



# Policy on the Level of Reserves and Balances

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## 1. Legislative/Regulatory Framework

- 1.1 The requirement for financial reserves is acknowledged in statute. Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 1.2 There is also a requirement reinforced by section 114 of the Local Government Finance Act 1988 which requires the chief financial officer to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

## 2. Role of the Finance Director

- 2.1 Within the existing statutory and regulatory framework, it is the responsibility of the finance director (Corporate Director Resources) to advise the local authority about the level of reserves that should be held and to ensure that there are clear protocols for their establishment and use.
- 2.2 There are no statutory minimum levels imposed and it is not considered appropriate or practical for the Chartered Institute of Public Finance and Accountancy (CIPFA), or other external agencies, to give prescriptive guidance on the minimum, or maximum, level of reserves required either as an absolute amount or a percentage of the budget.

## 3. Types of Reserves

- 3.1 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 and is commonly referred to as 'balances';
  - A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves or 'balances';
  - A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements – earmarked reserves are accounted for separately but remain legally part of the General Fund.
- 3.2 For each reserve held by a local authority there should be a clear protocol setting out:
  - The reason for/purpose of the reserve;
  - How and when the reserve can be used;
  - Procedures for the reserve's management and control; and
  - A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

## 4. Principles to Assess Adequacy

- 4.1 In order to assess the adequacy of unallocated general reserves when setting the budget or the MTFP, the Chief Finance Officer should take account of the strategic, operational and financial risks facing the authority. The assessment of risks should include external risks, such as flooding, as well as internal risks, for example, the ability to deliver planned efficiency savings. The following factors should be considered:

<b>Budget Assumptions</b>	<b>Financial Standing and Management Assessment/Impact</b>
The treatment of inflation and interest rates	The overall financial standing of the authority (level of borrowing, debt outstanding, council tax and business rate collection rates, etc.), commodity prices e.g. fuel, the cost of borrowing and anticipated investment returns
Estimates of the level and timing of capital receipts	The authority's track record in budget and financial management including the robustness of the medium term financial plans
The treatment of demand led pressures	The authority's capacity to manage in-year budget pressures
The treatment of planned efficiency savings/gains	The strength of the financial information and reporting arrangements
The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments	The authority's virement and end of year procedures in relation to budget under/over spends at authority and directorate level and any contract provisions, designed to safeguard the authority's position
The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions	The adequacy of the authority's insurance arrangements to cover major unforeseen risks
The general financial climate to which the authority is subject.	External factors such as future funding levels, referenda principles/limits and the authority's ability to replenish reserves once used

- 4.2 The council's minimum prudent level of balances, calculating the requirement at approximately 5% of net expenditure before other government grants (£724,400) together with the element of the reduction in business rates that authorities must meet before the Government would consider any safety net payment (£255,695 in 2022/23), is now £980,095. This is reviewed annually as part of the budget process.

4.3 A review of the level of earmarked reserves is also undertaken as part of the annual budget preparation and as part of the closure of accounts process. The council does not regularly monitor the opportunity costs of maintaining its levels of earmarked reserves as these are generally not held as a form of investment but to meet a recognised need.

## 5. Reporting Framework

5.1 The level and utilisation of general and earmarked reserves is determined formally by Cabinet in October (November in 2020 owing to pandemic), with the approval of the MTFP, and in February, at the annual budget setting meeting, informed by the advice and judgement of the finance director.

5.2 Both reports include a statement showing the estimated opening general and reserve fund balances for the year ahead, the additions/withdrawals, and the estimated end of year balances. A statement is also included commenting on the adequacy of the general and earmarked reserves in respect of the forthcoming financial years.

## 6. Reserves Protocol

Reserve as at 31.03.22	Purpose	How and When Used	Procedures for management and control	Timescale for review
Building Control	Fundamental principle of the Building Regs. Scheme introduced 1 April 1999, subsequently amended by the 2010 Regulations.	3 to 5 year rolling accounting period over which costs should equate with charge income.	Managed by the Corporate Director Resources	Undertaken as part of the annual budget preparation, updating the MTFP and as part of the closure of accounts process. Also subject to individual reports on proposals for usage.
Capital Investment	To fund capital investment avoiding the need to borrow.	Used to finance the council's capital investment needs.	Managed by the Corporate Director Resources	Undertaken as part of the annual budget preparation, updating the MTFP and as part of the closure of accounts process. Also subject to individual reports on proposals for usage.
Elections	To meet the cost of the Borough Election.	Used to smooth the impact of the Borough Election which occurs every four years and is next due in May 2023.	Managed by the Corporate Director Resources	Undertaken as part of the annual budget preparation, the updating of the MTFP and as part of the closure of accounts process.

