

### Policy Framework for the Earmarked Reserves and Assessing the Optimum Level of the General Reserve for the period 2021/22 to 2024/25

#### **1 Background**

- 1.1 In accordance with statute (principally the Local Government Finance Act 2002) and following the Guidance Note on Local Authority Reserves and Balances (LAAP Bulletin No. 77 – November 2008), North Norfolk District Council maintains a range of reserves.
- 1.2 Two types of reserves are discussed in this policy framework:
- Earmarked Reserves
  - The General Reserve
- 1.3 There are also a number of other reserves which local authorities hold in relation to legislation and proper accounting practices, these are not resource-backed reserves and therefore are not considered as part of this policy framework.
- 1.4 In making decisions in relation to setting the Council Tax, section 25 of the Local Government Act 2003 requires the Chief Financial Officer of the Council to report to the Council on the adequacy of the proposed financial reserves.
- 1.5 This Policy framework has been informed by both the LAAP Bulletin No. 77 and the Audit Commissions report published in December 2012 'Striking a Balance' Improving Councils' Decision Making on Reserves'.

#### **2 Earmarked Reserves**

##### **2.1 Purpose**

- 2.1.1 Earmarked reserves are a means of building up funds to meet known or predicted liabilities.
- 2.1.2 Typically earmarked reserves are used to set aside sums for major schemes, such as capital developments or asset purchases, or to fund reorganisations and restructurings. Reserves can also be held for trading and business units built up from surpluses to cover potential losses in future years, or to finance capital expenditure. In certain circumstances, if expenditure is delayed on specific budgets, it may be agreed that the underspending at a year end is carried forward for future use in an earmarked reserve.

##### **2.2 Earmarked Reserves Protocol**

- 2.2.1 For each reserve the following arrangements have been established:
- the reasons for / purpose of the reserve
  - how and when the reserve can be used
  - procedures for the reserve's management and control
  - a process and timetable for review of the reserve to ensure continuing relevance and adequacy.
- 2.2.2 In North Norfolk, the establishment and use of earmarked reserves is reviewed at the time of budget setting and then controlled through the year as part of the regular budget monitoring processes.

##### **2.3 Review of Earmarked Reserves**

- 2.3.1 The Reserves Statement in Appendix C gives full details of the earmarked reserves. Each earmarked reserve has been assessed by the Chief Financial Officer whose

judgement is that they are properly established in accordance with the protocol and that their level and proposed use is appropriate.

- 2.3.2 It is considered that sufficient provision for the Council's capital programme (as recommended) has been included in the capital estimates and capital reserves, and that nothing further is required at the current time.
- 2.3.3 Where in-year expenditure is being funded by earmarked reserves, the relevant transfers from the reserves have been allowed for within the reserves statements at Appendix C.

### **3 The General Reserve**

#### **3.1 Purpose**

- 3.1.1 The general reserve is held for two main purposes:
- a working balance to help cushion the impact of uneven cashflows and avoid temporary borrowing;
  - a contingency to help cushion the impact of unexpected events or emergencies.

#### **3.2 The Optimum Level of the General Reserve**

- 3.2.1 There are two recommended approaches for deciding the optimum level of the general reserve:
- A risk assessment of the budget which takes full account of the context within which the budget has been prepared. The budget report itself provides this contextual information;
  - To set the reserve at a percentage of expenditure. Too low a level puts the council at unacceptable risk of failing to meet its obligations, too high a level unnecessarily ties up resources.
- 3.2.2 This appendix sets out the framework for considering a risk assessment approach and validating the result against a percentage calculation. At the end of the day, the level of reserves is a matter of opinion informed by the judgement of the Council's Chief Financial Officer.

#### **3.3 Assessment Framework**

- 3.3.1 The issues to be considered include the following:
- The Council continues to operate on an ongoing basis;
  - The robustness of the budget process including recognition of the linkages with the corporate plan, the strategic risk register and the financial plan update;
  - The adequacy of the earmarked reserves and the movements on the general reserves both in the past and planned;
  - The extent to which savings and planned service reductions are required and can be relied upon to support corporate plan targets;
  - The risk of major litigation and legal claims, both currently and in the future;
  - The impact of future Government funding reductions (Fair Funding Review, Spending Assessment etc);
  - Implications of changes to Local Council Tax Support Schemes and increase in the demand for support;
  - Fluctuations in retained business rate income and funding from the government for the extensions to reliefs for example retail relief and small business rates along with the impact of appeals;

