



# Appendix A3

## Bristol City Council

### Reserves Policy 2025-26

Version	Purpose/Change	Author / Review Date
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V3.0	<ul style="list-style-type: none"><li>Updated in conjunction with refresh of the Medium Term Financial Strategy</li></ul>	Sarah Chodkiewicz Full Council (Budget) TBC

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# 1. Introduction

An essential part of the financial planning process of the Council is a robust policy on the level and nature of reserves.

We must ensure that our reserves are kept at an appropriate level to enable the Council to be resilient to future shocks, stressors and emergency situations that we may encounter in the future, and plan effectively for our known and potential one-off liabilities.

- 1.1. Section 25 of the Local Government Act (Part II) 2003 requires the Chief Financial Officer (Section 151 Officer) to report formally on the adequacy of the council's financial reserves when setting a Medium Term Financial Strategy and the budget requirement as part of the annual budget report. The accounting treatment for reserves is set out in the Code of Practice on Local Authority Accounting.
- 1.2. These requirements are reinforced by section 114 of the Local Government Finance Act 1988, which requires the Service Director of Finance (Section 151 Officer) to report if there 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 council will not have the resources to meet its expenditure in a particular financial year.
- 1.3. The council continues to face a shortfall in funding compared to spending demands and must annually review its priorities in order to address the shortfall. Unlike central government, local authorities cannot borrow to finance day-to-day spending, and so they must either operate to agreed cash limits or seek approval to draw down reserves to ensure that their annual spending does not exceed their annual revenue budget.
- 1.4. Reserves are one-off monies and can only be spent once. The council aims to avoid using reserves to meet ongoing financial commitments, other than as part of a sustainable budget plan. One of the council's financial principles is to stop the use of one-off funding to support the base budget. The council must balance the opportunity cost of holding reserves in terms of the impact upon Council Tax against the importance of internal borrowing, interest earning and planning for long-term financial resilience.
- 1.5. This policy note sets out the council's policy for the management and governance of its financial reserves, including:
  - The General Fund Reserves
  - Earmarked Reserve.
  - Housing Revenue Account Reserves
  - Schools Reserves
  - Dedicated Schools Grant Reserve
  - Unusable Reserves
- 1.6. The report covers the principles for when reserves will be held, the appropriate categories for reserves, the Section 151 recommended minimum levels of reserves and criteria for the release of reserves.
- 1.7. Reserves are an important part of the council's financial strategy and are held to create long-term financial resilience and stability. All movements in reserves will continue to require Section 151 Officer approval and are subject to a quarterly review. The outcomes of this quarterly review will then be presented to Strategy and Resources Policy Committee as part of the quarterly budget monitoring reports and are included within the annual MTFS.

- 1.8. Reserves enable the council to manage its business and its change agenda without undue impact on the annual Council Tax or Tenants, and they are a key element of ensuring the council's strong financial standing and resilience over the medium to long-term. The council operates in an uncertain and volatile environment and its main sources of funding face an uncertain future. The council therefore holds earmarked reserves and a General Fund reserve to mitigate against future financial liabilities and risks.
- 1.9. The council is an extremely complex organisation with a wide range and diversity of activities and assets, interests and liabilities. By their nature many of the risks cannot be quantified and in this current challenging financial climate it is essential that the council maintains adequate levels of reserves.

## 2. Reserves Types

- 2.1. Reserves can be held for various reasons and are grouped into either useable or unusable categories.
- 2.2. Usable reserves are cash-backed reserves that can be used to fund future expenditure. Some reserves however will be subject to restrictions on their usage. The usable reserves are:
  - **Strategic Reserves** to cushion the impact of unexpected events, emergencies and uneven cash flows to avoid unnecessary temporary borrowing.
  - **Earmarked Reserves** - built up to meet future known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.
  - **Schools Reserves** - school balances/DSG – amounts required by statute to be set aside for future expenditure in schools.
  - **HRA Reserves** - amounts specifically required by statute to be set aside and ringfenced for future investment in HRA.
  - **Capital Reserves** includes capital receipts and capital grants set aside to finance future capital spending plans.

