

ARMAGH CITY, BANBRIDGE AND CRAIGAVON BOROUGH THE COUNCIL

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ARMAGH CITY, BANBRIDGE & CRAIGAVON BOROUGH COUNCIL

Financial Reserves Policy

March 2026

1. Introduction and Background

Armagh City, Banbridge & Craigavon Borough Council (“the Council”) recognises the importance of maintaining adequate financial reserves as a cornerstone of sound financial management and governance. This policy sets out the principles, procedures, and governance arrangements for the management of the Council’s reserves. It is designed to ensure compliance with the Local Government Finance Act (Northern Ireland) 2011, relevant CIPFA guidance, and best practice across the sector. By maintaining appropriate reserves, the Council aims to safeguard its financial stability, support strategic priorities, and provide resilience against unforeseen events and liabilities.

2. Purpose

The primary purpose of this policy is to establish a clear framework for the creation, use, and review of financial reserves and to support robust financial management. Reserves play a vital role in providing the Council with short-term budget resilience whilst also enabling it to respond effectively to unexpected financial pressures, invest in priority areas, and manage risk. Through prudent management of reserves, the Council seeks to ensure that resources are available to support both immediate and long-term objectives, while maintaining the flexibility required to adapt to changing circumstances.

3. Scope

This policy applies to all financial reserves held by the Council, including general reserves, earmarked reserves, and capital reserves. It is relevant to all departments and officers involved in financial planning, budgeting, and risk management. The policy covers the establishment, monitoring, utilisation, and review of reserves, ensuring that these processes are conducted in a transparent and accountable manner.

4. Legislative and Regulatory Framework

The management of reserves within the Council is governed by the Local Government Finance Act (Northern Ireland) 2011, particularly Sections 6 to 10, which set out statutory requirements regarding the adequacy, control, and use of reserves. In addition, the Council adheres to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom and CIPFA Bulletin 13, which provide guidance on prudent levels and the management of reserves. The Chief Financial Officer (CFO) is required to report annually on the adequacy of reserves, and the Council must consider this report as part of its budget-setting exercise during the annual Estimates process.

5. Types of Reserves

The Council maintains a range of reserves, which are categorised as either usable or unusable.

Usable Reserves;

Usable reserves are those that can be applied to fund expenditure or support Council services. These include:

- **General Fund Reserve:**
The General Fund Reserve serves as a working balance and contingency to mitigate the impact of unforeseen costs and financial risks. The Council aims to maintain this reserve including retaining a level equivalent to around 8% (approximately one month) of gross expenditure. The General Fund is intended for use in respect of non-recurrent expenditure including one-off funding but can also be considered for use towards service delivery and income generation challenges and generally to assist with significant unplanned operational pressures.
- **Earmarked Reserves:**
Earmarked reserves are established to fund specific, known, or anticipated future needs. Examples include the Election Reserve, Transformation Fund, F.A.P. Reserve, Insurance Reserve, Development Fund, and Sustainability Fund. The creation and use of earmarked reserves require approval from the Governance Reserves & Strategy (GRS) Committee and ratified by the Council. These reserves are continually reviewed by Finance and updates are presented to Members through the GRS Committee to ensure their continued relevance and adequacy and as part of the Estimates and Rate setting process. Within Earmarked Reserves the Council has created a Backlog Maintenance Fund to provide for asset maintenance and minor capital works, ensuring that the Council's infrastructure remains fit for purpose. The creation of any new earmarked reserves must be approved by the GRS Committee.
- **Capital Receipts Reserve:**
This reserve comprises proceeds from the sale of Council assets and its use is governed by accounting and statutory requirements in that it can be accessed for capital expenditure and/or managing borrowing through debt repayment arrangements.
- **Capital Fund (also known as Capital Reserve):**
The Capital Fund is set aside to support future capital investment across the borough. The Council can add to this fund directly or by applying annual MRP underspends (following the considered use of this budget for the procurement of short-life assets and debt repayment).
- **Capital Grants Unapplied Account:**
Grants received from external funders but not yet spent are held in this account and applied when the related expenditure is incurred.

Unusable Reserves;

Unusable reserves are technical accounting balances that cannot be used to fund expenditure. These include the Revaluation Reserve, Capital Adjustment Account, Pensions Reserve, and Accumulated Absences Account. Their purpose is to comply with accounting requirements and statutory regulations. Additional unusable reserves may be generated following changes to and requirements in accounting regulations.

6. Adequacy of Reserves

Section 6 of the Local Government Finance Act (NI) 2011 makes provision for a Council to maintain financial reserves in accordance with the Regulations, that the Chief Financial Officer of a Council shall submit to the Council a report on the adequacy of any proposed financial reserves for a financial year and that a Council shall have regard to that report when considering the estimates for that year. If the General Fund Reserve balance at the end of the financial year falls below the minimum amount specified in Section 7 of the Local Government Finance Act 2011, it will be deemed inadequate. In such cases, the CFO must report to the Council, outlining:

- The reasons for the shortfall.
- Any recommended actions to prevent a recurrence in the following financial year.

Regulation 9 enables Councils to maintain other fund reserves in addition to the General Fund as it considers appropriate while Section 10 states that a Council shall not directly or indirectly apply any money under its control for any purpose not authorised specifically or generally by a statutory provision.

