Appendix A

POLICY ON EARMARKED RESERVES AND PROVISIONS

DEFINITION OF EARMARKED RESERVES AND PROVISIONS

Provisions are required for any liabilities where the timing of the payment or the amount of the liability is uncertain. Provisions are required to be recognised when:

a) the authority has a present obligation (legal or constructive) as a result of a past event;

b) it is probable that a transfer of economic benefits will be required to settle the obligations; and

c) a reliable estimate can be made of the amount of the obligation.

A transfer of economic benefits is regarded as probable if the event is more likely than not to occur. If these conditions are not met no provision should be recognised.

Amounts set aside for purposes falling outside the definition of provisions are considered to be reserves.

Earmarked reserves are amounts set aside for specific policy purposes or for general contingencies and cash flow management. For each reserve established, the purpose, usage and the basis of transactions needs to be clearly defined.

USE OF RESERVES

1. Reserves enable us to do three things:

    - Create a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing. This forms a part of general reserves.

    - Create a contingency to cushion the impact of unexpected events or emergencies. This also forms part of general reserves.

    - Creates a means of building up funds, often referred to as earmarked reserves, as defined above, to meet known or predicted liabilities.

2. There are other reserves that can only be used for specific statutory purposes. These include the usable capital receipts and pensions reserve. These are not considered part of this policy.

ESTABLISHING A NEW RESERVE

1. When establishing reserves, we need to ensure that we are complying with the Code of Practice on Local Authority Accounting and, in particular, the need to distinguish between reserves and provisions.

2. The Chartered Institute of Public Finance and Accountancy (CIPFA) publish an annual Statement of Recommended Practice (SoRP), which governs the information contained within a local authority's statement of accounts. The SoRP states that for each reserve established, the purpose, usage and the basis of transaction should be clearly identified.

3. New reserves may be created at any time, but must be approved by Executive Cabinet when a reserve is established. The Cabinet needs to approve the following:

   - Purpose – the reason for creating the reserve should be clearly stated.

   - Usage – there should be a clear statement of how and when the reserve can be used.

     (Without a clearly defined purpose and clearly defined usage there will be ambiguity over the application of reserves.)

   - Basis of transactions – delegated authority for approval of expenditure from the reserve.

   - Management and control – a member of Corporate Management Team must have responsibility for the reserve, although day to day management of the reserve may be delegated to a specific officer.

REPORTING RESERVES

1. The Chief Financial Officer has a fiduciary duty to local tax payers and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.

2. The overall level of balances will be reported to Executive Cabinet quarterly as part of the Performance Monitoring report.

3. Heads of Service and section heads (where appropriate) will receive a monthly report on reserves.

4. The budget report to Council will include:

   - a statement of movements in reserves for the year ahead and the following two years;

   - a statement of the adequacy of general reserves and provisions in the forthcoming year and in the Medium Term Financial Plan; and

   - a statement on the annual review of earmarked reserves.

MEDIUM TERM FINANCIAL PLAN

1. The level of reserves for the next three years will be reviewed at least annually as part of the Medium Term Financial Planning process. Corporate Management

Team, together with other responsible officers, will review the Council's earmarked reserves for relevance of purpose and adequacy. A profile of income to and expenditure from the reserves will be produced for inclusion within the Medium Term Financial Plan (MTFP).

2. Any amendments to earmarked reserves to be reported to Executive Cabinet for approval.

3. The introduction of the Prudential approach to capital investment requires the Chief Financial Officer to have full regard to affordability when making recommendations about the authority's future capital programme. Such consideration will include the level of long term revenue commitments. Indeed, in considering the affordability of its capital plans, the authority is required to consider all of the resources available to it (estimated for the future) together with the totality of its capital plans and revenue forecasts for the life of the Medium Term Financial Plan.

LIFE OF A RESERVE/REVIEW

1. Once a reserve has fulfilled the purpose for which it was established, the balance should be reallocated to another similar purpose earmarked reserve, allocated to Council Priorities Reserve or surrendered to the General Fund Working Balance.

2. An annual review of the purpose and adequacy of earmarked reserves will be carried out as part of the Medium Term Financial Plan process. Any amendments to earmarked reserves will be reported to Executive Cabinet for approval.

GOVERNANCE ISSUES

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

2. It is important, therefore, that councillors take responsibility for ensuring the adequacy of reserves and provisions when they set the budget.

CHIEF FINANCIAL OFFICER RESPONSIBILITIES

1. It is the responsibility of the Chief Financial Officer to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.

2. Section 25 of the Local Government Act 2003 places a specific personal duty on the Chief Financial Officer to report on the adequacy of reserves and the robustness of the budget.

EXTERNAL AUDITOR RESPONSIBILITIES

1. External auditors have a responsibility to review the arrangements in place to ensure that financial standing is soundly based. In the course of their duties external auditors review and report on the level of reserves taking into account their local knowledge of the authority's financial performance over a period of time.

However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves.

LEVEL OF BALANCES

1. Over the life of the current Medium Term Financial Plan, the Council intends to maintain the level of the General Fund Working Balances at or above £700,000. The level of earmarked reserves is set out in the Medium Term Financial Plan and is tied into individual service delivery plans.

DELEGATED AUTHORITY

1. Where specific delegated authority to commit expenditure from a reserve has not been established, responsibility falls to Executive Cabinet upon advice from the Chief Financial Officer.

2. All Heads of Service are authorised to commit expenditure from their respective reserves up to £50,000. They may delegate this authority to the Cost Centre Manager in the table of delegated authority shown below. Delegation of this nature must be put in writing and sent to Accountancy Services.

3. Any commitments £50,000 and above need approval from Executive Cabinet.