

# **Strategic Management of Balances and Reserves**

Cyngor Gwynedd

September 2025

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### Audit snapshot

#### What we looked at

- 1 Cyngor Gwynedd is responsible for looking after its financial reserves. This means making sure there is enough money set aside to deal with unexpected events, while also investing in services and infrastructure to support the community and maintain value for money.
- This audit looked at how the Council manages its reserves. It focused on governance, risk management, financial reporting, and how reserves are used strategically to make sure public money is well managed to support long-term stability.

### Why this is important

- 3 Strategic use of financial reserves helps councils deliver essential services, manage risks, and respond flexibly to changing local needs. By securing value for money, councils can support community priorities, maintain public trust and safeguard long-term financial stability, ensuring resources are used where they have the greatest social and economic impact.
- 4 By ensuring robust management of reserves, Cyngor Gwynedd can navigate financial uncertainties, support essential services, and achieve its strategic objectives.

### What we have found

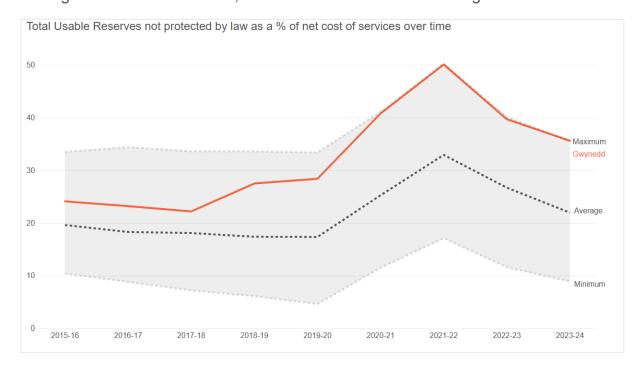
Cyngor Gwynedd has clear and structured governance arrangements for managing its reserves. The Council Chief Finance Officer regularly advises members and officers on reserve levels and usage. A key strength is the Council's ongoing "harvesting" process, which reviews reserves at multiple points throughout the year. However, there is no formal strategy or framework to guide decisions on reserve levels, which could help ensure that reserves are used effectively and provide assurance that they're consistently aligned with the Council's objectives.

### What we recommend

We make one main recommendation to formalise how the Council establishes and uses its reserves. This should improve its arrangements on the use of reserves which help ensure value for money.

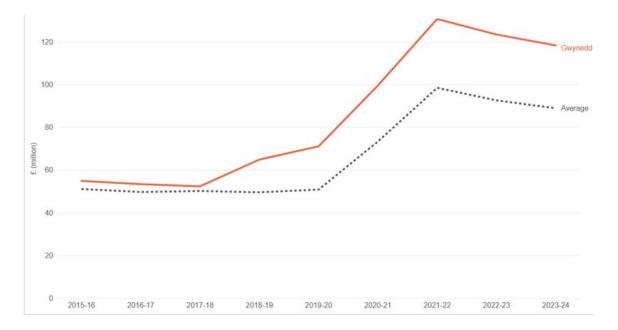
### Key facts and figures

7 **Exhibit 1** shows what percentage of Cyngor Gwynedd's expenditure was held in useable reserves between 2015-16 and 2023-24. This is shown alongside the maximum held, the minimum held and the average.



Source: Cyngor Gwynedd via the Audit Wales Local Government Financial Sustainability <u>Data</u> Tool

8 **Exhibit 2** shows what the total useable revenue reserves (£ Million) not protected by law held by Cyngor Gwynedd side by side with the Wales average, per £million, between 2015-16 and 2023-24.



Source: Cyngor Gwynedd via the Audit Wales Local Government Financial Sustainability <u>Data Tool</u>

9 Further data is available on the Audit Wales Local Government Financial Sustainability Data Tool. This tool compares financial data for each council, national park and fire and rescue authority in Wales from 2015-16 onwards. See: Local Government Financial Sustainability | Audit Wales



### Governance of reserves is strong with wellestablished review processes

- 10 Cyngor Gwynedd has clear and structured governance arrangements for managing its reserves. The Council has adopted a policy on reserve use, and the Chief Finance Officer regularly advises members and officers on reserve levels and usage. These updates are shared through Cabinet papers, Scrutiny Committee reports, and presentations.
- 11 A key strength is the Council's "harvesting" process, which reviews reserves at months five, eight, and 12 of the financial year. This is not just a year-end task it's embedded in financial monitoring throughout the year. The process checks whether reserves are still needed for their original purpose and whether they can be reallocated. This ongoing review is a notable practice.
- 12 However, while the process is well-established, it relies heavily on professional judgement. There is limited evidence of systematic reasoning behind reserve levels. For example, decisions to retain specific amounts are not always backed by clear calculations or documented rationale. Introducing proportionate thresholds for review could improve consistency and assurance, especially for larger reserves.

