

Council Matters 16th April 2024

Review of Earmarked Reserves (EMR)

Background

The 22/23 year end reserve figure was £614,681. The original 23/24 budget planned for an £186,614 spend from reserve. Council then cut budgets to spend £96,802 from reserve.

Since then further savings have been made by holding on recruitment and delays to spend until after the Council had set Strategic Priorities.

Year end is currently being undertaken but the 23/24 closedown figure is anticipated to be in the region of a £50,000 saving. This would mean an estimated General Reserve figure of £664,681 going in to 2024/25 (please note that these figures are estimated).

Totnes Town Council does not currently have any EMR.

The agreed Reserves Policy (adopted February 2023) explains the difference between General and Earmarked Reserves, as below:

General Reserves

General Reserves are funds which do not have any restrictions on their use. They cushion the impact of uneven cash flows, 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.

Earmarked Reserves (EMR)

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 queries from internal and external auditors.

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

- Renewals – to enable the planning and financing of an effective program of equipment replacement and property maintenance/refurbishment. The funds required are built up incrementally over several years when considering asset conditions and asset life. They are a mechanism to smooth expenditure without the need to vary budgets.
- Carry forward of underspend on an uncompleted project – expenditure committed to a project but not spent in the budget year. Reserves can be used as a mechanism to carry forward those resources.
- Developers contributions – proceeds from developers which can only be used for specified purposes.
- Other Earmarked Reserves – these may be set up from time to time to meet known or predicted liabilities

The pros and cons of earmarked reserves are as follows:

Pros:

1. Targeted funding: Earmarked reserves allow funds to be set aside for specific purposes, ensuring that the money is used for the intended objectives and not diverted to other areas.

2. Prioritisation of needs: Earmarking reserves can help channel resources to the most pressing and critical needs, ensuring that essential services or programs are adequately funded.
3. Long-term planning: Earmarked reserves can facilitate long-term planning and the implementation of multi-year projects, as the funds are dedicated and less susceptible to annual budget fluctuations.

Cons:

1. Reduced flexibility: Earmarked reserves can limit the flexibility of budgeting and resource allocation, as the funds are restricted to specific purposes and cannot be easily reallocated to address changing needs or emerging priorities.
2. Missed opportunities: The more rigid nature of earmarked reserves may lead to inefficient use of resources if the designated purposes become outdated or if the needs change over time. With that said given the general reserve is at a healthy level this is less of a concern currently.
3. Administrative complexity: Maintaining and managing multiple earmarked reserve accounts can increase the administrative burden and complexity of budgeting and financial management.

Officer recommendation

It is the recommendation of the Town Clerk that the Council Matters committee **RECOMMENDS** to Full Council that an earmarked reserve of **£7467.87** is created for the remaining funds from the Baltic Wharf Phase 1 Section 106. This is calculated by taking the amount received from the developers and deducting the staffing costs (Green Travel Coordinator/Sustainability Officer) and the Climate Change budget expenditure. This money should be moved from the General Reserve at the start of the 2024/25 financial year.

These monies must be ring fenced and used only for Green travel and sustainability purposes. The allocation of these funds should be considered by the Traffic and Transport Forum (TTF) and will need to be considered in the future by Council Matters Committee. Examples of expenditure include administrative support for the TTF, bike racks, professional support or advice for traffic schemes, and projects which promote the use of green travel and reduce carbon emissions. This is not an exhaustive list.

If further funds relating to Baltic Wharf Phase 1 are paid to the Council it is also suggested that they be added to this EMR.

On completion of the Building Survey review it is suggested that the issue of EMR is revisited with a view to considering the creation of a new EMR for building maintenance and contingencies built in for:

- Guildhall Cottage
- Guildhall and offices
- Totnes Museum
- Civic Hall
- Cemetery Chapel
- St Mary's walls

Summary

Totnes Town Council have set their 24/25 budget. This includes an expected spend from General Reserves of £120,457 over the year (more planned expenditure than income). Assuming all budgets are spent in full, which is unlikely, the 24/25 year end figure for General Reserves could be around £536,856.

The recommended EMR of **£7467.87** would be an additional amount audited separately from the General Reserve.

Reserves impact	
Total actual General Reserves as start of 2023/24	£614,781.00
Based on the current projected 2023/24 budget, year end reserve ESTIMATE	£664,781.00
Minus the recommended S106 money remainder transferred to EMR	-£7,467.87
Estimated reserves at the start of 2024/25	£657,313.13
Budgeted spend from reserve for 2024/25	-£120,457.00
ESTIMATED 2024/25 year end General Reserve figure	£536,856.13

Catherine Marlton

Town Clerk

15th April 2024