

## THE RATIONALE FOR RESERVES

### SUMMARY

This brief note is intended to stimulate debate on the purpose of reserves. It is hoped that this will enable our Panel to come to a considered and united view on factors to be used when assessing the desirable level of future reserves.

### INTRODUCTION

During the most recent budget round this Overview and Scrutiny Panel debated various desirable levels of reserves. These ranged from £3m to £15m.

Evidence presented of the reserves of other local authorities and the size of those authorities suggested that we held reserves significantly below an imputed trend line. However, there was no bunching of the displayed points. This suggests that there is no accepted view as to the relationship between size of authority and size of reserves. (It should be noted that the data presented is contaminated by the inclusion of spending of towns and parishes in rural areas.)

### FOR AND AGAINST RESERVES

#### For

Reserves provide time in which an authority can adjust its spending plans (and possibly seek additional sources of income) in the light of a reduction in funding or a sudden increase in non-negotiable spend.

Reserves can meet expenditure for sudden emergencies such as flood, Pathfinder House fire, earthquake, etc. in advance of implementation of the Belwin formula or the insurance industry paying up. Such needs could probably be met by short term borrowings.

#### Against

Reserves represent money taken from (Council) tax payers without a corresponding increase in service immediately provided to local residents.

Reserves **can defer** the need for adjustments in expenditure or implementation of new sources of income. They buy time. However they **can not defer** that need **indefinitely**.

This council had significant reserves which have been depleted. We are now living through the consequences of the reduce interest available in terms of cuts.

The authority could choose to rely on borrowing for short term issues, which could do away with the need for reserves.

### OPTIONS

- Nil.
- Reserves to meet a sudden, externally imposed increase in expenditure, (e.g. pensions contributions)
- Reserves to meet a potential fall in in-house generated income, e.g. from car parks, planning and other fees, etc.
- Reserves to meet a fall in government funding formula proceeds
- Reserves to meet the elimination/reduction in grants, such as the New Homes Bonus either over one year, or a less dramatic gradual phasing out of the present scheme over 6 years.

Clearly adverse effects do not necessarily form an orderly queue. They can impact in combination. In effect we are taking a view as to the level of risk that this Authority is prepared to accept. Whilst the perception of risk may change over time, once reserves are spent it is challenging to restore balances.

### **SEVERITY**

Both the expected size of a shortfall and the amount of time available to make the necessary budgetary correction have a material effect on the severity of any shortfall and hence the scale of reserves required.

### **RECOMMENDATION**

The Panel is invited to identify the combination of co-incident risks against which it wishes to insure by having reserves. It is suggested that the preliminary work be delegated to a working party.

MS June 2012.