



# Ross-on-Wye Town Council

## Financial Reserves Policy

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### 1. Purpose

1.1 Ross 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 General Reserves. The Council's General Reserve is where all the revenue income and expenditure of the Council is accounted for. It does not include specific funds earmarked for long term projects.

1.2 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 or maximum level of reserves that an authority should hold and it is the responsibility of the Responsible Financial Officer (RFO) to advise the Council about the level of reserves and to ensure that there are key protocols for their establishment and use.

1.3 The 2022 edition of the Practitioners Guide recommends that Councils hold in General Reserve between three – twelve months equivalent of the total annual net revenue expenditure (NRE). In practice councils in excess of £200,000 NRE should plan on holding a three month equivalent of cash within the General Reserve.

### 2. Types of reserves

2.1 Reserves can be categorised as general or earmarked.

2.2 Earmarked reserves as the name suggests represent amounts of money which are set aside for specific items of expenditure to meet known or predicted liabilities or projects. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets and are held for five main reasons:

- Renewals – to enable Council to plan and finance an effective programme of vehicle and equipment replacement and planned property maintenance.
- Carry forward of underspend - some services commit expenditure to projects, but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.
- Trading accounts – In some instances surpluses are retained for future investment.
- Insurance reserve – to meet the estimate of future claims to enable the Council to meet the excesses not covered by insurance.

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

2.3 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.

### **3. Earmarked reserves**

3.1 The Accountability and Governance Practitioners' Guide 2022 sets out guidance and audit considerations for Town & Parish Councils. The Council pays due attention to this guidance.

3.2 Earmarked reserves will be established on a "needs" basis, in line with planned or anticipated requirements.

3.3 As outlined in the regulations, any decision to set up a reserve must be made by the Council.

3.4 Expenditure from reserves can only be authorised by the Council.

3.5 Reserves can only be used once and so should not be held to fund ongoing 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.

3.6 All earmarked reserves are recorded electronically and monitored by the RFO. The records show a list of the various earmarked reserves and the purpose for which they are held.

3.7 Reviewing the Council's Financial Risk Assessment is part of the budgeting and year end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of Reserves.

### **4. General Reserves (Working balances)**

4.1 <sup>1</sup>The general reserve of an authority comprises its cash flow and contingency funds to cover unexpected inflation, unforeseen events and unusual circumstances. The level of 'minimum working balance' needs regular review using a risk-based assessment. Consideration should be given to the minimum level held in anticipation of uneven cash flow (for example, the precept is received 6 monthly in advance and VAT reclaimed quarterly in retrospect), any amount held in excess of this makes up the element which is created as a result of surpluses due to activities or services being postponed or cancelled as a result of unforeseen events .

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<sup>1</sup> The Practitioners' Guide on Accountability and Governance March 2022

4.2 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.

4.3 Setting the level of working balances is one of several related decisions in the formulation of 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.

4.4 If in extreme circumstances general reserves were exhausted due to 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. Principles to assess the adequacy of Balances and Reserves**

5.1 A considerable degree of professional judgement is required in making any financial assessment and the RFO can only be expected to provide advice with the help and possible guidance from the Members and other advisory sources.

5.2 The budget setting process is the responsibility of the individual sub-committees in collaboration with the RFO, reviewed by the Finance & Property Sub-Committee, or Management Committee with a recommendation to Full Council for ratification and formal approval. This forms the foundation of setting the precept.

5.3 In order to assess the adequacy of the reserves when setting the budget, both the RFO and the sub-committees 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 RFO should ensure the Council has in place effective audit arrangements and systems of internal control.

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

## **6. Governance concerning Balances and Reserves**

6.1 The level of financial reserves will be reviewed annually as part of the budget setting process.

6.2 The review will include a report from the RFO on the adequacy of the General Reserves and Earmarked Reserves in respect of the forthcoming financial year.

6.3 The Council will have the opportunity to review the levels of reserves and make recommendations for the creation of additional Earmark Reserves or a recommendation for redundant Earmark Reserves as part of the annual budgeting process.

6.4 The Council will be required to identify the following when making recommendations for each reserve

- The reason for/purpose of the reserve
- How and when the reserve can be used
- Procedures for the control and management of the reserve
- The process and timescale for review of the reserve to ensure continuing relevance and adequacy

6.5 General Reserves must be viewed as a short-term resolution towards unexpected costs and not used to finance recurring expenditure or to finance foreseeable or anticipated projects.

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

6.7 Additional responsibilities lie with the Internal and External Auditors to review and comment on the Council's financial standing.

## **7. Policy Review**

7.1 This policy will be reviewed annually.

*Reviewed by Finance & Property Sub Committee March 2023*