

North Petherton Town Council

Reserves Policy

Approved By the Town Council 26 September 2022

This policy sets out the Town Council's stance regarding maintaining financial reserves

Agreed

1. Introduction

1.1 North Petherton Town Council is required to maintain an adequate level of financial reserves to

- Protect against risk
- Ensure contingencies are in place
- Accumulate funds for known or planned policy initiatives or projects

1.2 Sections 32 and 43 of the Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

1.2 The 2022 Joint Panel on Accountability and Governance Practitioners Guide states *“as with any financial entity, it is essential that authorities have sufficient Reserves (general and earmarked) to finance both its day to day operations and future plans. Smaller authorities have no specific right to accumulate funds via the precept. All reserves should be reviewed and justified regularly (i.e. at least annually). It is good practice to transparently publish both the level and rationale of all reserves.”* (5.30 – 5.31)

1.3 The 2018 Good Councillors Guide to Finance and Transparency *“Local Councils need to hold an amount in reserves to meet unexpected expenditure, otherwise they could run out of money before the end of the financial year.....Local councils have no legal powers to hold revenue reserves other than for reasonable working capital or for specifically earmarked purposes,”* (p17)

1.4 There is no specified minimum level of reserves that an authority should hold.

2 Policy Purpose

2.1 The purpose of this policy is to enable the Town Council to make financial decisions relating to expenditure and budget proposals whilst keeping the reserves at an appropriate level.

3 Types of Reserves

3.1 North Petherton Town Council maintains two types of reserves earmarked reserves and general reserves.

3.2 Earmarked Reserves. (EMR)

Earmarked reserves are a way of accumulating funds (“saving”) for use in a later financial year to meet a known or planned policy initiative or for projects; such initiatives or projects may well incur expenditure over more than one financial year.

3.3 An EMR must be for a genuine purpose and separately identifiable.

3.4 Amounts in earmarked reserves are set by the Town Council as part of the annual budget process.

3.5 If a specific EMR is no longer considered necessary, or the project has been completed and there is surplus in the EMR the Town Council will decide how the balance in the EMR should be allocated.

3.6 EMRs will increase through decisions of the Town Council and will decrease as they are spent on their specific purpose.

3.7 General Reserves

The purpose of the general reserves is

- to provide a contingency to minimise the possible financial impacts to the authority from situations such as emergencies, unforeseen events, ad hoc emerging issues

- to operate as a working balance to manage the impact of uneven cash flows.
- 3.8 The primary means of building the general reserve will be through reallocation of funds e.g. where a project comes in under budget or through an allocation from the precept.
- 3.9 Balancing the budget by drawing on reserves must be viewed as a legitimate short term option only.

4 Reserve Levels

General Reserve

- 4.1 The Good Councillors Guide to Finance and Transparency 2018 (p 17) says
*“A council should typically hold between 3 and 12 months expenditure as a general reserve. If the general reserve is too low then it may not be enough to cover unexpected expenditure or emergencies, whilst if the general reserve is too high then local electors have paid a tax which is not being used for the benefit of the local community.
 Local councils have no legal powers to hold revenue reserves other than for reasonable working capital or for specifically earmarked purposes, therefore the year end general reserve should not be significantly higher than the annual precept.”*
- 4.2 The 2022 Joint Panel on Accountability and Governance Practitioners Guide states
*“5.32 The general reserve of an authority comprises its cash flow and contingency funds to cover unexpected inflation, unforeseen events and unusual circumstances.
 5.33. The generally accepted recommendation with regard to the appropriate minimum level of a smaller authority’s general reserve is that this should be maintained at between three and twelve months of net revenue expenditure.
 5.34. The reason for the wide range is to cater for the large variation in activity level between individual authorities. The smaller the authority, the closer the figure may be to 12 months expenditure, the larger the authority, the nearer to 3 months. In practice, any authority with income and expenditure in excess of £200,000 should plan towards 3 months equivalent general reserve.
 5.35. In all of this it is important that each authority adopt, as a general reserve policy, the level appropriate to their size, situation, risks and plan their budget so as to ensure that the adopted level is maintained.
 5.36. Authorities with significant self-generated income (other than the precept or levy) should take into account situations that may lead to a loss in revenue as well as increased costs and adapt their general reserve accordingly.” (5.32 – 5.36)*
- 4.3 The Town Council will set the level of general reserve to be maintained as part of the annual budget setting process. The level will
- Be between 3 months and 12 months expenditure
 - Generally, will be maintained at approx. 6 months expenditure
 - Not exceed the annual precept except in extreme circumstances.

Earmarked Reserves

4.4 The 2022 Joint Panel on Accountability and Governance Practitioners Guide states

“There is, in practice, no upper or lower limit to EMR/CRRs save only that they must be held for genuine and identifiable purposes and projects, and their level should be subject to regular review and justification (at least annually and at budget setting), and should be separately identified and enumerated. Significant levels of EMRs in particular may give rise to enquiries from internal and/or external auditors.”

Bibliography

2022 Joint Panel on Accountability and Governance Practitioners Guide
2018 The Good Councillors Guide to Finance and Transparency

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