## Understanding on reserves is clear, but strategy is informal

The Council understands the types of reserves it holds and reports on them clearly in its Accounts. It also explains how much is earmarked and for what purpose. However, the way it determines whether reserves are adequate, (without being too low nor too high) is less clear. There is no formal strategy or framework to guide decisions on reserve levels.

- 14 The current reserves policy is more of a descriptive document than a decision-making tool. It outlines definitions and responsibilities but lacks criteria for establishing, reviewing, or using reserves. This means that while the Council can explain what reserves exist, it cannot always explain why specific amounts are held or whether they are still appropriate. If its policy were a decision-making tool, the Council and the public could be assured that they're applied consistently to the different reserves.
- 15 The harvesting process helps identify reserves that may no longer be needed, but it does not always gather evidence to gain assurance the balance is at the necessary level. A more structured reserve strategy would help ensure that decisions are consistent, transparent, and aligned with the Council's priorities. It would also support better use of public money by freeing up funds that are no longer needed for their original purpose.

# Reserves are used in risk planning, but lacks strategy on replenishing

- 16 Cyngor Gwynedd uses reserves to manage financial risks, such as bad weather, legal costs, or system failures. These risks are recognised in the Corporate Risk Register, and reserves are earmarked to mitigate them. However, the Council does not have a clear plan for replenishing reserves once they are used.
- 17 There is also limited evidence of how reserve levels are calculated. Many are round figures, and while this is common, the rationale behind them is not always clear. For example, it is not evident how the Council decides that £900,000 is the right amount for a specific risk. This weakens assurance that reserves are proportionate to the risks they are meant to cover.
- The Council's prudent approach means it is unlikely to run reserves down completely. However, without a strategy for maintaining or restoring reserve levels, there is a risk that funds may not be available when needed. A clearer link between risk appetite, reserve levels, and replenishment plans would strengthen financial resilience and support better long-term planning.

# Reporting on reserves is transparent, but communication could improve

- 19 The Council meets its reporting obligations and shares regular updates on reserves through formal channels. The Statement of Accounts includes detailed notes and a glossary to help explain reserve movements. However, some aspects of communication could be improved to help stakeholders understand the information more easily.
- 20 For example, the Council holds some reserves with that appear to have similar purpose such as the Business Transformation Fund and Transformation / Council Plan Fund. This makes it difficult for members and the public to understand how reserves are being used.
- 21 While the Council transparent in its accounting on reserves, the way it presents the information it could be clearer. Improving communication about how the reserves work together cohesively would help build trust and support better engagement. This is particularly important given the significance of some reserves, such as the £18 million held in the Financial Strategy Fund, which lacks a clear ceiling or defined purpose.

# Strategic use of reserves is evident, but prioritisation could improve

- 22 Cyngor Gwynedd uses reserves to support its strategic goals set out in its Council Plan, including housing and digital transformation. For example, income from the council tax premium on second homes is ringfenced to support the Council's housing strategy. This reserve has a clear purpose, a defined spending plan, and links to identified risks such as legal appeals.
- 23 However, not all reserves are managed with the same clarity. Some, like the waste reserve, hold significant sums without a clear rationale. The Council's current policy does not provide a framework for prioritising reserve use or deciding when to release funds for investment. This risks reactive decision making and limits its ability to use reserves to their full potential.

24 The Council's cautious approach has helped it build strong reserves, which has put the Council in a strong position to manage a difficult financial climate. A structured decision-making framework would help ensure that reserves are used effectively and provide assurance that they're consistently aligned with the Council's objectives.

### Recommendations

- **R1** To ensure its reserves are used strategically, the Council should enhance its current arrangements by adopting a reserves strategy that includes
  - 1.1 criteria to determine when and how reserves should be established and prioritised; and
  - 1.2a proportionate method to support the rationale behind the sums held in reserves at year-end.

# **Appendices**

### 1 About our work

### Scope of the audit

This audit reviewed the Council's approach to strategic management of its reserves and balances. It focussed on:

- the governance and oversight of reserves;
- the types and adequacy of reserves;
- the relationship between risk management and the management of reserves:
- financial reporting and transparency; and
- strategic use of reserves.

### Audit questions and criteria

#### Questions

- Does the Council have adequate governance and oversight arrangements for its reserves and balances?
- Does the Council have a clear understanding of the types and adequacies of its reserves and balances?
- Do the Council's service and risk management arrangements inform its strategic management of reserves and balances?
- Do the Council's Financial Reporting arrangements ensure transparency in the strategic management of its reserves and balances?
- Does the Council have arrangements to ensure that the use of its reserves is effective?

#### Criteria

The audit considered how the Council applied the CIPFA (Chartered Institute of Public Finance and Accountancy) guidelines, which emphasize the importance of clear protocols for the establishment, use, and review of reserves. It evaluated the role of the chief finance officer in advising on reserve levels, the adequacy of reserves in relation to identified risks, and the transparency of financial reporting. Additionally, the audit examined how the Council plans for the strategic use of reserves, including the criteria used to determine when and how reserves should be utilized.

### Methods

This audit involved document reviews and interviews with officers and an elected member.

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