

## **East Herts Council Reserves Policy**

### 1.0 The Council's Reserves Policy

- 1.1 The current Reserves Policy was approved by Council at its meeting in February 2011.
- 1.2 The Policy sets out a maximum and minimum level of General Reserves. There is no maximum or minimum level set for Earmarked Reserves but the Policy states that they generally will be expected to be used within the period of the MTFP.
- 1.3 General reserves are a working balance to manage cash flows and limit the need for temporary borrowing and to provide a contingency for unforeseeable events and emergency spending. Earmarked reserves are set aside for a defined purpose to meet known or predicted future liabilities.
- 1.4 The minimum level of General Reserves to be held under the Policy is £3m: to be specific the sum of the General Fund and General Reserve (less any amount in the Building Control Account) should not normally be less than £3m.
- 1.5 The maximum level of general reserves is based on adding a basket of figures and proportions to give a quantum figure, as follows:

**Table 1: Calculation of the maximum level of general reserves to be held**

| <b>CALCULATION</b>                                                                                          | <b>POSITION AS AT<br/>31/03/14<br/>£m</b> |
|-------------------------------------------------------------------------------------------------------------|-------------------------------------------|
| 40% of the budget requirement at start of year (2014/15: £8.738m)                                           | 3.495                                     |
| 2.5% of total assets in the last audited financial statements (2013/14: £130.557m)                          | 3.264                                     |
| The sum of future planned withdrawals and/or contributions to the general reserve in the last approved MTFP | 0.000                                     |
| Less any sum held as an insurance reserve                                                                   | (1.010)                                   |
| <b>TOTAL</b>                                                                                                | <b>5.749</b>                              |

- 1.6 General Reserves at the end of the 2014/15 financial year stood at £5.167m, £0.582m within the Policy threshold.

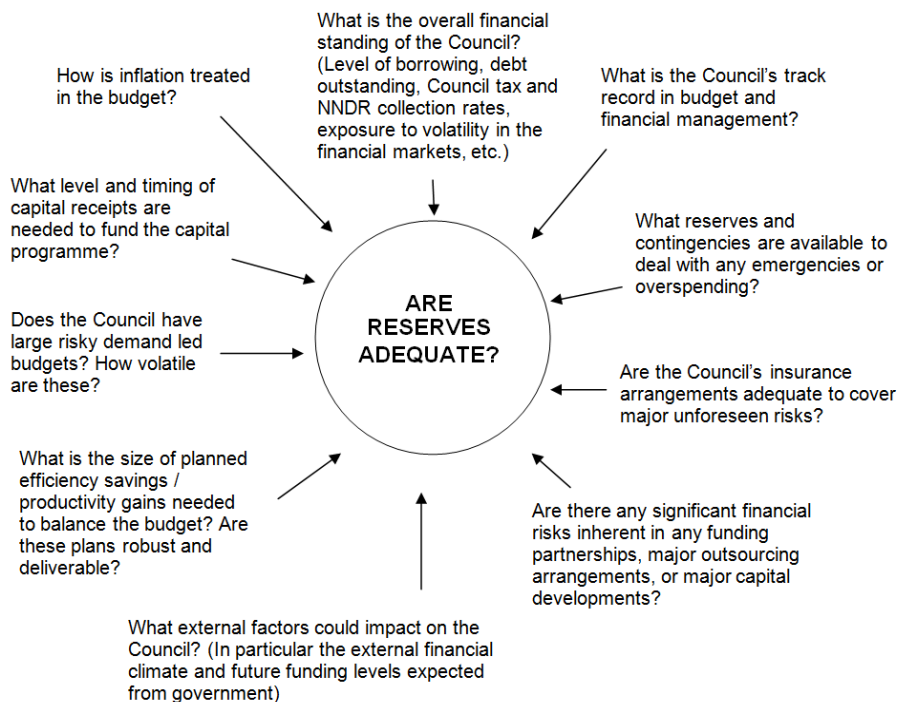
2.0 Why Councils need to hold Reserves

2.1 Reserves are an essential part of good financial management. They help Councils cope with unpredictable financial pressures, help them smooth the impact of known spending requirements over time, and help to fund any in-year overspending. The level, purpose, and planned use of reserves are important factors for elected Members and council officers to consider in developing medium-term financial plans and setting annual budgets.

2.2 There is no set formula for deciding what level of reserves is appropriate and councils are free to determine the level of reserves they hold. Where councils hold very low reserves there may be little resilience to financial shocks and sustained financial challenges. However where reserves are too high there may be opportunity costs involved in holding these reserves (for example a lack of investment in making service changes that could generate better outcomes for residents and/or increased savings or revenue generation for the Council).

2.3 The requirement for financial reserves is acknowledged in statute (Local Government Finance Act 1992). Full Council is responsible for approving the level of reserves and the Reserves Policy whilst the Section 151 Officer has a statutory duty to report publically to Council on the adequacy of reserves when calculating the annual budget requirement.