<b>Reserve as at 31.03.22</b>	<b>Purpose</b>	<b>How and When Used</b>	<b>Procedures for management and control</b>	<b>Timescale for review</b>
Enterprise Zone (EZ) Growth	Established in 2018/19 to hold business rates growth from the EZ	Ring-fenced for investment in the EZ, primarily for infrastructure improvements	Managed by the Corporate Director Resources	Undertaken as part of the annual budget preparation, updating the MTFP and as part of the closure of accounts process. Also subject to individual reports on proposals for usage.
Homelessness	Established in 2020/21 to hold a number of Homelessness related external funding streams and one off grants.	Used to fund initiatives to support homelessness prevention, mitigate the problem of rough sleeping and contribute to the general provision of Housing Options services.	Managed by the Corporate Director Resources	Undertaken as part of the annual budget preparation, updating the MTFP and as part of the closure of accounts process. Also subject to individual reports on proposals for usage.
Insurance	To meet the cost of insurance claims.	Used to fund the cost of insurance excess and any associated costs not covered by any premium.	Managed by the Corporate Director Resources	Undertaken as part of the annual budget preparation, the updating of the MTFP and as part of the closure of accounts process.
ICT Strategy	Established to renew ICT equipment on a rolling replacement in accordance with the ICT Strategy.	Used to smooth the revenue impact of ensuring that the ICT infrastructure and equipment remains 'fit for purpose'.	Managed by the Corporate Director Resources	Undertaken as part of the annual budget preparation, updating the MTFP and as part of the closure of accounts process. Also subject to individual reports on proposals for usage.
Land Charges	Compliance with guidance issued by the Lord Chancellor (Section 13A, LLCA 1975).	Councils are required to assess the cost of providing a service, the projected take-up of that service and thus the charge that should be made over a period of between one and three years.	Managed by the Corporate Director Resources	Undertaken as part of the annual budget preparation, the updating of the MTFP and as part of the closure of accounts process.

<b>Reserve as at 31.03.22</b>	<b>Purpose</b>	<b>How and When Used</b>	<b>Procedures for management and control</b>	<b>Timescale for review</b>
Council Tax Base Equalisation	To delay the impact on successive tax base freezes in the 2010s	Supports the shortfall in income, resulting from the decision to freeze the level of council tax, through to the end of 2026/27.	Managed by the Corporate Director Resources	Undertaken as part of the annual budget preparation, the updating of the MTFP and as part of the closure of accounts process.
Non-Domestic Rates Equalisation	To protect against volatility associated with the new Business Rate (BR) Retention Scheme.	S. 31 grant receipts, net of NDR levy, used to cushion the council against future reductions in business rate income, including the financial impact of successful appeals as notified by the VOA. From 2022/23, the retained levy, from being a member of the Lancashire BR Pool, is being released to fund revenue spend.	Managed by the Corporate Director Resources	Undertaken as part of the annual budget preparation, the updating of the MTFP and as part of the closure of accounts process.
Property Investment Fund	Established in 2018/19 initially as a two year pilot to explore investing in commercial property.	A Property Investment Board is responsible for making decisions on how the fund is utilised.	Managed by the Corporate Director Resources in conjunction with the Property Investment Board	Undertaken as part of the annual budget preparation, the updating of the MTFP, as part of the closure of accounts process and is subject to individual reports on proposals for usage.
Value For Money	Invest to save projects	Originally created to fund VFM initiatives, which may incur up-front costs and now incorporates supplementary grants awarded for the administration of council tax, NDR, housing benefit and LCTS.	Managed by the Corporate Director Resources	Undertaken as part of the annual budget preparation, the updating of the MTFP and as part of the closure of accounts process. Also subject to individual reports on proposals for usage.
Vehicle Replacement / Street Cleansing Maintenance	Replacement of the council's vehicle fleet and smoothing the maintenance cost for the street cleaning vehicles.	Funding to meet current and anticipated vehicle/ plant requirements - ultimately charging the cost to revenue over the life of the asset. Also includes maintenance of street cleansing vehicles and set-up costs for MOT station.	Managed by the Corporate Director Resources	Undertaken as part of the annual budget preparation, the updating of the MTFP and as part of the closure of accounts process as well as subject to individual reports on proposals for usage.

