

Reserves Policy

County fund

The level of county fund will be consistent with the overall financial environment and the key financial risks faced by the County Council. This risk assessment will be carried out at least annually and will take account of circumstances at the time and the Statement of Internal Control. Any reserves in excess of the assessed amount will in the first instance be used to fund one off/time limited expenditure (capital and revenue including invest to save and pump priming initiatives) and secondly to support recurring revenue expenditure over the medium term subject to the key consideration of sustainability.

The benefit of holding non earmarked reserves is that the County Council can manage unforeseen financial events without the need to make immediate offsetting savings with the potential real impact this could have on users of County Council services. In addition, interest earned on the forecast balance of £8.5m at 5% over a full year is expected to be £425,000.

There is an opportunity cost of holding the County Fund as these funds could be spent on services, that is notwithstanding the fact that these funds are required to meet risks and uncertainties. The opportunity cost is difficult to measure but for this purpose has been equated to the benefits that could accrue to the Council of one off capital expenditure of up to £8.5m or if these funds were used to repay debt the saving on the capital financing budget (circa £425,000).

Based on an assessment of risk the target level for the county fund is within the range of 2% to 3% of net expenditure (excluding schools). The forecast balance of £8.5m (2.7%) is within that range. In reviewing the level of the County Fund and contributions to and from the fund the Cabinet will take the advice of the Director of Corporate Resources.

Earmarked Reserves

Earmarked Reserves will be held for five main reasons. The key factors that determine their level are set out below:-

- Insurance reserve – to meet the estimate of future claims to enable the Council to meet the excesses not covered by insurance.
- Renewals – to enable services to plan and finance an effective programme of vehicle and equipment replacement. These reserves are a mechanism to smooth expenditure on asset replacement so that a sensible replacement programme can be achieved without the need to

- vary budgets. It should be noted that those Departments do not currently hold renewals reserves will be encouraged to do so.
- Carry forward of underspend - some services commit expenditure to projects, but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources. Example of this type of reserve are Central Maintenance Fund and Shire Grants.
 - Trading accounts – In some instances surpluses are retained by the traded surplus for future investment.
 - Other earmarked reserves will be set up from time to time to meet known or predicted liabilities or to meet capital or project based revenue expenditure.

The main benefits of holding these reserves are set out above. The interest accrued for a full year on average total earmarked reserves of £35m is circa £2.1m. As set out above the opportunity costs could be equated to the service benefits of spending these reserves or the revenue saving as a result of repaying debt.

The Director of Corporate Resources has the authority to take decisions relating to the insurance reserve and other earmarked reserves. In terms of other earmarked reserves they can only be established and managed with the agreement of the Director of Resources.

The renewals reserves and those relating to the carry forward of underspends will be managed and operated by Departments. However, they can only be established with the approval of the Director of Corporate Resources or the Executive as set out in the Constitution.

Schools Reserves

Schools balances are held for two main reasons. Firstly, as a contingency against financial risks and secondly, to save to meet planned commitments in future years.

The Schools Funding Forum can regulate schools balances and may take action if uncommitted balances were deemed excessive and there were no plans to reduce them.

Monitoring Policy

The level of reserves and balances will be monitored twice a year. Once when the County Council budget is approved and secondly, at the when the outturn is reported.