



Reserves Policy

1. Introduction

The Council is required, under statute, to maintain adequate financial reserves to meet the needs of the organisation. Section 49A of the Local Government Finance Act 1992 requires that billing and precepting authorities in England have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.

As councils have no legal powers to hold revenue reserves other than those for reasonable working capital needs or for specifically earmarked purposes, whenever a council's year-end general reserve is significantly higher than the annual precept, an explanation should be provided to the auditor.

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

The Council will hold reserves for these three main purposes:

1. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the general reserves;
2. A contingency to cushion the impact of unexpected events or emergencies – this also forms parts of general reserves;
3. 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 Reserve.

2. General Reserves Balance

The General Reserve 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 Reserve balance is to be maintained at a level based upon a risk assessment carried out annually by the Responsible Finance Officer (RFO) when setting the budget for the forthcoming year.

At no time should the General Reserves balance exceed the value of the current year Precept.

Adopted: 24.05.2022

Reviewed:

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.

If in extreme circumstances General Reserves are 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 always keep a minimum balance, sufficient to pay three month's salary to staff, in General Reserves at all times.

3. Financial Risk Management

In order to assess the adequacy of the General Reserve when setting the annual budget, the RFO will take account of the strategic, operational and financial risks facing the council. The requirement of the level of the General Reserve 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.

4. Earmarked Reserves

Earmarked Reserves represents 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:

1. The reason / purpose of the reserve;
2. How and when the reserve can be used;
3. Procedures for the management and control of the reserve; a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

Currently the Council is only operating 1 earmarked reserve, that being the 'Rolling Capital Programme'

5. Review of the Adequacy of Balances and Reserves

In assessing the adequacy of reserves the strategic, operational and financial risks facing the authority will be taken into account. The Joint Panel on Accountability and Governance offers guidance on this point. The level of earmarked reserves will be reviewed as part of the annual budget preparation.

Adopted: 24.05.2022

Reviewed:

6. Current Level of Financial Reserves

The level of financial reserves held by the Council will be agreed by the Town Council during the discussions held regarding the setting of the budget for the next financial year.

The current level of General Reserves to be held by the Council is three twelfths of the annual precepted figure, i.e. to fully cover three months' expenditure. The figure of three twelfths of the precept is to be held rather than three months' expenditure costs.

This figure should currently be **£356,043** for the total precept of **£1,424,171** in the financial year of 2022/23.

The Council agreed to the following levels of reserves

General Reserves: **£347,847**

Rolling Capital Programme: **£70,639**

The above levels of reserves were agreed by the Town Council at the meeting on 25 January 2022, to be reviewed again in January 2023 when the budget for the financial year has been finalised.