



# **Reserves Policy**

**Gravesham Borough Council**

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# 1. Introduction

- 1.1 This policy forms a key part of the council's financial management framework and supports the current Medium Term Financial Strategy by documenting how the council will manage and utilise its financial reserves in meeting the financial challenges it faces over the medium term as a means of delivering a robust and stable financial basis on which to deliver quality council services.
- 1.2 The establishment, monitoring and review of the levels of reserves and balances are an important element of the council's financial management systems and financial standing.
- 1.3 This policy is reflective of the core principles of the Medium Term Financial Strategy, which are:
  - To ensure that the finite resources available are aligned to the council's corporate objectives.
  - To seek to maintain a sustainable financial position over the MTFS period.
  - To preserve a minimum level of £5.25m General Fund working balances (including the General Reserve) and a minimum level of £3m Housing Revenue Account working balances.
  - To ensure that decisions relating to Council Tax setting are made with due regard to the guidelines issued by the Secretary of State.

# 2. Legislative/Regulatory Framework

- 2.1 The requirement for financial reserves is acknowledged in Sections 32 and 43 of the Local Government Finance Act 1992, which requires billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting future expenditure when calculating the budget requirement. In England and Wales, earmarked reserves remain legally part of the General Reserve, although they are accounted for separately.
- 2.2 The Local Government Act 2003 places a duty on the chief financial officer to report on the adequacy of reserves when the authority is considering its budget requirement. CIPFA's Financial Management Code recognises this requirement at Standard K of its Financial Management Standards. The level of working balances and reserves held by a council is not prescribed; it is the responsibility of chief financial officers to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.
- 2.3 CIPFA's Prudential Code requires the chief financial officers to have full regard to affordability when making recommendations about the council's future capital programme. Such consideration includes the level of long-term revenue commitments. Indeed, in considering the affordability of its capital plans, consideration will be given to the resources available, together with the totality of capital plans and revenue forecasts for the forthcoming year and following years.
- 2.4 Whilst it is the primary responsibility of the local authority and its chief financial officer to maintain a sound financial position, external auditors will confirm that there are no material uncertainties about an authority's ability to continue to operate as a going concern. It is not the responsibility of external auditors to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

### 3. Current Financial Climate

- 3.1 Funding for General Fund services is current delivered through a number of funding streams:
- Council Tax
  - Business Rates
  - Government Funding
  - Rental and Investment Income
  - Fees and Charges
  - Grants and Contributions
- 3.2 The system of funding for local government has significantly changed since 2010, moving from a situation where local authorities were significantly dependent upon Central Government support to one where the council is becoming increasingly reliant on localised funding sources, with greater exposure to risk and opportunities coming with this. Public sector services and local government in particular have had to respond to significant changes and sustained reductions in Government Grant funding whilst also grappling with increasing demand for services and changes in the legislative environment in which it operates.
- 3.3 The Medium Term Financial Strategy of the council recognises the importance of reserves to fund one-off or significant known areas of future expenditure as well as providing support to annual revenue expenditure.

### 4. Types of Reserve

- 4.1 The Local Authority Accounting Panel (LAAP) Bulletin 99 - Local Authority Reserves and Balances (CIPFA 2014) provides guidance to chief financial officers on the establishment and maintenance of local authority reserves and balances. The bulletin sets out that reserves should be held for three main purposes:
- a **working balance** to help cushion the impact of uneven cash flows and avoid the need for temporary borrowing;
  - a **contingency** to cushion the impact of unexpected events or emergencies;
  - **earmarked reserves** to meet known or predicted requirements.
- 4.2 In addition the council holds two further reserves for the purpose of capital investment:
- **Capital Receipts Reserve** - this reserve holds the proceeds from the disposal of assets that have not yet been used to finance expenditure or repay debt. The reserve can only be used for capital purposes in accordance with regulations.
  - **Major Repairs Reserve** – this reserve provides resources for capital investment in the council's housing stock and is funded from depreciation charges on Housing Revenue Account non-current tangible assets.