Unusable reserves are reserves that arise out of the interaction of legislation and proper accounting practice. Unusable reserves are held in line with the statutory and accounting principles, these aren't actual reserves of cash, but estimations of or adjustments to the value of our assets, investments or payments. These cannot be moved from one reserve to another, applied to the general fund, or used for any other purpose, these are:

- The **Revaluation Reserve** contains the gains made by the authority arising from increases in the value of its Property, Plant and Equipment [and Intangible Assets] since 1 April 2007.
- The **Capital Adjustment Account** absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions.
- The **Available for Sale Financial Instruments Reserve** contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments.
- The **Financial Instruments Adjustment Account** absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

- The **Pensions Reserve** – this is a specific accounting mechanism used to reconcile the payments made for the year to the statutory pension schemes and the net change in the authority’s recognised liability under IAS 19.
- The **Collection Fund Adjustment Account** manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.
- The **Accumulated Absences Account** absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, eg annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2.3. Schools, DSG, HRA, Capital and all Unusable reserves are governed by statute or by CIPFA’s Accounting Code of Practice.

### 3. General Fund Strategic Reserve

3.1. The purpose of the council’s General Reserve will be to meet costs arising from any unplanned or emergency events such as unforeseen financial liabilities or natural disasters. It also acts as a financial buffer to help mitigate against the financial risks the council faces and can be used to a limited degree to ‘smooth’ expenditure on a one-off basis across years.

3.2. Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option, although the reserve would require reinstatement to ensure financial sustainability again in future years if used in this way. However, it is not prudent for reserves to be used to fund shortfalls in current funding.

3.3. The level of the reserve will be a matter of judgement having had regard to the advice of the Section 151 Officer which will take account of the specific risks identified through the various corporate processes, including:

- identified strategic risks.
- strategic cash flow requirements and treasury management requirements.
- inflationary and interest rate risks.
- external demands or pressures on budgets.
- capital programme reliance on future capital receipts.
- major capital developments.
- savings and efficiency plans within the MTFS particularly reliance on delivery where implementation or consultation is still required.
- major change.
- council shareholding considerations and new partnership funding arrangements.
- external funding uncertainties.
- revenue collection, including council tax, business rates and debts.
- insurance arrangements and required provisions.
- general financial and economic outlook.

This is considered on an annual basis as part of the robustness of reserves assessment, which forms part of the annual budget setting process. It will also take account of the extent to which specific risks are supported through earmarked reserves.

3.4. The current General Reserve Policy is that an unallocated general reserve will be retained of

at least 5-6% of the net revenue budget, subject to the sensitivity and risks in the financial plans, to which the council is exposed.

- 3.5. The council's Section 151 Officer recommends that the council should continue to review this level, reflecting the council's identified risks and risk appetite annually.

#### 4. Earmarked and Ringfenced Reserves

- 4.1. The council recognises the need to hold and maintain earmarked reserves but also recognises the opportunity cost of holding balances as reserves. For this reason, it is important to set out clearly, and regularly review the framework through which reserves are managed. Management of reserves is a key tool of the council's overall MTFS and providing financial resilience over the longer term. Key to this is the need to ensure resources are effectively focused on priorities and risk can be managed.
- 4.2. The purpose of the council's Earmarked Reserves is:
- a means of voluntary and prudently building up funds to meet known future or predicted spending commitments and / or liabilities; and
  - to manage timing differences between the receipt of income and expenditure being incurred, in accordance with accounting rules.
- 4.3. When establishing reserves the council must adhere to the Code of Practice on Local Authority Accounting (the CODE) and in particular the need to distinguish between reserves (set aside for future liabilities) and provisions (mandatory set asides for actual liabilities existing).
- 4.4. Earmarked reserves will be considered on a case by case basis. In approving any new earmarked reserves, the council needs to identify the purpose of the reserve, and the procedures for its management and control. The creation of any new earmarked reserves will be subject to Strategy and Resources Policy Committee approval and the Chief Financial Officer will also ensure that there are clear protocols for their establishment and use. These reserves will only be used for the purpose for which they were created and will be reviewed periodically.
- 4.5. The level of the general and earmarked reserve will continue to be reviewed annually as MTFS work evolves into the annual budget and again as part of the Closure of Accounts process, to ensure it is sufficient for the level and type of risks to which the authority is exposed and the council will not hold significant balances above those required by the MTFS.
- 4.6. The council's earmarked reserves are currently categorised and reported in the MTFS and budget in the following way:

