue to focus on accurate and robust management of its revenue and capital monitoring and, considering the level of savings built into the budget, an increased emphasis will be placed on the delivery of in-year savings and the delivery of new savings proposals.

The Council has built up more appropriate annual contributions to provisions for debt, litigation and insurance in the last few years, and strengthened its balance sheet, but still has limited earmarked reserves and general fund balances.

There is greater risk as central government grant settlements continue to reduce the level of revenue support grant given to the Authority requiring large savings to be built into the budget over a prolonged and continuous period of time.

Taking all this together, the target level for reserves should be £10 - £12.5m, which represents between 5.7% and 7.2% of the 2020/21 net revenue budget of £174m.

As at 31 March 2019 the level of General Fund Reserves was £10m, which represents 5.7% of the Council's budget requirement for 2020/21 (£174m), which is the recommended minimum level. In addition, the Authority holds a limited number of earmarked reserves as detailed in Appendix 9.

A decision will be made at year end on the best use of any available capacity.

The S151 officer has responsibility for the establishment of earmarked reserves. The S151 officer is responsible for ensuring that detailed controls are established for the creation of new reserves and provisions and any disbursements therefrom.

All contributions to, and appropriations from, General Fund reserves must be approved by the Portfolio Holder with Responsibility for Finance, subject to any limitations set by the Council in the approved budget framework.