



# Lowestoft Town Council Reserves Policy

## 1.0 Introduction

- 1.1 Lowestoft 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.
- 1.2 As authorities have no legal powers to hold revenue reserves other than those for reasonable working capital needs, or for specifically earmarked purposes, whenever an authority's year-end general reserve is significantly higher than the annual precept, an explanation has to be provided to the auditor.
- 1.3 Although 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, there is no specified minimum level of reserves that an authority should hold. It is the responsibility of the Responsible Financial Officer and the Council to determine the level of reserves and to ensure that there are procedures for their establishment and use.
- 1.4 This Council conducts a major review of its reserves through its annual budgeting process and, on an ongoing basis, through at least once (usually twice) per month scrutiny of its finances through formal meetings. Additionally, day-to-day management of financial matters by the Responsible Financial Officer and scrutiny by working groups of councillors ensure that changes affecting risk management and reserves levels are identified and alerted to Council.

## 2.0 Types of Reserves

- 2.1 Reserves can be categorised as earmarked (held for a specific purpose) or general (other reserves held as part of strong financial management, including to cushion the impact of uneven cash flows or unexpected events).
- 2.2 Earmarked reserves can be held for several reasons. As the name suggests these represent amounts which are 'earmarked' for specific items of expenditure to meet known or predicted liabilities or projects. Earmarked reserves can be used to spread expenditure commitments over a period of time thereby reducing the impact of that commitment on any one year.

Earmarked reserves are typically held for:

- 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.
  - 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.
  - Insurance – to enable the Council to meet excesses not covered by insurance
  - Other Earmarked – may be set up from time to time to meet known or predicted liabilities.
- 2.3 General reserves are often referred to as the 'working balance' and is money which is not earmarked for specific purposes but rather a 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, as approved by Council. The general reserve needs to be regularly reviewed using a risk-based assessment.

## 3.0 Policy Statement

- 3.1 Earmarked reserves will be established to reflect anticipated financial requirements.



## Lowestoft Town Council Reserves Policy

- 3.2 Any decision to set up or extinguish redundant reserves must be reviewed by the Finance and Governance Committee and recommended to full Council for formal approval. The Council will be required to identify the following when making recommendations for each reserve:
1. The reason/purpose of the reserve
  2. How and when the reserve can be used
  3. Any procedures for the management and control of reserves
  4. A process and timescales for review of the reserve to ensure continuing relevance and adequacy
- 3.3 Expenditure from reserves can only be authorised by Full Council. Reserves should not be held to fund ongoing expenditure.
- 3.4 All Earmarked reserves are recorded by the Responsible Financial Officer and include the purpose for which the earmarked reserve is held.
- 3.5 Reviewing the Council's Financial Risk Assessment is part of the annual budgeting by the Finance and Governance Committee and the year-end accounting procedures. Part of this process identifies planned and unplanned expenditure items and thereby indicates an appropriate level of reserves.
- 3.6 A 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.
- 3.7 The level of general reserves is a matter of professional judgement and so this policy does not attempt to prescribe that a specific level will always be appropriate for this Council. Based on its circumstances, the Council aimed within its initial year of operation to achieve three months' worth of precept. The policy from thereon, is to achieve 4 months' worth of precept for any given year. There is recognition of the difficulty in achieving this within the first 5 years of operation given the number of unforeseen costs that have already arisen and are likely to arise, owing to the way in which the Council was set up by the District Council. After the first year of operation, there remain significant gaps in information about the assets and services which have been transferred on 1 April 2017 by unilateral decision of the District Council.
- 3.8 The primary means of building a general reserve will be through reallocation of funds e.g. where a project comes under budget or through allocation from the annual budget.
- 3.9 If, in the 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. The Council must at all times keep a minimum balance sufficient to pay two month's salaries to staff and associated expenses e.g. National Insurance, tax contributions and pensions.

### **4.0 Principles to Assess the Adequacy of Balances and Reserves**

- 4.1 A considerable degree of professional judgement is required in making any financial assessment and the Responsible Financial Officer can only be expected to provide advice with the help and possible guidance from councillors and other advisory sources.
- 4.2 Setting the budgets is the responsibility of the Council on the advice of the Finance and Governance Committee and the Responsible Financial Officer. This forms the foundation of setting the precept.
- 4.3 In order to assess the adequacy of reserves when setting the budget, both the Responsible Financial Officer and the Committee 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.
- 4.4 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.
- 4.5 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



## **Lowestoft Town Council Reserves Policy**

key financial assumptions underpinning the budget alongside a consideration of the Council's financial management arrangements.

- 4.6 Balancing the annual budget by drawing on general reserves must be viewed as a legitimate short term option only. 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.
- 4.7 Such reserves must not be deployed to finance recurrent expenditure or to finance anticipated or foreseeable projects. Adjustments to the budget and precept must take account of the financial needs of the Council and the need to maintain required earmarked reserves and general reserves in line with the Council's policy.

### **5.0 Governance Concerning the Balances and Reserves**

- 5.1 The policy on balances and reserves will be reviewed annually as part of the review of Financial Regulations by the Finance and Governance Committee and reported to the Town Council as part of the budget-setting process. This will include a report from the Responsible Financial Officer on the adequacy of the reserves (earmarked and general) taking into account the forthcoming financial year and the Council's medium and long-term financial plans or projects.
- 5.2 The Responsible Financial Officer and the Finance and Governance Committee should review the levels of earmarked reserves held and recommend extinction of redundant earmarked reserves and creation of new earmarked reserves as part of the annual budgeting process. Any recommendations will then be taken to Full Council for formal consideration and approval.

### **6.0 Reserves Currently Maintained**

- 6.1 The Council is working towards achieving a level of general reserves which is no less than the equivalent of four months' worth of precept for that particular year.