**Table 1: Description of Reserve Types**

<b>Reserve Type</b>	<b>Description</b>
Capital Investment	The capital reserve is maintained to provide funding for the council's capital and commercial investments.
Risk and Legal	Risk Reserves Funds set aside to mitigate risks not otherwise provided for as well as commission advice and mitigate risks of potential litigation/claims.
Statutory/Ring-Fenced	Amounts required by statute or accounting code of practice to be set aside and ring-fenced for specific purposes, e.g. Public Health Reserve, City Deal Business Rate Pooling.

Business Transformation	Amounts required for expenditure on business activities, projects and capacity that is critical to delivering the councils' improvement agenda.
Financing	Includes PFI sinking fund, grant income carried forward in accordance with accounting regulations.
Service	Amounts set aside to finance specific projects or to meet known expenditure plans, for example election reserve for local elections.

### **HRA Reserves**

- 4.7. The Housing Revenue Account (HRA) is kept separate from other local authority income and expenditure streams, to ensure the council house rents are not used to subsidise general expenditure and prevent the general council tax payer subsidising council housing. Therefore, these funds set aside as reserves can only be used to fund expenditure relating to the HRA. The council will continue to use a range of funding sources and mitigations to ensure the HRA 30 year business plan remains affordable.
- 4.8. The HRA Interest Cover Ratio (ICR) is set with a deminimus threshold as part of the budget. The minimum ICR will be supplemented by an HRA Major Repairs Reserve of at least £10 million (approx. 1 year's interest cost) and a general HRA reserve of £21 million after provisions for any known liabilities and provision in the HRA budget each year, to set aside monies to repay borrowing above the level of the historic HRA debt.
- 4.9. Councils with an HRA must have a Major Repairs Reserve. The Major Repairs Reserve is used to build up capital sums that can be used to finance the capital programme and repayment of housing debt.

### **Schools Reserves**

- 4.10. Schools are able to carry forward surplus and deficit balances from one year to the next and utilise these balances for managing changes in pupil numbers and funding, or the funding of projects and future liabilities. The balances are held by individual schools are not for general council use.
- 4.11. These are unspent balances of budgets delegated by the local authority to individual schools. There are specific regulations to deal with school balances which include a provision that the council should require a business plan from the governing body on the use which they intend to make of excess balances in cases where the surplus balance exceeds 5% (secondary schools) or 8% (nursery, primary, and special) of the school's budget share as at 31 March each year. Schools that fail to submit their plans on how they wish to spend their excess balances will be subject to immediate clawback of those excess balances (see [Scheme for Financing Schools](#)).

### **Dedicated Schools Grant Reserves**

- 4.12. Reserve holding the surplus balance on the Schools Budget ringfenced for the DSG to be carried forward for utilisation in future years.

