



CHESTERFIELD
BOROUGH COUNCIL

Appendix F

Reserves Policy

Policy statement

Chesterfield Borough Council holds reserves to provide cover for risks and unforeseen events, to meet known or predicted requirements and to manage timing differences in Funding. Reserves are a key part of the Council's financial resilience and maintaining financial sustainability.

1. Policy Context and Purpose

- 1.1 The Council's Budget Strategy sets out the financial objectives to support the delivery of the Corporate Plan. These objectives remain challenging in the context of an uncertain economic future, cost of living pressures and significantly reduced funding from the Government.
- 1.2 Reserves are an important part of the Council's financial strategy and are held to create long-term financial stability. They enable the Council to manage change and are a key element of its financial standing and resilience. The Council's key sources of funding face an uncertain future and the Council therefore holds earmarked and unearmarked reserves and a working balance to mitigate future financial risks.
- 1.3 As part of the 2023/24 budget setting process an assessment of the adequacy of reserves was undertaken. The assessment of reserves is important in the context of the sustained cuts in Government funding affecting local authorities, the significant risks and uncertainties that the Council faces in this post-pandemic era and recent decisions to apply some of the Council's reserves. It is important to acknowledge that reserves are 'one off' funds and are therefore suitable for funding 'one off' or unexpected costs. The use of reserves to fund ongoing expenditure or to cover failures to achieve budgeted savings is never advised, except in emergencies and/or to enable transition to new ways of working. Whilst the use of reserves to date has been deemed to be affordable, they are now at a level whereby any significant further use would leave the Council exposed and potentially unable to manage both known and unknown risks.
- 1.4 The process used to determine and approve the level of reserves and balances provides an indication of the council's approach to financial management including financial planning, the annual budget process, budget monitoring and forecasting and both month end and final accounts process.
- 1.5 The purpose of this policy is to:
 - Provide a framework that the Council should measure itself against when setting the budget to satisfy itself that the retention and holding of reserves and balances is appropriate to the operating environment and risks the Council faces.

- Set out the Council's approach for compliance with the statutory regime and relevant non-statutory guidance.

2. Policy Scope and Exclusions

- 2.1 This policy applies to the setting and reviewing of all General Fund and Housing Revenue Account revenue reserves.
- 2.2 This policy excludes:
- Capital accounting and other accounting reserves.
 - Provisions
 - Items such as S106, CIL and Biodiversity net gains account.

3.0. The Constitution. Part 4 - Rules of Procedure - Financial Procedure Rules – Section 7 Reserves and Provisions

- 3.1 The constitution sets out how the Council operate, how decisions are made and the procedures that are followed to ensure these are transparent and accountable. Some of these processes are required by law, whilst others are a matter for the Council to choose.
- 3.2 In addition, the Constitution sets out the basic rules and procedures to be followed. The Constitution is divided into 8 parts, the rules relating to Reserves are set out in part 4 Section 7 and these are set out below:

The Chief Finance Officer shall establish reserves and provisions to meet known or estimated future liabilities.

There is a duty on the Chief Finance Officer to report on the robustness of the estimates and the adequacy of reserves when the Authority is considering its budget requirement and Members are required to have regard to this advice.

Service Directors/Service Managers must inform the Chief Finance Officer about potential future liabilities which they become aware of.

The relevant budget holder can incur expenditure covered by the planned use of Reserves included in the budget approved by the full Council.

All other uses or Reserves should be approved as follows:

- *The Senior Leadership Team/Cabinet can approve the use of earmarked reserves, for their originally intended purpose, within the delegated limits set by the full Council each financial year.*

- *Any use of the Council's earmarked reserves beyond the delegated limits, or for an unrelated purpose, must be approved by the full Council.*

The Chief Finance Officer can approve the use of Provisions where they are being used for their intended purpose, otherwise full Council approval is required.

The details of these delegated decisions will be included in the next quarterly budget monitoring report to the full Council.

The delegated limits are to be approved by the full Council each financial year in the Budget Setting report.

3.3 The current delegation limits are set out in the Financial Rule 7.

4.0 Responsibilities and Policy Review

4.1 The policy will be reviewed and reported to Cabinet at least annually as part of the Council's budget setting process.

4.2 Responsibility for reviewing this Policy will be that of the Service Director Finance in consultation with the responsible Cabinet Member(s). In light of constantly changing financial pressures and other circumstances this policy will be reviewed on an ongoing basis, as necessary.

5.0 Legislation

5.1 The Local Government Act 2003 Section 25 includes the following statutory duty in respect of the budget report to the Council's Chief Financial Officer and Section 151 Officer to report on the robustness of the budget estimates and the adequacy of the reserves when the council tax decision is being made by the Council.

5.2 Section 26 of the same Act places an onus on the Section 151 Officer to ensure the Council has established a minimum level of reserves (General Fund Balances) to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget.

5.3 Section 114 of the Local Government Finance Act 1988 requires the S151 officer to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

5.4 The Chief Financial Officer and Section 151 Officer statutory responsibility resides with the Service Director - Finance.

6.0 Accounting Requirements

- 6.1 The accounting treatment of reserves is set out in the Code of Practice on Local Authority Accounting.
- 6.2 In March 2023 Chartered Institute of Public Finance (CIPFA) published 'Local Authority Reserves and Balances' Bulletin 13 which has been updated by the CIPFA Accounting and Financial Reporting Forum.

7.0 Types of Reserves

- 7.1 The Council holds two different types of reserves, general and earmarked, which are held for different purposes and are managed depending upon their type.
- General Reserves operate as a working balance to manage the impact of uneven cashflows and to provide a contingency against emerging events or emergencies.
 - Earmarked Reserves are sums specifically held to enable funds to be built up to meet known or predicted expenditure.

