Financial Reserves Policy

Purpose:
Epworth Town Council is required to maintain adequate financial reserves to meet the needs of the Town Council. The purpose of this policy is to set out how the council will determine and review the level of reserves.

Sections 32 and 43 of the Local Government Finance Act 1932 (as amended) require local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, there is no specified minimum level of reserves that an authority should hold and it is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

Reserves can be categorised as general (e.g. held to cushion the impact of uneven cash flows or unexpected events) or earmarked (held for a specific purpose).
Earmarked reserves are held for five main reasons:
1. Renewals – to enable council to plan and finance an effective programme of equipment replacement and planned property maintenance (if appropriate). These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without a need to vary budgets
2. Carry forward of underspend – some services commit expenditure to projects, but cannot spend the budget in a year. Reserves are used as a mechanism to carry forward these resources.
3. Trading accounts – in some instances surpluses are retained for future investment.
4. Insurance reserves – to meet the estimate of future claims to enable the council to meet the excesses not covered by insurance.
5. Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

General reserves or working balances are funds which do not have any restrictions as to their use. These reserves can be used to smooth the impact of significant pressures, offset the budget requirement if necessary or can be held in case of unexpected events or emergencies which would not require an ongoing revenue commitment.

Earmarked reserves The Governance and Accountability Practitioners' Guide 2010 (as amended) sets out guidance and audit considerations for Town and Parish Councils. Council adheres to this guidance.
Earmarked reserves will be established on a "needs" basis, in line with planned or anticipated requirements.
As outlined in the regulations, any decision to set up a reserve must be given by the council (resolution).
Expenditure from reserves can only be authorised by the council (resolution).
Reserves can only be used once and so should not be held to fund on-going expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. To the extent that reserves are used to meet short term funding gaps, they

must be replenished in the following year. However, earmarked reserves that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established.
All earmarked reserves are recorded (in the precept) held by the clerk/RFO, which lists the various earmarked reserves and the purpose for which they are held.

Reviewing the council's financial Risk Assessment is part of the budgeting and year year-end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of reserves for the town council.

Working balances: The level of general reserves or working balances is a matter of judgement and so this policy does not attempt to prescribe a blanket level.
The primary means of building working balances will be through an allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year.
Setting the level of working balances is one of several related decisions in the formulation of the medium term financial strategy and the annual budget. The council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment.

Reviewed: 3 August 2021

Review Due: August 2022