### **DSG Deficit Reserves**

- 4.13. Statutory Instrument (SI) No.1212 of 2020: laid before Parliament and came into force on 29 November 2020 amended the current accounting regulations to allow all DSG deficits to be carried over in a separate dedicated account and therefore not at a charge to the council's

revenue account for the term of the override. The SI is time-limited to 31 March 2026 and the council therefore would have to ensure there are adequate usable reserves to cover any DSG deficit and a clear plan for sustainability when preparing the council's accounts beyond 2026. The council has entered into a Safety Valve agreement with the Department for Education and is actively working to address the medium term financial strategy deficit in the DSG.

### **Public Health Reserve**

- 4.14. Unspent Public Health grant is placed in a separate, ringfenced Public Health (PH) General reserve. The conditions of the grant allow that if at the end of the financial year there is any underspend this can be carried over, as part of a public health reserve, into the next financial year. In utilising those funds the next year, the grant conditions will still need to be complied with.

### **Capital Receipts Reserves**

- 4.15. This account holds the proceeds from the sale of assets and in accordance with regulations; these funds can only be used for capital purposes, or in line with the flexibility enabled on capital receipts for transformation with the appropriate agreement in place annually from the secretary of state.

### **Capital Grants Unapplied Reserve**

- 4.16. This account holds the grants and contributions received towards capital projects for which the authority has met the conditions set by the grant funding body. The funds will remain in this account until the expenditure to be funded by that grant has been incurred. The funding will be restricted by the grant terms and conditions to be matched against eligible expenditure. It cannot be used to fund other expenditure, or the authority could be required to pay the funding back.

## **5. Management and Governance**

- 5.1. The council's usable reserves will be held corporately and the use of those are subject to a prioritisation process and assessment of the use of the reserve for the approved purpose. Approval of the Chief Financial Officer or Deputy Section 151 Officer is required to apply the use of earmarked reserves to support revenue expenditure.
- 5.2. The approved Business Transformation Reserve will be the Corporate Leadership Board's tool for managing additional resource and commissioned capacity required to support the delivery of the council's approved savings programme and project pipeline that is critical to delivering the council's improvement agenda in line with the appropriate committee approval for such expenditure.
- 5.3. A de-minimis level has been set to avoid small funds being set up that could be managed within existing budgets or declared as an overspend and then managed collectively with the express agreement of the Chief Financial Officer. This has been set at £0.100 million, the exception being where reserves have specific grant or legal conditions.
- 5.4. Each application will require a robust justification and will be assessed based on the planned and approved legitimate use of the reserve and the financial situation of the council at that time and may result in earlier decisions for funding being revisited and amended.
- 5.5. Every ringfenced reserve will require robust documentation to be maintained during the life of

the reserve to outline the agreed purpose and any approved changes, whether to purpose or value held.

5.6. Approval arrangements to be as follows:

- Directors will be the designated officer in each Directorate.
- Directors and Heads of Service via their relevant Finance Business Partner are required to apply to the Chief Financial Officer / Deputy Section 151 Officer to:
  - Establish a new reserve - specifying the intended use and demonstrating their plans for use of such a reserve over the period of the MTFs.
  - Request contributions to or draws from earmarked reserves.
  - Outline any forecasted overspend and agree the process for managing / mitigating that.
- Strategy and Resources Policy Committee approval is required for the creation of new earmarked reserves, upon recommendation from the Chief Financial Officer, and where approved the planned use shall be reflected in the development of the MTFs.
- Any request for reserve funding must first explore whether existing budgets, or external funding sources can be used for the proposal, accepting this may require a change in priorities if existing budgets are used.
- Subject to the point above the Chief Financial Officer / Deputy Section 151 Officer shall approve the use of all earmarked reserves provided that the intended use is in accordance with the purpose for which the reserve was established and approved.
- Intended use outside the defined purpose will require a new Strategy and Resources Policy Committee approval upon recommendation of the Chief Financial Officer.

### **Reserve Proforma**

5.7. Each earmarked reserve must be supported by a standard proforma to maintain an audit trail. The proforma can be obtained from your Finance Business Partner and will need to contain:

- the named individual in the Directorate/Division and the Finance Business Partner.
- a clear rationale and description for the movement in the reserve.
- details of any conditions associated with the reserve (eg grant, legal requirements, etc.).
- a profile of expected movements and an end date – at which point any balance should be transferred to the general reserve.