8.0 General Fund Balance

- 8.1 The General Fund balance on 1 April 2023 is **£1.5m**. The level of the General Fund Balance reserve is determined having had regard to the advice and recommendations of the Section 151 Officer as part of the annual budget approval. The level of the reserve will be a matter of judgement which will take account of the specific risks identified through the various corporate processes. This is considered on an annual basis as part of the Robustness of Reserves assessment which forms part of the annual budget setting process and MTFP report. It will also take account of the extent to which specific risks are supported through earmarked reserves.
- 8.2 The Council has also previously established a Budget Risk Reserve, as a supplement to the General Fund Balance, to provide a further contingency for unforeseen items. Given the size and scale of the financial challenges the Council is facing, the Council resolved in February 2023 to utilise £1.000m of the Budget Risk Reserve to support the General Fund revenue budget for 2023/24. This was to afford the Council time to take a more strategic approach to reviewing its priorities and agreeing a new Council Plan, and to developing a new Budget Strategy to deliver a balanced budget for 2024/25 and over the medium-term. The forecast balance on the Budget Risk Reserve on 1 April 2024 is **£1.3m**.

9.0 General Fund Earmarked Reserves

9.1 When considering the level of reserves, it is appropriate to consider the different types of earmarked reserves to be held. The table below sets out the existing reserve types held by the Council and the rationale for holding them. All earmarked reserves will be reviewed at least annually to ensure that they are still appropriate, relevant and adequate for the intended purpose and in light of the Council's approach to risk management.

Reserve	Purpose
Insurance	Sums held to meet potential liability claims against the Council.
Reserves held to mitigate risk	Risk reserves set aside to mitigate risks not otherwise provided for e.g. Business Rates review and Treasury management risk reserve
Corporate priorities	To manage specific cross departmental priorities including transformation, service improvement and other policy issues
Service specific	Specific departmental issues including Local Plan, the Theatre Restoration Levy and Business Rates generated from the Markham Vale Enterprise Zone to fund economic development activities
Asset Maintenance and Vehicle Replacement	Sums set aside for the repair and maintenance of operational buildings and vehicles and replacement of equipment and vehicles. This also includes sums in relation to our non-operational buildings.
Other	There are a number of small balances on earmarked reserves which will be reviewed with a view to releasing to the General Fund Balance

10.0 Housing Revenue Account (HRA)

- 10.1 HRA Reserves are amounts specifically required by statute to be set aside and ring-fenced for future investment in HRA. The Council must ensure that there are adequate reserves in the HRA.
- 10.2 The Council is required to maintain a balanced HRA, and this includes the retention of an adequate level of reserves to act as a contingency against risks. The Council's Reserves

Policy requires that, at the beginning of each financial year, this working balance be maintained at a minimum level of **£3.5m**, which is approximately 8% of the rental income.

- 10.3 In addition to these revenue reserves, councils with HRAs are required to maintain a Major Repairs Reserve (MRR), for the purpose of financing long term capital works to the housing stock. The Council’s MRR balance at 31 March 2024 is estimated to be fully utilised.

11.0 Principles for Assessing the Adequacy of Reserves

- 11.1 In order to assess the adequacy of unallocated general reserves when setting the budget, the S151 Officer will take account of the strategic, operational and financial risks facing the Council. This risk assessment will be in the context of the Council’s overall approach to risk management and have regard to the Council’s risk register and medium-term plans. The appropriate level of reserves to be ‘adequate’ is therefore not absolute but will vary depending upon the degree of financial risks faced.
- 11.2 In assessing the adequacy of reserves, the S151 Officer will consider the key financial assumptions underpinning the budget. The following table sets out the significant budget assumptions that are relevant when considering the adequacy of reserves.

Budget Assumptions	Financial position and management assessment of impact
The treatment of inflation and interest rates	The overall financial position of the authority (level of borrowing, debt outstanding, council tax collection rates etc). Rises in the prices of some commodities, e.g. fuel and energy, highlight the relevance of using a number of inflation rates in the budget and financial strategy, and considering whether general reserves are adequate to deal with unexpected increases. Volatility in the financial markets also points to the need to consider investment and borrowing risks and their impact on income.
Estimates of the level and timing of capital receipts	The Council’s track record in budget and financial management including the robustness of the medium-term plans. Authorities will also need to consider changes in the property market and adjust estimates and assumptions for reserves accordingly.



Treatment of demand led pressures	The capacity to manage in-year budget pressures, and the strategy for managing both demand and service delivery in the longer term.
The treatment of planned efficiency savings / productivity gains	The strength of the financial information and reporting arrangements. The authority should also be able to activate contingency plans should the reporting arrangements identify that planned savings or gains will either not be achieved or be delayed.
The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments	The authority's virement and end of year procedures in relation to budget under/overspends at authority and department/directorate level. Risk management measures in relation to partnerships, including consideration of risk allocation. Contract provisions designed to safeguard the authority's position in the event of problems arising from outsourcing arrangements. Reserves may also need to be established to manage commercial risks where authorities have
The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions	The adequacy of the authority's insurance arrangements to cover major unforeseen risks. When considering insurance cover, the structure of the cover as well as the overall level of risk should be taken into account. Risk assessments should be used when balancing the levels of insurance premiums and reserves.
The general financial climate to which the authority is subject	External factors, such as future funding levels expected to be included in Spending Reviews and expected referenda principles and limits, will influence an authority's ability to replenish reserves once they have been used. Any plans for using reserves will need to consider the need and ability of the authority to replenish the reserves, and the risks to which the authority will be exposed whilst replenishing the reserves