Critical factors when assessing the adequacy of reserves includes consideration of financial planning, budgetary pressures, medium term financial plan, strategic, operational, and financial risks facing the Council. Financial risks should be evaluated within the context of the Council's overall risk management strategy. Key factors to consider include, but not exclusively, the following:

- Inflationary and interest rate budget assumptions
- The disposal of fixed assets and the timing of potential capital receipts
- Historical analysis of income and expenditure and under/overspends
- The treatment of planned efficiency savings/productivity gains
- Risks associated with significant new funding arrangements, major outsourcing arrangements or major capital developments
- The global and local economy
- The management and control of vacancies and recruitment
- Movements in the Rates base, bad debt and challenge cases
- External funding opportunities and programs
- The Capital Plan and associated borrowing/loans/debt repayment
- The global and local economy
- The financial impact of the utilization/release of Provisions and/or the potential crystallisation of Contingent Liabilities.
- Corporate aims, objectives and priorities

- Commitments and the profile of cash flows
- Funding requirements to support Invest to save proposals

While all these factors are considered during the annual budget-setting process, it is impossible to be confident that all eventualities have been or can be robustly accounted for. Determining the minimum prudent level of reserves is ultimately a matter of judgement, and there is no precise methodology for calculating reserve adequacy however Members and Officers will diligently consider as many issues as possible in the assessment of the level of risk and uncertainty associated with each factor in determining an appropriate level of reserves. In line with good financial governance, Council will aim to provide recurring expenditure pressures within its revenue budgets and so ensure the majority of Useable Reserves is for strategic initiatives.

7. Procedures and Approval Workflows

Creation of Reserves

New reserves, particularly earmarked reserves, may be proposed by any department within the Council. Proposals must be accompanied by a business case that outlines the purpose, expected use, and justification for the reserve. The request will be shared with Finance for consideration and affordability assessment before presentation to the Executive Management Team for discussions and deliberation in the first instance. The request will then go the Governance, Resources & Strategy (GRS) Committee for approval and this approval must be in place for the creation of any new reserve.

Use of Reserves

Requests to utilise the General Fund and the Development fund requires approval from the GRS Committee (guidance in respect of which is contained in the Financial Regulations). The Capital Fund and Capital Receipts Reserve are only available for capital related activity in respect of investment and procurement that has been approved (although as referenced previously the Capital Receipts Reserve can also be accessed to assist with managing borrowings). Once approved by Council Earmarked Reserves are available for use by Directors/Departments in line with agreed requirements – Departments are required to keep a detailed record of access to and expenditure from these reserves to facilitate inspection by audit if required.

Monitoring and Review

The Finance team monitors reserve balances and movements on an on-going basis throughout the year and updates are presented to the June GRS Committee as part of the year-end financial report. A review of all reserves is also conducted as part of the budget-setting and accounts process, and during Estimates and Rate setting. The Movement in Reserves Statement is included in the annual accounts to provide transparency regarding reserve activity.

Replenishment and Adjustment

Departments are responsible for managing expenditure against reserves for which they have been provided access to. This responsibility also extends to ensuring there is sufficient capacity within these reserves and if they anticipate there to be an imminent funding deficit to liaise with Finance in advance of submitting a report for consideration by EMT in the first instance and then to the GRS Committee for replenishment of reserves if the amount requested varies by more than 20% from the original allocation. Reserves may be reclassified or adjusted to better align with strategic objectives, subject to GRS approval.

8. Example Reserve Categories

The Council maintains a number of reserves including several key funds as noted below

- **General Fund Reserve:**
Maintained as a working balance and contingency, with a target of 5–7.5% of gross expenditure.
- **Capital Receipts Reserve:**
Holds proceeds from asset sales for capital projects or managing borrowing.
- **Capital Fund:**
Used for future capital investments.
- **Capital Grants Unapplied Account:**
Grants received from external funders but not yet spent are held in this account and applied when the related expenditure is incurred.

The Council also has a number of Earmarked Reserves which have been approved by Council. They have been set aside from the Council's usable reserves for a specific purpose or anticipated future liability and to support risk mitigation measures. These reserves are held and are classified under "Other Balances and Reserves" in the Annual Statement of Accounts. While earmarked for defined purposes, reserves may be reallocated subject to Council approval and funding requirement approval if priorities change. Earmarked Reserves are created for four primary purposes:

1. **Periodic Workstreams:** To manage predictable costs more effectively on an annual basis, reducing budget pressures during the estimation process (e.g., Election Reserve).
2. **Contingency Planning:** To address identified future financial challenges, such as the Belfast City Deals Reserve, Dredging Reserve, and reductions in the Rate Support Grant.
3. **Strategic Initiatives:** To support long-term projects and transformations, such as the Transformation Fund.
4. **Specific projects:** subject to external funding requirements

9. Equality and Transparency

This policy is subject to equality screening under Section 75 of the Northern Ireland Act 1998. No adverse impacts have been identified. The Council is committed to transparent reporting and providing clear justification for the levels and use of reserves.

10. Review

The Financial Reserves Policy will be reviewed on a four-year cycle, with earlier reviews triggered by significant internal or external changes. Any proposed amendments will be presented to the Governance, Resources & Strategy Committee and the Council for approval.