



## **General 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.

NALC's "Governance & Accountability for Local Councils – Practitioners' Guide" recommends that Councils hold minimum General Reserve equivalent to at 3 months gross expenditure.

Councils have no legal powers to hold revenue reserves other than those for reasonable working capital needs or for specifically Earmarked purposes.

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. Whenever a council's year-end general reserve is significantly higher than the annual precept, an explanation should be provided to the auditor.

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.

### **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.

### **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 Smaller Authorities Proper Practice Panel offers guidance on this point. The level of Earmarked Reserves will be reviewed as part of the annual budget preparation.