**Workington Town Council**

*Trustee of the Borough of Workington*

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**Reserves Policy 2023**

**1. Introduction**

Workington Town Council has a requirement to maintain adequate Financial Reserves to protect against risk, ensure financial security and to support investment in future projects which are beneficial to the town.

Section 50 of the Local Government Finance Act 1992 requires that Local Councils have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.

[*https://www.legislation.gov.uk/ukpga/1992/14/section/50/1992-07-01*](https://www.legislation.gov.uk/ukpga/1992/14/section/50/1992-07-01)

The Council’s policy on the establishment, maintenance and adequacy of reserves and balances will be considered during the preparation of the annual budget in November each year.

The Reserves Policy presents information about the requirements to maintain appropriate financial reserves and provides details on the types of reserves and current and predicted balances. Workington Town Council manages risk by assessing the potential impacts of future events, based on the likelihood that they may occur and the severity of any impact. Mitigating actions are then identified to reduce risk and appropriate plans are put in place.

The purpose of this policy is to enable the Council to review the level of reserves to ensure they meet the current and future needs of Workington Town Council.

The assessment of the adequacy of the Council’s balances and reserves is based on the guidance note on Local Authority Reserves and Balances, which whilst there is not a statutory requirement, is considered to set out current best practice with regard to balances and reserves. The guidance states that no case has yet been made to set a statutory minimum level of reserves and that each local authority should take advice from its Responsible Finance Officer and The Chair of the Finance and General Purposes Committee and base its judgement on local circumstances.

**2. Types of Reserves**

These may be categorised as either General or Earmarked.

**2.1 General Reserves**

General Reserves are funds which do not have any restrictions on their use. They cushion the Council’s finances against any short-term problems in the Council’s cash flow, offset budget requirements, if necessary, or can be held in case of unexpected events or emergencies.

Setting the level of General Reserves is agreed with the Annual Budget.

Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2020 edition) advises:

“As with any financial entity, it is essential that authorities have sufficient reserves (General and Earmarked) to finance both its day-to-day operations and future plans. It is important, however, given that its funds are generated from taxation/public levies, that such reserves are not excessive.”

“The generally accepted recommendation with regard to the appropriate minimum level of a Smaller Authority’s General Reserve is that this should be maintained at between three (3) and twelve (12) months Net Revenue Expenditure (NRE).”

“The smaller the authority, the closer the figure should be to 12 months NRE, the larger the authority the nearer to 3 months. In practice, any authority with an NRE in excess of £200,000 should plan on 3 months equivalent.”

The primary means of building General Reserves will be through a reallocation of funds (underspend on a completed project) and allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves which have been spent in the previous year. If in extreme circumstances General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, Workington Town Council could look at using its EMRs to provide short term resources.

**2.2 Earmarked Reserves ‘EMRs’**

EMRs must be held for genuine and intended purposes and their level should be subject to annual review and justification. They should be separately identified to prevent query from internal and external auditors.

EMRs are held for several reasons and shall only be used for the purpose for which they were created:

1. Assets – it is good practice to build up EMRs for council assets that require renewal; for example a new mower for the Estates Team or new IT equipment for Officers.

The funds required are built up incrementally over several years when taking into account asset conditions and asset life.

1. Carry forward of underspend on the previous year’s budget – expenditure committed to a project but not spent in the budget year. Reserves can be used as a mechanism to carry forward those resources.
2. Funding/Grant Contributions – proceeds from funding which can only be used for specified purposes/projects.
3. Other Earmarked Reserves – these may be set up from time to time to meet known or predicted liabilities.

Where the purpose of an Earmarked Reserve becomes obsolete, or where there is an over-provision of funds, the excess may, on approval of Full Council, be transferred to other budget headings within the revenue budget, to General Reserves or to one or more other Earmarked Reserves.

EMRs will be established on a “need” basis in line with anticipated requirements and these are to be reviewed annually when the budget is agreed.

Any decision to set up an EMR must be approved by Full Council. If the EMRs are used to meet short term funding gaps, they must be replenished in the following financial year. However, EMRs which have been used to meet a specific liability would not need to be replenished, after having served the purpose for which they were originally set up.

**3. Management and Control of Reserves**

Movements within Earmarked Reserves and General Reserves shall be reported to Full Council as part of the Budget Monitoring report at the next scheduled meeting. The use of Reserves shall be approved by Full Council.

The level of General Reserves shall be reviewed on an annual basis during the annual budgetary review and agreed by Full Council. The minimum level of General Reserves shall be recommended to Full Council by the Responsible Financial Officer and The Chair of the Finance and General Purposes Committee. This will form part of the recommendations for the Annual Budget and Precept request by the Council.

The current level of General Reserves to be held by the Council is set at approx. three months of predicted expenditure.

Earmarked Reserves shall be reviewed on an individual basis. This review will also be undertaken as part of the annual budgetary review. Approval for the creation, amendment, cessation or continuation of Earmarked Reserves will be given by Full Council.