

RESERVES AND BALANCES PROTOCOL

1.00 INTRODUCTION AND BACKGROUND

- 1.01 The purpose of this protocol is to set out how the Council will determine, manage and review the level of its Council Fund Balance and Earmarked Reserves taking into account relevant legislation and professional guidance.
- 1.02 Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed to meet estimated spending when calculating the budget requirement. Section 25 of the Local Government Act 2003 requires:-
- the Chief Finance Officer to report to members on the budget including the adequacy of reserves; and
 - Members to have regard to the Chief Finance Officer's (Section 151 Officer) report in making their decisions.
- 1.03 Revenue reserves are an integral part of ensuring sound financial management in an organisation and it is essential that they are considered as part of its medium term financial planning arrangements and its consideration of preparing the annual budget.
- 1.04 The Council's Financial Procedure Rules which were updated in July 2015 refer to the Council's arrangements in relation to the maintenance of reserves and this protocol sets out more detail as to the Council's requirements to ensure that the Council's Financial Procedure Rules are supported and adhered to.

2.00 TYPES OF RESERVES

The Council maintains the following 'usable' revenue reserves:

2.01 Council Fund Reserve

The purpose of the Council Fund Reserve is to manage the impact of any significant unforeseen events and historically the Council's policy has been to maintain a level equivalent to 2% of its annual budget.

Any resources in excess of this base level are referred to as the contingency reserve and are available for delegation to Cabinet. The Contingency Reserve is increased by way of any overall underspend at the end of the financial year (or reduced by way of an end of year overspend)

Cabinet make decisions around the use of the contingency reserve following the principle that 'one-off' reserves should be used either to fund; 'one-off and time limited' expenditure or to provide transitional

funding in relation to the part year effect of any efficiency saving that cannot be implemented in time to enable a full year efficiency saving.

The Council fund reserve, including the contingency reserve, is reviewed for adequacy annually as part of the budget setting process and is reported monthly to Cabinet and Corporate Resources Scrutiny Committee through the revenue budget monitoring cycle.

2.02 Earmarked Reserve

The purpose of earmarked reserves are to meet known or predicted future requirements and are held corporately or within individual service portfolios for specific purposes. These reserves are typically established to address temporary need and considered on a risk basis and also include funding required to be carried forward to the following financial year as approved through the monthly monitoring report by Cabinet. As with all reserves they should only be established to meet one-off and time limited expenditure.

The Council's Earmarked Reserves includes an Insurance reserve which provides for past and on-going costs of the Councils insurance arrangements. The Council self insures to some extent and as required sets money aside to meet its share of claim costs.

2.03 Schools' Reserves

School reserves are funds released under delegated budgets unspent at year end and held by the Council on schools behalf. The Governing Body of a School is tasked with ensuring their school maintains an adequate level of reserves. Guidance is issued to all schools through the Scheme for Financing Schools.

2.04 Housing Revenue Account (HRA) Reserve

The HRA reserve is ring fenced in the same way that the HRA budget is a ring fenced account and can only be used for activity in relation to the management and maintenance of housing. Historically Flintshire's policy has been to maintain the HRA reserve at a prudent level which is currently a minimum of 3% of total HRA expenditure.

The HRA reserve is reviewed for adequacy annually as part of the budget setting process and is reported monthly to Cabinet and Corporate Resources Scrutiny Committee through the revenue budget monitoring cycle.

3.00 PROTOCOL FOR EARMARKED RESERVES

- 3.01 It is the responsibility of the Chief Finance Officer (Section 151) to advise local authorities on the level of reserves held taking into account the strategic financial context that the council will be operating in over the medium term as detailed in its Medium Term Financial Strategy (MTFS).
- 3.02 For each Earmarked Reserve there needs to be a clear protocol which sets out:
- The purpose and amount of the Reserve
 - How and when the reserve will be utilised (drawn down)
 - The process for the reserve's management and control
 - A process and timescale for review.
- 3.03 The creation of a new earmarked reserve will require Cabinet approval which will be actioned through the monthly budget monitoring report at the relevant point in the financial year. Cabinet will approve the amount, the purpose and an estimated timeframe for when the reserve is expected to be drawn down.
- 3.04 The Earmarked Reserve must be used for the specific purpose approved by Cabinet. Should the Chief Officer wish to amend the purpose then further approval by Cabinet through the monthly budget monitoring report is required.
- 3.05 Once the estimated timeframe approved for the reserve has elapsed, there will be an expectation that the balance of the reserve will be transferred back to increase the level of contingency reserve available. Any subsequent request to retain the reserve would be subject to approval by Cabinet.

4.00 MONITORING AND REPORTING OF RESERVES AND BALANCES

- 4.01 In considering all reserves, the Section 151 Officer will have regard to relevant matters in respect of each reserve, and will advise the Council accordingly. The process for the determination of all reserves will be based upon the principles of transparency and effective overall financial management.
- 4.02 All earmarked reserves are recorded on a central schedule held by the Accountancy Section which lists the various reserves and the purpose for which they are held. The schedule includes the opening balances for the year, planned additions/withdrawals and the estimated closing balance.
- 4.03 Any appropriations to or from Earmarked Reserves are controlled in accordance with Finance Procedure Rules during the year. Appropriate working papers for each reserve are produced at year-

end and provided to the External Auditor to support the disclosures within the Statement of Accounts.

- 4.04 A summary of the latest position in relation to reserves will be reported quarterly to Cabinet and Corporate Resources Overview and Scrutiny Committee through the monthly monitoring report.

Reserves can only be used once and so should not normally be held to fund ongoing expenditure. This would be unsustainable at the point a reserve is fully exhausted.