

POLICY:	FINANCIAL RESERVES POLICY
Policy number:	FRP / 19 / v.2
Available to:	All Staff, Councillors & Public via website
Supersedes Version:	Adopted by Full Council 21 st January 2019
Approved by:	Full Council
Approval date:	20 th January 2025
Review due:	January 2026

1. Description

Ludlow Town Council is responsible for managing public money in the best interests of the community to provide local services and maintain community assets. This policy will set out the regulatory framework and guidance to assist the Council in its responsibility.

2. Purpose of this policy

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

3. Scope

3.1 Principles to Assess the Adequacy of Balances and Reserves

A considerable degree of professional judgement is required in making any financial assessment and the Responsible Financial Officer will provide advice, with help and guidance from Members, and other advisory sources.

Setting the budgets is the responsibility of the Committees in collaboration with the Responsible Financial Officer, with advice and recommendations from the Budget Working Group. Full Council will provide formal approval of the budgets and precept.

In order to assess the adequacy of Reserves when setting the budget, both the Responsible Financial Officer and the Council should take account of the strategic, operational and financial risks facing the Council.

The financial risks should be assessed in the context of the Council's overall approach to risk management. The Responsible Financial Officer should ensure that the Council has put in place effective arrangements for internal audit of the control environment and systems of internal control.

Setting the level of Reserves is just one of several related decisions in the formulation of the long and medium-term financial strategy as well as the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the Town Council's financial management arrangements.

In addition to the cash flow requirements of the Council the following factors should be considered:

- i) Budget Assumptions
- ii) Financial standing and management
- iii) Inflation and interest rates
- iv) The overall financial standing of the Town Council (such as the level of borrowing, debt outstanding, collection rates etc.
- v) Estimates of the level and timing of capital receipts
- vi) The authority's track record in budget and financial management including the robustness of plans.
- vii) The Town Council's capacity to manage in-year budget pressures.
- viii) Planned efficiency savings/productivity gains
- ix) The strength of the financial information and reporting arrangements.
- x) The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments.
- xi) The availability of other funds to deal with major contingencies and the adequacy of provisions.
- xii) The Town Council's virement and end of year procedures in relation to budget under/overspends.
- xiii) The adequacy of the insurance arrangements to cover major unforeseen risks.
- xiv) Keeping increases to a minimum or within any applied capping.
- xv) Taking a balanced approach between likely expenditure and the ability of the community as a whole to absorb the financial impact of an increased precept
- xvi) Availability of other funding sources, bearing in mind the possibility of other funding streams e.g. Section 106 or CIL monies or grants for projects.

3.2 Balancing the annual budget by drawing on “General” or “Emergency”

Reserves must be viewed as a legitimate short-term option only. Such reserves must not be deployed to finance recurrent expenditure or to finance anticipated or foreseeable projects.

3.3 Governance concerning the Balances and Reserves:

The policy on Balances and Reserves will be reviewed annually and reported to the Town Council as part of the budget setting process.

This will include a report from the Responsible Financial Officer, and recommendations from Policy & Finance Committee on the adequacy of the

Reserves (Specific and Emergency) taking into account the forthcoming financial year and the Council's medium and long-term financial plans or projects.

The Responsible Financial Officer in collaboration with all Council Committees should review the levels of Earmarked Reserves held and make recommendations to the Policy and Finance Committee on creation of additional Reserves as well as the extinction of redundant Earmarked Reserves as part of the Annual budgeting process. Any recommendations once reviewed by the Policy and Finance Committee will then be taken to full Council for formal approval.

General Reserves must be viewed as a short-term resolution of unexpected costs they must not be used to finance recurrent expenditure or to finance foreseeable or anticipated projects.

Foreseeable or anticipated project costs should be properly budgeted for and included in Earmarked Reserves.

4. Procedure

4.1 Types of Reserves

Reserves can be categorised as:

- “general” (held to cushion the impact of uneven cash flows or unexpected events)
- or “earmarked” (held for a specific purpose).

