

**REVENUE RESERVES STRATEGY - 2011/12****1. INTRODUCTION**

1.1 Revenue reserves play a key role in the management of the Council's budget. The broad purposes for which reserves may be held are listed below and explained more fully within the Strategy;

- As a contingency to cover risks, uncertainties and emergencies;
- To fund planned investments and developments;
- To smooth the budgetary impact of cyclical costs;
- To carry forward funds for agreed purposes at year-end.

Revenue reserves will be held only for defined and formally agreed purposes.

1.2 Reserves fall into two categories:

- General Reserves – an accumulation of surpluses / deficits on overall revenue spending. The level of this reserve is linked to a risk assessment of the financial position of the authority.
- Earmarked Reserves – reserves set aside for specific purposes (including Sinking Funds).

Further details are given on these below.

1.3 As a general principle, reserves will only be used to finance non-recurring spending or to cover transitional costs. If, in exceptional circumstances, the use of reserves is proposed to support recurring spending, this will be conditional on a strategy being in place to replace the use of reserves with mainstream funding.

1.4 A full review of the level of Reserves will be undertaken annually and has been completed for 2010/11. The Corporate Director of Resources and Transformation is responsible for advising on the adequacy of Reserve levels. In assessing this adequacy account is taken of professional guidance, together with the strategic, operational and financial risks facing the authority. Account is also taken of the key financial assumptions underpinning the budget and financial strategy within the context of the authority's broader financial management arrangements. It should be noted that there is no specified percentage or limit set by the Government, Audit Commission or any other body on the appropriate level of Reserves to be held. It is for each authority to set guidelines for its own limits as advised by the Corporate Director – Resources and Transformation.

**2. GENERAL RISK-BASED RESERVES**

2.1 The use of a risk-based approach better determines the appropriate level of reserves in relation to risks and specific circumstances facing the Council.

Therefore, the risk led element of the General Fund balance provides cover for risks and uncertainties in the approved budget and for emergencies. It does not provide cover for additional investment, rather it is there to ensure the approved budget can be delivered if associated risks materialise.

- 2.2 The Corporate Director - Resources and Transformation recommends a level for the risk-based element as part of the budget setting process each year. Budgets will be produced on the basis that the General Fund balance will be maintained at least at the recommended level throughout the period covered by the Medium-term Financial Strategy and can be sustained at this level in the longer-term. Inclusion of items in the risk-based element will be informed by the Strategic Risk Register and budget proposals. Amounts will take account of the potential size and the likelihood of risks materialising. The assessment will also allow for foreseeable variances from cost and demand assumptions used to set the budget.
- 2.3 The Council in the past determined a minimum reserve of 5% of net revenue spending should be retained. The Council's original net revenue budget for 2010/11, including the use of reserves was £15,875,152, which would equate to a level of reserves of £794,000. However, the level of actual risk based reserves held during 2010/11 was £1,616,156 with a recommendation that the level should not drop below £1m.
- 2.4 As part of the review of Reserves carried out during 2010/11 by the Corporate Director – Resources and Transformation, it was considered that given the risk attached to the budget by the significant reduction of government grants, which are reducing over the next 4 years, and the significant savings programme, that the level of risk based reserves be increased from £1,616,156 to £1,714,419 and that this be the minimum level.
- 2.3 If the balance on the General Fund is projected to fall below the recommended risk-based level, then priority will be placed on restoring the balance in subsequent budget and out-turn recommendations. The risk-based calculation therefore provides a target for General Fund balances and £1,714,419 is the minimum amount deemed to be acceptable. Temporary dips below the target may be acceptable provided that the minimum amount is not likely to be breached and there is a robust plan to restore balances to the target level.

### **3 EARMARKED RESERVES (INCLUDING SINKING FUNDS)**

- 3.1 Earmarked reserves may be set up to save for investments and policy initiatives that cannot be met in full from the base budget in the year or years the spending is planned. Use of reserves for these purposes must be planned in advance and incorporated, where possible, in the budget recommendation to Council in February each year. However, earmarked reserves may be established during the year as a result of policy developments that have been reported to the Executive as part of the Council's budget monitoring process.
- 3.2 Earmarked reserves may also be used to smooth the impact on the revenue budget of spending that is cyclical in nature or is highly variable between years.

Use of reserves for these purposes must be planned in advance and incorporated in the budget recommendation to Council in February each year. Reserves should be sufficient to cover the forecast spending requirement but should avoid building up large uncommitted balances. Such balances will generally be recommended for carry forward at the year-end subject to a review of their adequacy and reasonableness.

- 3.3 Earmarked reserves may be used to carry forward amounts unspent at the year-end but committed for previously approved purposes. Such commitments will be recommended for carry forward in the out-turn report presented to the Executive as part of the closure of accounts process, subject to a robust review of their adequacy and reasonableness.
- 3.4 New reserves or changes to the use of existing reserves must be approved by the Executive either through the budget monitoring or budget setting process. Forecast calls on earmarked reserves will be adjusted against the appropriate budgets controlled by the named budget holder provided that they fall within approved parameters.
- 3.5 Reserves may not be over-committed. If potential calls on an earmarked reserve exceed its available balance, then this must be addressed through the budget monitoring process.
- 3.6 The adequacy and appropriateness of each earmarked reserve will be reviewed and reported as part of the year-end processes and will be used to inform decisions on carry forwards. Once the purpose of an earmarked reserve has been fulfilled, or the balance is higher than is needed, the remaining balance will be returned in the first instance to the unallocated portion of the General Reserve.
- 3.7 The budget recommendation to Council in February each year will include a schedule of planned usage of earmarked reserves over the duration of the MTFS, supported by an assessment by the Corporate Director - Resources and Transformation of their adequacy and appropriateness. In addition to assessing the adequacy of the risk-based element of the General Reserve, this will consider whether the planned use of earmarked reserves is sustainable beyond the duration of the MTFS or whether earmarked reserves are being built up without good reason.
- 3.8 Each earmarked reserve will be the responsibility of a named officer, which will generally be the service manager responsible for the budget to be funded from the reserve(s). The named officer will be responsible for managing the earmarked reserve, including planning, projecting and monitoring use. At the year-end the named officer will review the adequacy and appropriateness of the earmarked reserves for which they are responsible as part of the closure of accounts process and year-end reporting.