

RESERVES STRATEGY

What are reserves?

CIPFA states that “the aim of the authority’s financial reserves is to provide funding for investment in future activities and to act as a safety net in case of short-term financial challenges.”

What is a reserves strategy?

The Reserves Strategy defines the level and purposes for which the Council holds reserves.

It consists of three key elements:

1. Strategy: what the Council is seeking to achieve through holding reserves;
2. Financial Planning: linking the level of reserves with plans for their use over the period of Medium Term Financial Strategy (MTFS); and
3. Operational Framework: how the Council determines the level of reserves, manages those reserves and plans for their use in line with best practice and statutory requirements.

How are the level of reserves set?

CIPFA’s Local Authority Accounting Panel states , it is for the Council, on the advice of its Chief Finance Officer, to make its own judgement on the level of reserves set, taking into account all relevant local circumstances. The relevant circumstances will vary between areas.

In assessing the appropriate level of reserves, the Council will ensure that the reserves are not only adequate, but also are necessary. It is worth noting that not all reserves are usable. Some reserves arise out of the interaction of legislation and proper accounting practice. These are termed ‘unusable reserves’ as they cannot be used for any other purpose. They are not considered further as there is no need to set their level and there is no discretion over their creation, purpose or usage.

Types of Reserve

As set out in Appendix C, reserves have been categorised into the following categories:-

- Earmarked Reserves which are essential for operational core service delivery (for example programmed renewal and replacement of plant and equipment)
- Earmarked Reserves which are being used to fund new corporate initiatives and corporate priorities
- Earmarked Reserves which is Government grant funding being used for the purposes of the grant determination letter
- Notional Earmarked Reserves which are held for a technical accounting purpose for the Collection Fund
- Earmarked Reserves held for the Council Plan
- Unearmarked Reserves

Monitoring

The level of all reserves are kept under continuous review by the S151 Officer and are reported to Members through reports on the Medium Term Financial Strategy and the budget monitoring reports to the Hub Committee. The annual accounts are also presented to the Audit and Governance Committee giving a list of Earmarked Reserves and their purpose.

The level of Reserves

The level of reserves for 23-24 and 24-25 have been modelled in Appendix C and reserves are predicted to remain at a constant level of around 10million (between 135% and 106% of the net revenue budgets).

The Office for Local Government has set out financial metrics and these are set out below for 2024-25:-

Unearmarked Reserves as a % of net revenue spend - £1,623,000/ £9,488,495 = 17.1%

Reserves as % of net revenue spend (as shown in Appendix C) – £10,041,000/£9,488,495 = 106%

Sensitivity analysis and risks are identified in Appendix G. These have a potential total adverse revenue effect for 2024/25 of **£751,250**. However, unearmarked revenue reserves are recommended to be maintained at a minimum level of £900,000, with an operating level of £1.25million.

Unearmarked Reserves are currently above this level and are predicted to be £1.623m at 31 March 2024, which equates to 17.1% of the net revenue spend for 2024/25 of £9.49m.

Guiding principles for managing and using Reserves

Our guiding principles for managing and using reserves are:

- The primary purpose is to manage financial risk and promote financial sustainability.

Subject to meeting this requirement we will:

- Maximise the ability to use reserves flexibly to deliver the Council's priorities;
- Control the amount of resources held in reserves; and
- The planned use of reserves will be agreed as part of the annual budget setting and medium term financial planning process and through any reports to Members mid-year.

- All reserves will be subject to an annual review to ensure the reason for holding the reserve and the plans for their use aligns with the MTFs and this strategy. This took place in November 2023 (Hub Committee report 21.11.23)
- There was a separate report on the Hub Committee agenda of 21st November 2023, regarding a fundamental review of Earmarked Reserves and the Capital Programme. This report identified £0.871m of Earmarked Reserves which are available to support the delivery of the Council Plan and £0.263m of capital resources. These are one-off amounts, so £1.134million in total. This was subsequently approved at Council on 19 December 2023 (Minute HC 29/23).
- Reserves are reported as part of budget monitoring reports on each reserve

Use of Reserves

The maintenance and use of reserves play a key role in long-term financial sustainability. The funding the Council has in reserves is proportionate to the risks and uncertainties the Council faces, promotes financial resilience and is actively managed to identify where one-off resources can be invested in support of our outcomes and key objectives.

The reserves strategy is part of a suite of supporting strategies that supplement the Council Plan and the Medium Term Financial Strategy.

The Constitution sets out our accountability and governance arrangements around the retention and use of reserves. In doing so, it balances speed of decision-making with Member oversight and accountability for decisions about the effective use of the Council's resources.

Lisa Buckle, S151 Officer

9 February 2024