Earmarked or “specific” Reserves can be held for several reason. As the name suggests these represent amounts which are “earmarked” for specific items of expenditure to meet known or predicted liabilities or projects. Specific Reserves can be used to “smooth” the effects of certain expenditure commitments over a period of time thereby reducing the impact of significant expenditure in any one year. “Earmarked” reserves are typically held for four main reasons:

- a) **Renewals**
Used to plan and finance an effective programme of equipment replacement, planned property repair and maintenance or grounds maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
- b) **Carry forward of Under-spend**
Some expenditure budgeted for projects in a given financial year cannot be spent in that year. Reserves are used as a mechanism to carry forward these resources.
- c) **Insurance Reserve**
To enable the Council to meet the excesses not covered by insurance.

- d) Other earmarked reserves
May be set up from time to time to meet known or predicted liabilities.

4.2 General Reserves

General Reserves are often referred to as the “working balance” and is money which is not earmarked for specific purposes but rather sum of money held in anticipation of uneven cash flow or set aside to deal with unexpected events or emergencies. This is usually created through surpluses as a result of activities being postponed, cancelled or coming in under budget. Reserves of this nature can be spent or earmarked at the discretion of members, subject to approval by Council. The “General” or “Emergency” Reserve needs to be regularly reviewed using a risk based assessment.

4.3 Earmarked Reserves

Earmarked reserves will be established on a “needs” basis in line with anticipated requirements.

Any decision to set up or extinguish redundant reserves must be reviewed by Policy and Finance Committee and recommended to Full Council for approval. The Council will be required to identify the following when making recommendations for each reserve:

- a) The reason for / purpose of the reserve
 - b) How and when the Reserve can be used
 - c) Any procedures for the Reserve's management and control
 - d) A process and timescales for review of the Reserve to ensure continuing relevance and adequacy
 - e) Expenditure and Record keeping
- Expenditure from reserves can be authorised by Committee or full Council.
 - Reserves should not be held to fund revenue expenditure.
 - The purpose of earmarked reserves should be recorded by the Responsible Financial Officer in the Council's action plan of active and forthcoming projects.

4.4 Financial Risks

Reviewing the Town Council's Financial Risk Assessment is undertaken annually by Full Council.

4.5 Planned and Unplanned Expenditure

The Council should consider planned and unplanned expenditure items in their process to guide them to an appropriate level of reserves.

4.6 Emergency Expenditure

An Emergency or General Reserve will be held by the Town Council to cushion the impact of uneven cash flows, and the impact of unexpected, unforeseen, emergency and uninsured situations.

The level of General Reserves is a matter of professional judgement and so this policy does not attempt to prescribe a level.

If in most extreme circumstances, general reserves were exhausted due to major unforeseen spending pressures within a particular financial year the Council would be able to draw down from its earmarked reserves to provide short-term resources.

5. Legal

5.1 Sections 32 and 43 of the Local Government Finance Act 1992 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. Guidelines suggest between three to twelve months of the precept amount. However, this guidance does not consider the financial liabilities of the council. It is the responsibility of the Responsible Financial Officer and the Members of the Council to determine the level of reserves and to ensure that there are procedures for their establishment and use.

5.2 Section 50 of the Local Government Finance Act 1992 requires that billing and precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating their budget requirement.

5.3 The Accounts and Audit Regulations 2015 require smaller authorities, each financial year, to conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement in accordance with proper practices in relation to accounts.

Councils have no legal powers to hold revenue reserves other than those for reasonable working capital needs or for specifically earmarked purposes, whenever a council's year-end general reserve is significantly higher than the annual precept, an explanation should be provided to the auditor. Earmarked reserves, which are set aside for specific purposes and for savings for future projects, should be realistic and approved by the council.

However, the amount of general reserve should annually be risk assessed and approved by the Council.”

6. Other relevant policies

Internal Controls Policy
Financial Regulations
Investment Policy