Appendix F

Financial Reserves Policy

December 2017

Northamptonshire County Council

1. Purpose

Northamptonshire County Council is required to maintain adequate financial reserves to help ensure that its planned activities are sustainable. The purpose of this policy is to set out how the Council will determine and review its overall level of reserves.

2. Regulatory Context

Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

There is no specified minimum level of reserves that an authority should hold, however Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Section 151 Officer) to report formally on the adequacy of proposed reserves when setting a budget requirement and to ensure that there are key protocols for their establishment and use.

This Policy sets out the framework for the use and management of useable reserves, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (CIPFA/LASAAC) and agreed accounting policies. Reserves held by schools are ring-fenced and managed separately in line with government guidelines.

3. Types of Reserves

Useable reserves can be categorised in two ways:

- General Fund Balance which is a contingency to cushion the impact of unexpected events or emergencies and
- Earmarked Reserves which are generally built up to meet known or predicted liabilities.

Earmarked reserves are usually created and held for specific purposes which might include the following;

- Carry forward of underspend - some services commit expenditure to projects including those that have been funded from grants, but have been unable to spend the budget in year. Reserves are used as a mechanism to carry forward these resources.
- Trading accounts – In some instances surpluses are retained for future investment.
- Insurance reserve – to meet the estimate of future claims to enable the Council to meet the excesses not covered by insurance.
- Other earmarked reserves will be set up from time to time to meet known or predicted liabilities, for example future predicted demand or demography pressures.

Whilst earmarked reserves are set against a specific purpose, general reserves are funds which do not have any restrictions as to their use. Such reserves can be used to smooth the impact of significant pressures across years, offset the budget requirement in year, and to mitigate the risks of unexpected events or emergencies.

4. Managing reserves

The Council recognises the need to hold and maintain reserves but also recognises that by choosing to hold or increase reserves, the Council is allocating resources away from other potential uses and as such, there is an "opportunity cost" of holding balances as reserves. For this reason it is important to set out clearly, and regularly review, the framework through which such reserves are managed.

The management of financial reserves is a key tool of the Council's overall financial strategy, which has two key objectives:

- achieving stable and sustainable budgets throughout the medium term; and
- ensuring resources are effectively focussed on priorities.

Underpinning the achievement of these objectives is the recognition of the need to manage risk. This could be the increased risks of volatility in planning assumptions as we continue to go through uncertain economic times, or the risks to Government funding as a result of significant future funding reviews. It is the appreciation of such risks that must be at the forefront of the Chief Finance Officer's Section 25 report, referred to in Section 2 above.

5. Quantifying the General Fund Balance Requirement

Setting the level of the General Fund is one of several related decisions in the formulation of the Medium Term Financial Plan (MTFP) and the annual budget. This decision requires account to be taken of the strategic, operational and financial risks facing the Authority. Specifically, the MTFP requires the Council to build and then maintain General Fund balance to sufficiently cover the key financial risks that it faces.

Typically the General Fund balance is set in the range of 2 - 5% of net operating expenditure. The financial considerations are listed in the table below.

Budget assumptions	Financial standing and management
General cash flow requirements	
The outlook for inflation and interest rates.	The overall financial standing of the Council (level of borrowing, debt outstanding, etc.)
Estimates of the level and timing of capital receipts.	The Council's track record in budget and financial management including the robustness of its medium term plans.
The potential range of costs of demand led services.	The Council's capacity to manage in year budget pressures.
Planned efficiency savings/ productivity gains.	The strength of the financial information and reporting arrangements.
The financial risks inherent in any significant new funding partnerships, major right sourcing arrangements or major capital developments.	The Council's virement and end of year procedures in relation to budget under/overspends.
The availability of other funds to deal with major contingencies and the adequacy of provisions.	The adequacy of the Council's arrangements to cover major unforeseen risks.

An objective evaluation of these factors will be undertaken each year to determine a prudent level of general reserves to cover based on an assessment of the above factors. However, the final level of reserves is ultimately subject to the Chief Finance Officer's judgment, taking all relevant factors into consideration.

As part of the annual budget recommendation to the Council, the Cabinet must highlight the amounts that are being set aside for reserves.

6. Building Reserves

Should the Chief Finance Officer consider the level of General Reserves require increasing, this will be achieved as part of the budget setting process, establishing an allocation from the annual budget to achieve the desired level of balances. Contributions to (or from) General Reserves should be reviewed annually.

This will be additional to any amounts needed to replenish reserves that have been consumed in the previous year.

Earmarked reserves will be established on a ‘needs basis’, in line with planned or anticipated requirements, and will be subject to Cabinet approval, usually as part of the annual reserves and carry forwards report that goes to Cabinet as part of the Closedown reports. For each such reserve the Council will define:

- The purpose of the reserve.
- How and when the reserve can be used.
- Procedures for management and control of the reserve.
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy. This will generally take place at year end.

7. Use of Reserves

Reserves can only be used once, and so should not be used to finance recurrent expenditure

Where reserves are used to support the delivery of the budget in any one year, for example to smooth funding fluctuations or pressures across years, the Council should ensure the reserves are replenished in the following year. However in exceptional cases, such as the need to minimise the impact upon services to customers and citizens, more time would be allowed for replenishment, up to a maximum of four years, in line with the medium-term planning cycle.

Use of General Reserves will be subject to Cabinet approval. The creation of earmarked reserves will be subject to Cabinet approval, but once this Cabinet level approval has been given, draw downs against the reserve, will then be subject to the approval of the relevant Director in liaison with the Chief Finance Officer to ensure the criteria for the use of the reserve has been met.

Earmarked reserves that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established.