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- Fluctuations around certain income streams and grants, for example demand led services such as planning, building control income, land charges and car parking and fluctuations in investment income;
- Future changes to the funding for Local Authorities, for example the New Homes Bonus and business rates;
- Unplanned volume increases in major demand led budgets, particularly in the context of the current economic climate for example housing benefits, council tax support and homelessness;
- The need to retain a general contingency to provide for any unforeseen circumstances that may arise including inadequately funded Government initiatives;
- The move in local authorities to do less by direct service provision (either through the Localism Agenda or through third parties, including outsourcing) is increasing the risks borne by authorities. There is a risk that these arrangements fail and there are many circumstances when a statutory liability remains with the local authority. Such risks may not be insurable at an economic level and demand rigorous risk minimisation strategies and this is an area that will be considered in more detail if the Council pursues these arrangements in future years;
- Potential unknown impact of the decision to leave the European Union (Brexit) and potential wider implications of current world politics;
- The need to retain reserves for general day to day cash flow requirements;
- Potential ongoing impacts of COVID-19.

3.3.2 All these issues interlink and any one incident is likely to span across many of the issues. Risks change over time and the general reserve needs to be considered across the Medium Term Financial Strategy (MTFS). What might be an adequate level of reserves now could be inadequate in year's two to four.

### 3.4 The Assessment of the General Fund Reserve

3.4.1 When undertaking the assessment, it must be remembered that the items considered are merely guides to assessing the overall level of the reserve. In no way is it a budget for any of the items being created since by its nature a general reserve is designed to protect against the unexpected and unquantifiable for whatever reason.

3.4.2 Having considered the relevant risks and the mitigation measures already in place, it is felt that the following indicative items should be taken into account in the budget risk assessment for 2020/21.

Item	2021/22 (£000)	2022/23 (£000)	2023/24 (£000)	2024/25 (£000)
<b>1 Pay and Price Inflation</b> (0.5% above budget assumption)	92	94	96	98
<b>2 Interest Rates</b> (0.25% below budget prediction on non-fixed investments)	93	91	90	91
<b>3 Failure to Achieve Planned Savings and Cost Pressures from Corporate Plan Targets (based on 15% of current targets)</b> (to ensure core services are maintained)	87	87	87	87
<b>4 Major Litigation and Legal Claims</b> (to provide additional comfort above earmarked reserves)	100	100	100	100
<b>5 Emergencies and Other Unknowns</b> (to recognise the risks associated with	650	650	550	550

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Item	2021/22 (£000)	2022/23 (£000)	2023/24 (£000)	2024/25 (£000)
unpredictable events including COVID-19)				
<b>6 Treatment of Demand Led Pressures</b> (recognising the impact of increase or reduction in demand and compensating increase or reduction in expenditure or income)	254	260	267	274
<b>7 Cash Flow</b> (to mitigate the impact of timing of cash flow including the profiling of expenditure)	16	16	16	16
<b>8 Future Funding Fluctuations</b> (an allowance to reflect the increased risk around local funding, i.e. business rates and new homes bonus to mitigate the impact within and between financial years)	870	822	552	475
<b>Total Indicated General Fund Reserve Recommended</b>	<b>2,162</b>	<b>2,120</b>	<b>1,758</b>	<b>1,691</b>
<b>% of Net Budgeted Operating Expenditure (excluding parish precepts)</b>	<b>13.8%</b>	<b>13.3%</b>	<b>11.5%</b>	<b>11.2%</b>
<b>Budgeted General Fund Reserve (at year-end, after taking account of planned use)</b>	<b>2,213</b>	<b>2,163</b>	<b>2,113</b>	<b>2,113</b>
<b>% of Net Budgeted Operating Expenditure (excluding parish precepts)</b>	<b>14.1%</b>	<b>13.6%</b>	<b>13.8%</b>	<b>14.0%</b>

#### **4 Chief Financial Officer's Opinion**

- 4.1 The Earmarked Reserves detailed in Appendix C are proper and appropriate with regard to purpose, level and proposed use.
- 4.2 Based on the assessment detailed above the recommended level of the general reserve for 2021/22 should be increased to £2.1m from the present level of £1.9million. The budgeted General Fund Reserve shown in Appendix C is considered adequate for the period 2021/22 to 2024/25; however, the level of the General Reserve should be reviewed during the year as part of the financial planning process taking into account where applicable items identified within the assessment framework at 3.3.