



# Bristol City Council

## Reserves Policy

Version	Purpose/Change	Author / Review Date
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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 Councils financial reserves when setting a Medium Term Financial Plan 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. 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.
- 1.3. 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 has to 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.
- 1.4. This policy note sets out the Council's policy for the management and governance of its financial reserves, including:
  - The General Fund Reserves
  - Earmarked Reserves
  - Housing Revenue Account reserves
  - Schools Reserves
- 1.5. 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.
- 1.6. 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 Cabinet as part of the quarterly budget monitoring reports and are included within the annual MTFP.
- 1.7. 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 in order to mitigate against future financial liabilities and risks.

- 1.8. 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. General Fund

- 2.1. The Council's earmarked reserves are currently categorised and reported in the MTFP and Budget in the following way:

**Table 1: Description of Reserve Types**

Reserve Type	Description
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.
Financing	Includes PFI sinking fund, grant income carried forward in accordance with accounting regulations, including troubled families grant and resources set aside to match known contract liabilities.
Service	Amounts set aside to finance specific projects or to meet

## 3. General 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. 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. 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.
- 3.3. 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. The Council's Section 151 Officer recommends that the Council should work towards increasing this percentage in future MTFPs to reflect the heightened financial risk that the Council is facing.

## 4. Earmarked and Ringfenced Reserves

- 4.1. The purpose of the Council's earmarked reserves is to meet identified spending commitments. These reserves will only be used for the purpose for which they were created and will be reviewed periodically but as a minimum annually.

- 4.2. The Council's controllable reserves will be held corporately and the use of is subject to a prioritisation process and assessment of the use of the reserve for the approved purpose. Approval of the Section 151 Officer or Deputy Section 151 Officer is required in order to apply the use of earmarked reserves to support revenue expenditure. 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.
- 4.3. All reserves are to be reviewed at least annually to determine whether the original purpose for the creation of the reserve still exists and whether or not the reserves should be released in full or in part or require topping up based on known/expected calls upon them. Particular attention will be paid in the annual review to those reserves whose balances have not moved over a twelve-month period.

### **HRA Ringfenced Reserve**

- 4.4. The Council will continue to use a range of funding opportunities to ensure the Interest Cover Ratio (ICR) of the HRA is a minimum of 1.25 and the minimum ICR will be supplemented by an HRA capital investment reserve of at least £10m (approx. 1 year's interest cost) 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 cap.

## **5. Management and Governance**

- 5.1. Approval arrangements to be as follows:

- Cabinet Board approval is required for the creation of new earmarked reserves, upon recommendation from the Section 151 Officer.
- Directors and Heads of Service are required to apply to establish a new reserve and to specify the intended use and to demonstrate their plans for use of such a reserve over the period of the MTFP. The planned use shall be reflected in the development of the annual budget process.
- Directors and Heads of Service are required to apply to the Section 151 Officer / Deputy Section 151 Officer in order to draw down from the reserves.
- The Section 151 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 Cabinet approval upon recommendation of the Section 151 Officer.
- Section 151 Officer / Deputy Section 151 Officer approval is required for all contributions to reserves.
- The quarterly timetable for movements in reserves is aligned to the quarterly budget monitoring, which is reported to Cabinet
- Directors will be the designated officer in each Directorate responsible for submitting requests to the Section 151 Officer / Deputy Section 151 Officer for any contributions to or from earmarked reserves via their relevant Finance Business Partner.
- Movements in reserves will be reported to cabinet quarterly for noting as part of the budget monitoring process.

- 5.2. 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 (e.g., grant, legal requirements, etc.); and
  - a profile of expected movements and an end date – at which point any balance should be transferred to the general reserve.
- 5.3. If there is a genuine reason for slippage, then the proforma will need to be updated at the next available quarterly review. An annual review of each earmarked reserve is to take place between the Section 151 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 that the number and value of reserves is not unnecessarily increasing annually and will continue to be held corporately.
- 5.4. The Transformation Reserve will be the Corporate Leadership Boards tool for managing additional expenditure is required for business activities, projects and capacity that is critical to delivering the Councils' improvement agenda.
- 5.5. 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 Section 151 Officer. This has been set at £0.100m, the exception being where reserves have specific grant or legal conditions.
- 5.6. Each proforma will clearly identify contributions to and drawdowns from reserves, and these will be built into the MTFP 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. Any request contrary to this will only be considered during the annual budget-setting process.
- 5.7. The short-term use of reserves may be agreed by the Section 151 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.
- 5.8. The report will contain estimates of reserves where necessary.
- 5.9. The following principles will be applied by the Section 151 officer:
- Any in year use of the general reserve will need to be approved by Cabinet 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
  - In considering the use of reserves, there will be no or minimal impairment to the Council's long term financial resilience unless there is no alternative.
- 5.10. The Council will review the Reserves Policy on an annual basis and will form part of the MTFP reports to Cabinet which will then be subject to Full Council annually. Reserves with no movement in 2 years will be returned to the centre to be held corporately.
- 5.11. Within the existing categories, there are a number of earmarked reserves that are established for a specific purpose. During 2022/23 a review of earmarked reserves will be undertaken in order to:
- increase the visibility and transparency of reserves
  - clearly define the purpose and intended use of reserves

- review the justification for continuation of all reserves, including a review of the level of reserve that is justified
- identify those reserves that are subject to statutory regulations governing their use, e.g. grants; and
- update the categorisation of reserves.

5.12. Progress on this review and the outcomes of the updated categorisation will be reported part of the Quarterly Budget Monitoring reports, Annual MTFP and next MTFP report.