**Risk Assessment**
**Appendix 5**

Type of Risk	Likelihood	Severity	Level of Risk	Control	Review	Responsible	Reports To
Financial Forecast is wrong.	Low (1)	High (3)	Medium (3)	Review the base budget and adjust for known and likely variations impacting on the forecast.	Ongoing	Head of Finance	Management Board; Cabinet
Expenditure greater than budget.	Low (1)	High (3)	Medium (3)	Budget monitoring of revenue spend. Budget monitoring of capital spend. 5-Year Financial Forecast.	Monthly Quarterly 6 Monthly	Cost Centre Managers; Financial Services Spending Officers and Head of Finance	Management Board; Cabinet  Management Board
Unforeseen expenditure, new schemes/initiatives.	Low (1)	High (3)	Medium (3)	Maintenance of a general contingency and review of priorities.	Ongoing	Head of Finance	Management Board
Over dependence on use of reserves and balances.	Medium (2)	Medium (2)	Medium (4)	Compliance with CIPFA guidance on local authority reserves and balances. Adequacy assessed as part of budget process, MTFP and closure of accounts.	Ongoing	Corporate Director Resources (S151 Officer)	Cabinet; Council
Income targets not achieved owing to economic climate impacting on demand.	Low (1)	Medium (2)	Low (2)	Risk assessment of major income generators during budget preparation – realistic targets built into budget. Regular monitoring of income as part of budget monitoring.	Annually  Monthly	Financial Services	Management Board; Cabinet
Efficiency savings not achieved.	Medium (2)	High (3)	High (6)	Regular review as part of budget monitoring.	Monthly	Management Team	Management Board
Income from investments is lower than expected.	Low (1)	Low (1)	Low (1)	Budget monitoring.	Monthly	Head of Finance	Management Board; Cabinet
Changes in Government Funding e.g. Business Rates Base Funding Level and reduction in New Homes Bonus.	Medium (2)	High (3)	High (6)	Limit reliance on this type of funding and review other options, highlighting sensitivities in the MTFP.	Ongoing	Corporate Director Resources (S151 Officer)	Management Board

Type of Risk (Cont'd)	Likelihood	Severity	Level of Risk	Control	Review	Responsible	Reports To
Changes to Local Government Finance resulting from Business Rates Retention Scheme e.g. unfavourable variations in reliefs, decline in RVs, growth, collection rates, beneficial impact of pooling is not realised, etc.	Medium (2)	High (3)	High (6)	Close monitoring of current and any new arrangements and establishment of an earmarked reserve to cushion against volatility.	Ongoing	Corporate Director Resources (S151 Officer) and Head of Finance	Management Board
Potential volatility of the fuel/energy market adding further increases to fuel, heating and lighting.	High (3)	Medium (2)	High (6)	Close monitoring of revenue spend. Re-negotiation of energy contracts when they fall due.	Monthly	Head of Finance	Management Team
Capital receipts are not realised from asset disposals.	Low (1)	Medium (2)	Medium (3)	Prioritisation of disposals and effective marketing of sites.	Ongoing	Corporate Director Communities	Management Team
Potential volatility concerning aspects of the Localised Council Tax Support Scheme in conjunction with the Universal Credit rollout e.g. caseload, collection rates, etc.	Medium (2)	Medium (2)	Medium (4)	Close monitoring of new arrangements.	Monthly	Corporate Director Resources (S151 Officer) and Head of Finance	Management Board
New cost pressures are devolved by Central Government as part of the Fair Funding Review, 75% or 100% Business Rates Retention Scheme without the necessary funding.	Medium (2)	Medium (2)	Medium (4)	Early monitoring of situation allowing the development of plans to mitigate financial impact.	Ongoing	Corporate Director Resources (S151 Officer) and Head of Finance	Management Board
Significant sources of revenue income cease.	Medium (4)	Medium (4)	Medium (4)	Early monitoring of situation allowing the development of plans to mitigate financial impact.	Ongoing	Corporate Director of Resources (S151 Officer) and Head of Finance	Management Board