

# TENBURY TOWN COUNCIL



## Reserves Policy

## **1. Introduction**

- 1.1 Tenbury Town Council is required to maintain adequate Financial Reserves to meet the needs of its operations and to ensure financial security. The purpose of this policy is to set out how the Council will determine and review the level of reserves.
- 1.2 The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2020 edition) advises:

*“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. It is important, however, given that its funds are generated from taxation/public levies, that such reserves are not excessive.”*

- 1.3 Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, there is no specific minimum level of reserves which an authority should hold, and it is the responsibility of the Responsible Financial Officer to advise the Town Council about the level of reserves and to ensure that there are procedures for their establishment and use.

## **2. Types of Reserves**

These may be categorised as either General, Earmarked or Usable Capital Receipts.

### **2.1 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.

JPAG (March 2020 edition) advises:

*“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 (3) and twelve (12) months Net Revenue Expenditure (NRE).”*

*“The smaller the authority, the closer the figure should be to 12 months NRE, the larger the authority the nearer to 3 months. In practice, any authority with an NRE in excess of £200,000 should plan on 3 months equivalent.”*

Net revenue expenditure equates to the precept less amounts included in the precept for loan repayment, capital projects and transfers to reserves

The primary means of building General Reserves will be through a reallocation of funds (underspend on a completed project) and allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves, which have been spent in the previous year. If in extreme circumstances the General Fund Reserve was exhausted due to major unforeseen spending pressures within a particular financial year, the Town Council would be able to draw down from its Earmarked Reserves to provide short term resources.

## **2.2 Earmarked Reserves ‘EMR’s**

Earmarked Reserves 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 query 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.

Where the purpose of an Earmarked Reserve becomes obsolete, or where there is an over-provision of funds, the excess may, on the approval of the Town Council, be transferred to other budget headings within the revenue budget, to General Fund Reserve or to one or more Earmarked Reserve.

EMRs will be established on a “needs” basis in line with anticipated requirements and these are to be reviewed annually when the budget is agreed.

Any decision to set up an EMR must be approved by Finance and Staffing Committee or Full Council. If the EMRs are used to meet short term funding gaps, they must be replenished in the following financial year. However, EMRs which have been used to meet a specific liability would not need to be replenished, after having served the purpose for which they were originally set up.

### **3. Management and Control of Reserves**

Movements in Earmarked Reserves and the General Fund Reserve shall be reported to the Finance and Staffing Committee as part of the budget monitoring process. The use of Reserves shall be approved by the Finance and Staffing Committee or Full Council.

The level of the General Fund Reserve shall be reviewed on an annual basis during the annual budgetary review and agreed by Full Council. The minimum level of General Fund Reserve shall be recommended to the Council by the Town Clerk (who is the Responsible Financial Officer). This will form part of the recommendations for the Annual Budget and Precept request by the Town Council. A minimum level of General Fund Reserve of 6 months of the Net Revenue Expenditure is recommended working towards a General Fund Reserve of 9 months (£80,165 - £120,250).

Earmarked Reserves shall be reviewed on an individual basis. Approval for the creation, amendment, cessation or continuation of Earmarked Reserves will be considered by Finance and Staffing Committee and ratified by Full Council. Reserves must not be held for on-going for on-going expenditure as this would be unsustainable.