2.4 CIPFA issues guidance on reserves and the latest guidance (LAAP Bulletin 99) identifies the issues to consider in determining an appropriate level of reserves as follows:



3.0 Reporting of Reserves

3.1 As a minimum, the annual budget report and the final accounts report will set out opening balances, expected or actual transfers to and from reserves together with closing balances. The Director of Finance and Support Services as S151 officer will comment on the adequacy of reserves in those reports.

3.2 During the year the adequacy of reserves will be reviewed as part of the health check monitoring in the light of any significant budget variances. If the balance on general reserves appears likely to move outside of the minimum boundary the need for corrective action will be considered in the next planned health check report or earlier if the Council's S151 officer so requires.

4.0 Governance arrangements in respect of reserves (extracted from Financial Regulations (3.8))

4.1 In the event of a department underspend the Executive may establish an earmarked reserve and approve appropriations thereto where the purpose of that reserve is to defer expenditure included in a budget (or supplementary budget) approved by the Council where the expenditure in subsequent years will be in respect of the purpose for which the original budget (or supplementary budget) was approved.

4.2 Proposals to appropriate more than £100,000 to a single reserve or more than £500,000 in aggregate in any year beyond sums set out in the Medium Term Financial Plan shall be subject to the prior approval of the Council.

5.0 Current Reserve balances

5.1 The table below summarises the balances currently held in Earmarked Reserves:

## ESSENTIAL REFERENCE PAPER E

**Table 2: Statement of Earmarked Reserve Balances**

|                                                    | <b>Balance<br/>31 March<br/>2014<br/>£000</b> | <b>Transfers<br/>Out<br/>2014/15<br/>£000</b> | <b>Transfers<br/>In<br/>2014/15<br/>£000</b> | <b>Balance<br/>31 March<br/>2015<br/>£000</b> |
|----------------------------------------------------|-----------------------------------------------|-----------------------------------------------|----------------------------------------------|-----------------------------------------------|
| Interest Equalisation Reserve                      | (2,257)                                       | 754                                           | -                                            | <b>(1,503)</b>                                |
| Insurance Fund                                     | (10)                                          | -                                             | (1,000)                                      | <b>(1,010)</b>                                |
| Emergency Planning Reserve                         | (37)                                          | -                                             | -                                            | <b>(37)</b>                                   |
| VAT Partial Exemption Reserve                      | (145)                                         | 145                                           | -                                            | -                                             |
| Service Improvement Fund                           | (610)                                         | 610                                           | -                                            | -                                             |
| LDF/Green Belt Reserve                             | (733)                                         | 214                                           | -                                            | <b>(519)</b>                                  |
| Housing Condition Survey Reserve                   | (79)                                          | -                                             | (14)                                         | <b>(93)</b>                                   |
| Council Elections Reserve                          | (50)                                          | -                                             | (27)                                         | <b>(77)</b>                                   |
| LABGI Reserve                                      | (94)                                          | 94                                            | -                                            | -                                             |
| Sinking fund - Leisure Utilities / Pension Reserve | (282)                                         | 51                                            | -                                            | <b>(231)</b>                                  |
| Restructure Fund                                   | (33)                                          | 33                                            | -                                            | -                                             |
| Performance Reward Grant Reserve                   | (30)                                          | 8                                             | -                                            | <b>(22)</b>                                   |
| Waste Recycling Income Volatility Reserve          | (275)                                         | -                                             | (25)                                         | <b>(300)</b>                                  |
| Footbridge Reserve                                 | (150)                                         | -                                             | -                                            | <b>(150)</b>                                  |
| Transformation Reserve                             | (1,127)                                       | -                                             | (1,655)                                      | <b>(2,782)</b>                                |
| DCLG Preventing Repossessions                      | (30)                                          | -                                             | -                                            | <b>(30)</b>                                   |
| Environmental Pollution                            | (14)                                          | -                                             | -                                            | <b>(14)</b>                                   |
| New Homes Bonus Priority Spend                     | (1,049)                                       | -                                             | (2,767)                                      | <b>(3,816)</b>                                |
| Collection Fund Reserve                            | (1,244)                                       | -                                             | (307)                                        | <b>(1,551)</b>                                |
| DEFRA Flood Support                                | (125)                                         | 32                                            | -                                            | <b>(93)</b>                                   |
| Commercial Property Fund                           | -                                             | -                                             | (500)                                        | <b>(500)</b>                                  |
| Pension Fund Additional Contribution Reserve       | -                                             | -                                             | (1,000)                                      | <b>(1,000)</b>                                |
| Single Person Homelessness                         | -                                             | -                                             | (12)                                         | <b>(12)</b>                                   |
| Neighbourhood Planning                             | -                                             | -                                             | (45)                                         | <b>(45)</b>                                   |
| IER                                                | -                                             | -                                             | (34)                                         | <b>(34)</b>                                   |
| <b>Total</b>                                       | <b>(8,374)</b>                                | <b>1,941</b>                                  | <b>(7,386)</b>                               | <b>(13,819)</b>                               |