The council also holds other reserves, known as unusable reserves, which arise out of legislation and proper accounting practice e.g. the Revaluation Reserve, Capital Adjustment Account and Pension Reserve. These reserves are not resource-backed and cannot be used for any other purpose; they are therefore not covered by this policy.

## 5. The General Fund Balance

- 5.1 The Medium Term Financial Strategy contains the core principle to preserve a minimum level of £5.25m General Fund working balances. This level has been determined on the basis of:
- a minimum working balance of £1.25m to assist cash flow
  - £4m General Revenue Reserve to enable the council to meet unforeseen challenges or pressures on its financial position.
- 5.2 Going in to 2020-21, the financial risks facing the council have not reduced in nature or scale:
- There continues to be significant uncertainty around the future funding available for local government and the level of funding the council can expect to receive, primarily as a result of delays in the Spending Review, Fair Funding Review and redesign of the Business Rates Retention Scheme;
  - There continues to be a level of economic uncertainty around the withdrawal of the UK from the European Union;
  - The council remains exposed to greater investment risk exposure through Property Funds and Diversified Income Funds, coupled with greater exposure to fluctuations in the commercial property market, the need for which has been driven by reductions to funding for local government.

The council has also adopted a new Corporate Plan and has pledged to do what is within its powers and resources to make Gravesham Borough Council carbon neutral by 2030.

- 5.3 For the reasons set out above, for 2020-21 it is the view of the S151 Officer that the minimum of £5.25m in General Fund working balances should be retained, albeit this should be constituted of:
- a minimum working balance of £2.00m to assist cash flow
  - £3.25m General Revenue Reserve minimum balance to enable the council to meet unforeseen challenges or pressures on its financial position.

## 6. The Housing Revenue Account Balance

- 6.1 The Medium Term Financial Strategy contains the core principle to preserve a minimum level of £3m Housing Revenue Account working balances. This level has been determined to assist cash flow and mitigate against risks to the Housing Revenue Account Business Plan. It is the view of the S151 Officer that this level should be retained for 2020-21.

## **7. Establishing Earmarked Reserves**

- 7.1 The Constitution of the council places responsibility with the Section 151 Officer for advising Cabinet and Full Council on the appropriate level of working balances and the establishment of specific financial reserves.
- 7.2 Earmarked reserves will be identified for specific areas of expenditure or to limit future risk exposure and/or to smooth the effect of identified future commitments.
- 7.3 In establishing a reserve, consideration will be given to:
- There being a clear reason for/purpose of the reserve
  - How and when the reserve can be used
  - Procedures for the management and control of the reserve
- 7.4 When establishing reserves, the Section 151 Officer will ensure compliance with the Code of Practice on Local Authority Accounting and in particular the need to distinguish between reserves and provisions.

## **8. Use of Balances and Earmarked Reserves**

- 8.1 Use of working balances will be in accordance with the arrangements contained within the Medium Term Financial Strategy.
- 8.2 Use of reserves will be in accordance with spending patterns notified to the Section 151 Officer as part of the formal review of working balances and current reserves or with approval from the Section 151 Officer in consultation with the Corporate Management Team.

## **9. Governance of Balances and Reserves**

- 9.1 The level of Working Balances and Reserves is kept under continuous review and is reported to Management and Members through the quarterly budget monitoring reports and end-of year reporting.
- 9.2 As part of the annual budget setting process, the Section 151 Officer will undertake a formal review of working balances and current reserves to ensure that they continue to be relevant and prudent. The findings of the review will be reported to the Corporate Management Team and Cabinet before submission of the proposed annual budget to Full Council.
- 9.3 This Reserves Policy will be reviewed annually and reported to Full Council as part of the budget setting process, accompanying the statement from the Section 151 Officer on the adequacy of Working Balances and Specific Reserves in respect of the forthcoming financial year.