



## Reserves Policy

### Introduction

Horsforth 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.

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 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.

### Types of Reserves

Reserves can be categorised as general or earmarked.

Earmarked reserves can be held for several reasons, including but not limited to the following:

- Renewals – to enable services to plan and finance an effective programme of equipment and infrastructure replacement and planned property 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 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.
- Insurance reserve – to enable the Council to meet the excesses of claims not covered by insurance.
- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

General Reserves are funds which do not have any restrictions as to their use. These reserves can be used to smooth the impact of uneven cash flows, offset the budget requirement if necessary or can be held in case of unexpected events or emergencies.

### Earmarked Reserves (designated funds)

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

Any decision to set up a reserve must be made by the Council.

Expenditure from reserves can only be authorised by the Council.

Reserves 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 on a central schedule held by the Responsible Financial Officer which lists the various earmarked reserves and the purpose for which they are held.

Earmarked reserves are defined by Council as “designated” or “restricted” funds.

“Designated” funds are earmarked reserves established by the Council for specific Council projects and which have been allocated funds by the Council.

“Restricted” funds are earmarked reserves for monies received by the Council which are subject to external controls on how they can be spent, for example, grant conditions or statutory restrictions (e.g. Community Infrastructure Levy).

Reviewing the Council’s Financial Risk Assessment and budget and identifying planned and unplanned expenditure items will indicate an appropriate level of reserves.

### **General Reserves**

The level of General Reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level. However, the current level of General Reserves to be held by the Council is targeted to be a minimum of 33% of annual expenditure.

The primary means of building general reserves 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 General Reserves is one of several related decisions in the formulation of the Council’s 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.

If in 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.

Even at times when extreme pressure is put on the Council’s finances the Council must keep a minimum balance sufficient to pay one month’s salaries to staff in General Reserves at all times.

### **Opportunity cost of holding reserves**

In addition to allowing the Council to manage unforeseen financial pressures and plan for known or predicted liabilities, there is a benefit in holding reserves in terms of the interest earned on funds which are not utilized. However, there is an “opportunity cost” of holding funds in reserves, in that these funds cannot be spent on anything else. Given the opportunity cost of holding reserves, it is important that reserves continue to be reviewed each year as part of the budget process to confirm that they are still required and that the level is appropriate.

### ***End of Year Balances***

*Any unspent funds in revenue budgets at the end of the financial year will be transferred to General Reserves for the beginning of the next financial year.*

*End of year balances in designated funds will be reviewed by Council when setting the budget for each year. Council will decide on the designated funds to be established for the following financial year and the appropriate amount for each designated fund.*

## **Policy in practice**

The Council will hold reserves for the following purposes:

1. A working balance in General Reserves to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
2. A contingency to cushion the impact of unexpected events or emergencies – held as part of General Reserves;
3. A means of building up funds (earmarked reserves) to meet known or predicted requirements.

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Reviewed: 18<sup>th</sup> May 2023

Next review date: May 2024