STRATEGY FOR MANAGING RESERVES

General Reserve

Until the Authority became a precepting authority on 1 April 2004, it was not legally able to hold reserves. However, the Authority did create a pensions provision, with the permission of its constituent authorities, to help manage the large increase in pension costs forecast for 2007-08 onwards. The provision was built up over a number of years from underspends and "windfall" income.

At the start of the financial year 2005-06, the Authority took the decision to create a general reserve by transferring the balance of the pensions provision into the general reserve. Since then, the Authority has also transferred in the balance of the commutation reserve and any unallocated year-end underspends.

It is estimated that at the end of the financial year 2013-4, the balance on the general reserve will be approx. £6.5m.

The principal purpose of this reserve is to meet the financial consequences of corporate and financial risks which the Service cannot fund from within its revenue budget, including the risk that future Government funding will be significantly reduced.

Appendix 7 lists some of the significant risks which the Authority faces. It is considered that the level of General Reserve is sufficient to meet the estimated costs from the potential fruition of the Authority's risk profile shown in the Appendix, and in particular to mitigate potential impacts of the current economic situation.

Integrated Risk Management Plan Reserve and other earmarked reserves

The Medium Term Financial Plan includes contributions to a reserve to allow for the immediate impact of the delivery of future IRMPs. The reason for this is that some of the efficiencies which the Authority is considering (for instance those involving changes to staffing or the asset base), may require additional funding in the short term, before their impact is felt on the revenue budget. The Authority holds other earmarked revenue reserves, for instance the Community Risk Reduction reserve, in order to meet specific identified needs.

Costs and Benefits of Holding Reserves

By creating reserves, the Authority has built up cash balances which it invests in accordance with its Treasury Management Strategy. As the ability to generate income from investments diminishes, the authority has reviewed its policy on the repayment of its debt portfolio, to ensure that it receives maximum benefit from the use of cash balances. It will continue to review this policy, particularly in the light of the challenges surrounding the Authority's Emergency Risk Review. In addition, the continuing use of cash balances to fund part of the Authority's capital programme has reduced the need to borrow in recent years.

However, it must be recognised that we do need to hold a level of reserves commensurate with managing our risk profile, and as can be seen from Appendix 7, the authority believes that level of reserves it holds is adequate to manage its exposure to risk.