

## Reserves Policy and Earmarked Reserves Statement

### 1 Policy

1.1 The Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the organisation. Section 50 of the Local Government Finance Act 1992 requires that billing and precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. Consideration should also be given to the CIPFA guidance notes on Local Authority Reserves and Balances issued November 2008.

1.2 The Council's policy on the establishment, maintenance and adequacy of reserves and balances will be reviewed annually.

1.3 The Council will hold reserves for these three main purposes:

- a) a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing - this forms part of general reserves;
- b) a contingency to cushion the impact of unexpected events or emergencies - this also forms part of general reserves;
- c) a means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.

#### 1.4 General Fund Balance

The General Fund Balance, commonly termed the "working balance", is a balance on the Council's revenue account which is not held for any specific purpose other than to cushion the Council's finances against any unexpected short term problems in the council's cash flow.

The General Fund Balance is to be maintained at a level based upon a risk assessment carried out annually by the Responsible Finance Officer when setting the budget for the forthcoming year. Any surplus on the reserve above the required balance may be used to fund capital expenditure, be appropriated to earmarked reserves or used to limit any increase in the precept.

### 2 Financial Risk Management

2.1 In order to assess the adequacy of the general fund when setting the annual budget, the Responsible Finance Officer will take account of the strategic, operational and financial risks facing the Council. The requirement of the level of the general fund balance for the forthcoming year will therefore be based upon a risk assessment of the Council's main areas of income and expenditure and take into account any provisions and contingencies that may be required. This financial risk assessment will be based upon the following items

The main items to be considered are:

<b>Financial Risk</b>	<b>Analysis of Risk</b>	<b>Risk Control</b>	<b>Risk level after control measure</b>
Pay inflation is greater than budgeted	The cost of living increase is above the level allowed for in the estimates.	RFO considers past performance and current government policy/state of national negotiations when setting budget	Low – Public Sector pay is subject to long negotiations so the likely outcome is known well in advance of setting the annual budget.
Contractual inflation is greater than budgeted	A general assumption is made when estimating the percentage increase on rates & utilities. This may increase above budgeted inflation.	RFO considers general market conditions and negotiates long-term agreements	Low – We know likely costs from market conditions and these costs form a relatively small part of the overall budget
	Professional and other services costs increase above estimate.	RFO negotiates long-term deals	Low – with long-term deals in place we know costs up-front
Treasury management income is not achieved	The actual interest rate realised is below the rate predicted at budget setting.	RFO analyses the market opportunities to maximise income	Low – the budget for income from this source is practically nil, so cannot be underestimated
Market income is lower than budgeted/shortfall in income from fees and charges	That a decrease in revenue is realised from estimate.	RFO analyses past performance to predict future performance. Budgets are set at a low bar to avoid underestimates.	Medium – it is very difficult to make accurate forecasts due to the number of variables, so budget setting is very conservative.
Rental income is lower than budgeted/ shortfall in income from fees and charges	That a decrease in revenue is realised from estimates	RFO analyses rent reviews to predict future performance. Budgets are set at a low bar to avoid underestimates.	Medium – it is very difficult to make accurate forecasts due to the number of variables, so budget setting is very conservative.
Contingent liabilities are realised	That the Council becomes liable to pay contingent liabilities.	RFO review the repairs schedule to ensure major outgoings are covered by earmarked reserves.	Low – There is currently a healthy repair and replacement reserve.
Project costs exceed predictions	Projects to which the Council has committed itself incur costs that were not foreseeable	RFO commissions good quality business planning and financial consultants to cost accurately major projects	Medium – Whilst there are reserves set aside for projects the possibility remains that additional costs are only discoverable during works (e.g. asbestos)

### 3 General Reserves

3.1 Local Authorities hold reserves to enable day-to-day operations to continue without the need to resort to short-term borrowing. These general reserves are calculated to cover a delay in the precept arriving and are usually considered to be adequate at a level equivalent to six month's net expenditure.

At March 31<sup>st</sup> 2025 general reserves stood at; £150,819

**3.2 The policy of the Council is to build sufficient cash general reserves to the equivalent of one year's non capital related expenditure.**

**In addition**

**3.2. i The policy of the Council is to build sufficient cash reserves to service property liabilities to the equivalent of 5% of the property book valuation.**

**In addition**

**3.2.ii The policy of the Council is to build up specific reserves for longer term projects.**

**This policy will be considered annually at the budget setting meeting in Oct/ Nov and the precept considered accordingly.**

### 4 Statutory Reserves

4.1 Local Authorities also hold reserves that arise out of the interaction of legislation and proper accounting practices. At Southwold Town Council this is:

- a) Capital Receipts Reserves - this reserve holds the proceeds from the sale of assets, and can only be used for capital purposes in accordance with regulations.

### 5 Review of the Adequacy of Balances and Reserves

6.1 In assessing the adequacy of reserves the strategic, operational and financial risks facing the Council will be taken into account. The level of general and earmarked reserves will be reviewed as part of the annual budget preparation.

## Earmarked Reserves

Earmarked reserves represent amounts that are generally built up over a period of time which are earmarked for specific items of expenditure to meet known or anticipated liabilities or projects. The “setting aside” of funds to meet known future expenditure reduces the impact of meeting the full expenditure in one year. The Council, when establishing an earmarked reserve, will set out:

- a) the reason/purpose of the reserve;
- b) how and when the reserve can be used;
- c) procedures for the management and control of the reserve;
- d) a process and timescale for review of the reserve to ensure continuing relevance and adequacy

The following earmarked reserves are held by the Council 31<sup>st</sup> March 2025

<b>Current value at March 31<sup>st</sup> 2025</b>	<b>Reserve Use</b>	<b>Policy For Use</b>	<b>Management and Control</b>	<b>Review of relevance</b>
£50,000	Staff resources	Fund to cover long term staffing	As per internal audit 2020	Annual Review
£6,500	Election reserve	A sinking fund to smooth the cost to the Town Council of elections	To be used as a balance for Electoral Costs	The fund is not to exceed £8000
£17,324	Cil	A Cil fund to be spent on approved schemes	To be used as for CIL projects.	Annual Review
£71,619.92	Capital Account – Station Road	Monies for the completion of Station Rd build	To be used for construction of Station Road Hub	Annual Review
£13,223	Grants and Pledges	Monies received by Grant/ pledge for specific projects	To be used for the Project under which funding received	Annual Review
£573,175.53	Capital Account	Capital sale proceeds	To be used for capital related expenditure	Annual Review
£43,000	Roads Projects	ESC CIL £23K AND STC reserve £20k	To be used for STC ROADS CTTEE PROJECTS	Annual Review
£2,000	Training/ Courses	Fund to cover additional training for staff and councillors	To be used for Town Clerk change course and other councillor/ staff courses	Annual Review
£150,000	Hurren Terrace gable end project	To fund works contract which has been approved by council	To fund works contract which has been approved by council	Annual Review
£250,000	Long-term maintenance provision of properties and purchase of smaller non built property fixed assets i.e. fingerposts, notice boards	To fund large-scale maintenance projects over and above the maintenance programme and to purchase smaller fixed assets	To be used for works not covered by the main budget or insurance.	Annual Review