

Legal Background

The requirement for financial reserves is acknowledged in statute. Sections 31A, 32 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

These requirements are reinforced by section 114 of the Local Government Finance Act 1988 which requires the Responsible Financial Officer to report to the Council if there is, or is likely to be, unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

Within the existing statutory and regulatory framework, it is the responsibility of Responsible Financial Officer to advise the Council of the level of reserves they should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.

It is considered that Councils should establish reserves and agree the level of reserves, based on:

- ✓ the advice of their RFO
- ✓ the Council's own judgements on such matters, taking into account all the relevant local circumstances
- ✓ appropriate for the risks to which the Council is exposed
- ✓ what is both adequate and necessary

Whilst Section 26 of the Local Government Act 2003, gives Ministers in England and Wales a general power to set a minimum level of reserves for local authorities, this has only been applied where there has been poor practice or financial difficulty.

Local Implications

It would be prudent to develop a Reserves Policy, and to clearly allocate money for 'General Reserves' and 'Earmarked Reserves'.

General Reserves are those are funds which do not have any restrictions as to their use. These reserves operate as a working balance to help manage the impact of uneven cash flows. They can also be used to smooth the impact of significant pressures, offset the budget requirement, if necessary, or they can be held in case of unexpected events or emergencies. Generally, a robust level of reserves should be maintained and should take account of those operational and financial issues facing the Council.

Many Town Councils cite 3/12 of the Precept as a minimum 'General Reserves' level, others refer to 3-months expenditure. The level of reserves is a locally based decision and one that the Council may have to justify to the public, therefore, a clear strategy is advisable.

The budget of Ashington Town Council includes core expenditure and capital/reserves expenditure but for the purpose of a 'General Reserve' the Clerk would lean towards the level of this being based on general core expenditure, as opposed to the gross budget, Why? Because those items included in the budget for capital purposes are usually one-offs and not part of an on-going commitment.

The advice of the Clerk is to set the General Reserves budget at a minimum 25% of the Core Expenditure budget, equivalent to 3 months. Taking into consideration that any increase in the general expenditure/running costs of the Council would initiate an increase in the General Reserves, moves the Clerk to recommend this illustrated as nearer 30%.

Earmarked Reserves provide a means of accumulating funds, for use in a later financial year, to meet known or planned work or projects and should be subject to a separate review as part of the year-end procedures. Earmarked Reserves should not be held to fund on-going expenditure; this would be unsustainable as, at some point, the reserves would be exhausted. Earmarked reserves improve transparency and accountability.

If these reserves were to be used to meet short term funding gaps, they would need to be replenished the following year. Earmarked Reserves that have been used to fulfil a particular capital project or liability would not need to be replenished, having served the purpose for which they were originally established.

Forward planning is key where earmarked reserves are concerned. It is difficult to agree to earmark money for a project, the replacement of assets, etc. if these things are not part of the Council's strategy.

The advice of the Clerk is to make an allocation of reserves, that members are comfortable with, and following a new Inspection Regime and Risk Assessments carried out by the Clerk, to formulate a short-term and long-term plan with regards Asset Management.

As is usual for ATC, the Budget presented includes the use of previously held reserves which are being used to fund items in 2022/23. If plans do not come to fruition, the money can be re-allocated, the expectation is that they will.

Example

The Council will need to replace further litter bins, bus shelters and play areas over the years. It is recommended that a full life-span analysis is carried out of the Council's assets and that funding is accumulated for the purposes of replacing an updating over the next 1-15 years.

It is expected that these reserves will have a generous start in view of underspending due to COVID and fortuitous grant funding.