APPENDIX E

RESERVES POLICY

The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their budget requirement. There is no set formula for deciding what level of reserves is appropriate – it is dependent on each Council's individual circumstances and the section 151 officer's assessment of the Council's financial risks.

General Fund Balance

The level of the General Fund balance would ordinarily reflect the overall financial environment and the key financial risks faced by the Council. The amount held will be reviewed at least annually. Any funds in excess of the assessed amount will in the first instance be used to fund one off expenditure (capital and revenue including invest to save and pump priming initiatives) and secondly to support general fund expenditure over the medium term, subject to the key consideration of sustainability.

Holding non earmarked funds is an essential component of risk management in that it helps the Council to manage unforeseen financial events that may arise in year without the need to make immediate offsetting savings. This allows better decisions to be made and reduces the impact this could have on users of Council services.

Based on an assessment of risk, the target level for the General Fund is within the range of 4% to 7% of net expenditure (excluding schools). The forecast balance of £30m (4.2%), by the end of the MTFS is at the lower end of that range reflecting the tighter financial pressures of the Council. The Council will continue with the current strategy of increasing the General Fund balance annually where possible until it is within target level.

In reviewing the level of the General Fund the Cabinet will take advice from the Director of Corporate Resources.

Earmarked Reserves

Earmarked reserves are traditionally held for six main reasons. The key factors that determine their level are set out below:

1) Risk – reserves held to cover specific and identified risks. This includes the Insurance earmarked reserves – to meet the estimated cost of future claims not covered by insurance policies.
2) Capital and Renewals - to fund the Council's capital programme or to enable services to plan an effective programme of systems, equipment and vehicle replacement. These earmarked reserves are a mechanism to allow a sensible replacement programme, that can vary in size from one year to the next depending upon need, without the requirement to vary annual budgets.
3) Grants - unspent ring-fenced grants, which must be spent on specific purposes, such as the Public Health grant.
4) Budget Equalisation and Transformation - support one off costs to enable transformational and organisational change, including those required for delivery of savings, or to provide a contingency for future MTFS funding gaps. It also includes the increasing pressures on the High Needs element of the DSG which was in deficit by

£64m as at 31 March 2025 and is forecast to increase to more than £400m by the end of 2029/30.

5) Planned future revenue spend - meet commitments made that will be incurred in the future. Examples include: completion of projects and contributions to partnership funding.
6) Other earmarked reserves will be set up from time to time to meet predicted liabilities or unforeseen issues that arise.

Reserves are not suitable for on-going service commitments unless there is a clear exit plan. Given the increased financial pressures, a range of measures is in place as set out below.

- Departments are to identify specific and potential need for planned expenditure to be funded from reserves. Where approved these will be held centrally as earmarked reserves.
- After allowing for this, general departmental reserves, above a specific allowance, to enable departments to manage day to day, smaller, essential interventions etc, will be centralised. These allowances are shown below:
  - A&C £250,000
  - CFS £250,000
  - E&T £250,000
  - CR £100,000
  - CE £50,000
  - PH £50,000
- The above limits will be reviewed annually as part of the new MTFS.
- General departmental reserves should be used to manage in-year pressures before requesting corporate funding.
- All reserves above this amount to be considered for transfer to the general fund.
- Trading surpluses, over and above what is built into service budgets, will be brought back into central control – services impacted can request funding to support specific investments along with other services.
- All reserves set aside for asset renewals will be managed centrally based on consideration of regular departmental submissions.
- Schools and partnership reserves are treated outside of the above measures but a clear plan of purpose for each reserve is required to be produced.

The Director of Corporate Resources has the authority to take decisions relating to the creation and management of earmarked reserves.

Schools' Earmarked Funds

Schools' balances are held for two main reasons. Firstly, as a contingency against financial risks and secondly, to meet planned commitments in future years. Decisions on these funds are taken by individual schools.

Monitoring Policy

The levels of earmarked reserves and balances are monitored regularly throughout the year. Reports will be taken to members as part of the MTFS and at year end.