

5.2 Appendix 4 - City of Cardiff Council - Reserves and Balances Protocol

Reserves are amounts set aside for specific policy purposes or for general contingencies and cash flow management. There may be Earmarked or General Reserves. CIPFA LAAP Bulletin 99 requires the S151 Officer to create a protocol for reserves and balances where for each reserve established this should set out the purpose, usage and the approval processes for transfers in and out. This needs to be clearly defined, along with the processes for determining whether the intended use of the reserve is still valid

Reserves enable us to:

- Create a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms 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.

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

Governance

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. There are also a range of safeguards in place that help to prevent local authorities over-committing themselves financially. It is important, therefore, that councillors take responsibility for ensuring the adequacy of reserves and provisions when they set the budget.

It is the responsibility of the S151 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. Section 25 of the Local Government Act 2003 places a specific personal duty on the Section 151 Officer to report on the adequacy of reserves and the robustness of the budget.

The Council's Strategy for holding and utilising reserves is set out in the Financial Procedure Rules.

As part of the annual Budget Report, the Section 151 Officer will include an assessment of the level of reserves within the context of the Council's financial standing.

Projected Use of Earmarked Reserves in-year by accountants

Projected use of earmarked reserves are monitored and forecast twice in the year.

- During the autumn in preparation for the forthcoming budget proposals.
- A final update conducted imminently prior to the finalisation of the budget proposals.

Review of Adequacy of Earmarked Reserves by S151 Officer

- A thorough review of earmarked reserves is conducted by the Budget Strategy Team to challenge the projected balances identified and identify those reserves that are no longer required (either in part or in full) to be utilised as part of the funding of the forthcoming budget or to be transferred to general reserves.
- During the year exercises may be undertaken to benchmark the level of reserves held by the Council against Welsh and similar sized authorities.
- The Council's financial snapshot includes trend analysis of reserves over a four year period
- 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 authority. This assessment will be conducted on the basis that the services will continue to be provided, and adequate reserves will therefore be required by successor authorities. The assessment of risks should include external risks, such as flooding, as well as internal risks, for example, the ability to deliver planned efficiency savings. Considerations could include:-
 - financial resilience and financial standing
 - affordability risks to current and future capital and revenue expenditure plans
 - track record in budget and financial management including the robustness of the medium term plans.
 - capacity to manage in-year budget pressures, and its strategy for managing both demand and service delivery in the longer term consistent with the Medium Term Financial Plan.
 - The strength of the financial information and reporting arrangements. The authority should also be in a position to activate contingency plans should the reporting arrangements identify that planned savings or gains will either not be achieved or be delayed.
 - The adequacy of the authority's insurance arrangements to cover major unforeseen risks.
 - The general financial climate to which the authority is subject
 - Extent to which reserves are being used to pay for recurrent expenditure
 - Professional judgement

Year End Approval of Transfers from/to Earmarked Reserves

- During the finalisation of the annual management accounts, requests are made by directorates, via their accountants, to utilise money held in reserves or, where possible, to transfer amounts to reserves to be utilised in future years, for specific purposes.
- All requests to transfer amounts from/to reserves have to be agreed and approved by the S151 Officer, who considers the impact these amounts will have on the overall sufficiency of reserves held by the Council.
- Any approval to transfer to earmarked reserves takes into account the urgency and need to carry forward sums for a future use in conjunction with the overall outturn position for the year.
- Where possible, additional transfers are made to reserves from corporate sources if the need to increase financial resilience exists.
- All movements to increase, use or establish reserves are recorded and form part of the regular audit of the accounts.

Reporting Reserves

- The total earmarked reserves balances projected to be held at the end of a financial year and in the medium term are disclosed in an appendix to the Budget proposals In February each year. This document identifies the name of the reserve, its purpose, expected financial movements and the balance at a point in time.
- Reserves are considered in conjunction with the Cabinet Member with responsibility for Finance.
- The final levels of earmarked reserves are disclosed in the annual Statement of Accounts. Detailed school's balances are shown on the Schools website.

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