5.8. If there is a genuine reason for slippage, then the proforma will need to be updated at the next available review.

5.9. Each proforma will clearly identify contributions to and drawdowns from reserves, and these will be built into the MTFs and monitored on a quarterly basis. Accessing reserves will only be for significant unusual spend, more minor fluctuations will be managed or declared as budget variances. Ongoing recurring costs should not be funded from reserves.



## **Periodical Reviews of Reserves**

- 5.10. A periodic review (at least annually) of each earmarked reserve is to take place between the Chief Financial Officer / Deputy Section 151 Officer and relevant Director and Finance Business Partner, to ensure that all reserves comply with legislative and accounting requirements. This review will ensure that the number and value of reserves is not unnecessarily increasing annually and will continue to be held corporately.
- 5.11. The reviews will seek to ensure earmarked reserves with spending that is uncertain, in timing or cost, do not hold more than necessary as the spending needs may never arise or may cost less than the sum set aside. All reserves are to be reviewed at least annually and consider:
- The rationale for keeping each reserve, with reference to the original purpose for the creation of the reserve and the council's future spending plans.
  - The funds needed, including an expected minimum and maximum for risk based reserves and whether or not the reserve should be released, in full or in part, or require topping up.
  - How long reserves have been held, and projections for using them, which should then be appropriately recorded and monitored thereafter.
- 5.12. Particular attention will be paid in the annual reviews to those reserves whose balances have not moved over a twelve-month period and non-ringfenced earmarked reserves with planned profiles which have had no movement in 2 years will be considered for return to the general reserve.
- 5.13. Should the council's financial resilience be at risk, the Chief Financial Officer holds the right to redesignate earmarked reserves to support the overall financial position as part of the budget, or in-year financial management processes, with subsequent reporting to Strategy and Resources Policy Committee.

## **Reserves Reporting and Monitoring**

- 5.14. The short-term use of reserves may be agreed by the Chief Financial Officer to provide time to plan for a sustainable funding solution in the following financial year. Decisions on the use of reserves may be delayed until financial year end and will be dependent on the overall financial position of the council rather than the position of just one budget area.
- 5.15. Any surplus reserves will be redirected to general reserve in the light of the budget forecast and any unforeseen emerging risks and pressures associated with that forecast.
- 5.16. The following principles will be applied by the Chief Financial Officer:
- Any in year use of the General Reserve will need to be approved by Strategy and Resources Policy Committee and any planned use will be part of the budget setting process.
  - Any in year use of the General reserve which reduces the level below the policy compliant level as outlined in this policy or is above the delegated authority of Strategy and Resources Policy Committee, will require the approval of Full Council.
  - In considering the use of reserves, there is to be no, or minimal, impairment to the council's long term financial resilience unless there is no alternative.

- 5.17. Part of the risk management process involves taking appropriate action to mitigate or remove risks, where this is possible this may lead to a lower level of reserves being required where appropriate action to mitigate or remove risks has been successfully undertaken. It could be appropriate to consider reducing the level of reserves to avoid unnecessary holding of reserves.
- 5.18. For general and earmarked reserves information will be reported to Strategy and Resources Policy Committee quarterly, showing the current level of reserves and movements in reserves for noting and or approval as part of the budget monitoring process.
- 5.19. Details of the forward strategy for reserves needed to support the council's medium and long-term spending plans will be included in the annual budget report, and all movements during the course of the year and effect of over or underspending on reserves will be reported at the end of the financial year in the budget outturn report and financial statement of accounts.
- 5.20. The council will review the Reserves Policy on an annual basis and will form part of the MTFS reports to Strategy and Resources Policy Committee which will then be subject to Full Council approval.