

# NORTHLEACH WITH EASTINGTON TOWN COUNCIL

## Financial Reserves Policy

### 1. Introduction

Northleach with Eastington Town Council ('the Council') is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out how the Council will determine and review the level of reserves.

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.

It is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

### 2. Types of Reserves

Reserves can be categorised as general or earmarked.

General reserves are funds which do not have any restrictions as to their use. These reserves can be used to smooth the impact of uneven cash flows, offset the budget requirement when necessary or can be held in case of unexpected events or emergencies.

Earmarked reserves can be held for various reasons:

- **Capital Receipts** - holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to finance historical capital expenditure.
- **Ringfenced** – to hold money given for a specific purpose or with restrictions on its use such grants received or developer contributions.
- **Carry Forward** - some services commit expenditure to projects but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources rather than budgeting for the same project twice.
- **Asset Renewals** – to finance an effective programme of equipment and infrastructure replacement. These reserves are a mechanism to smooth expenditure and achieve a long-term financial objective without the need to vary budgets dramatically from year to year.
- **Contingencies** - Other earmarked reserves to meet known or predicted liabilities but where it is not appropriate to budget for them annually.

### 3. General Reserves

The level of general reserves is a matter of judgement. Setting the level of general reserves is one of several related decisions in the formulation of the medium-term financial strategy and the annual budget. The Council must build and maintain sufficient balances to cover the key risks it faces, as expressed in its strategic risk assessment.

The generally accepted recommendation with regard to the appropriate minimum level of a local council's general reserve is that this should be maintained at between three (3) and twelve

(12) months net revenue expenditure. This figure is an amount expected to cover running costs for that period of time and does not include any loan repayment and/or amounts included in precept for capital projects and transfers to earmarked reserves.

The primary means of building general reserves will be through an allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year.

Even at times when extreme pressure is put on the Council's finances the Council must keep a minimum balance sufficient to pay two month's salaries to staff in general reserves at all times.

Any surplus on the general reserve at the end of the year may be used to fund capital expenditure, be appropriated to earmarked reserves or used to limit any increase in the precept.

#### **4. Earmarked Reserves**

Earmarked reserves will be established on a "needs" basis, in line with anticipated requirements.

Earmarked reserves that have been used to meet a specific liability do not need to be replenished, having served the purpose for which they were originally established.

Where the purpose of an earmarked reserve becomes obsolete, the excess may, on the approval of the Council, be transferred to other budget headings, to general reserves or to one or more other earmarked reserves.

There is, in practice, no upper or lower limit to earmarked reserves save only that they must be held for genuine and intended purposes, and their level should be subject to regular review and justification (at least annually).

#### **5. Management of Reserves**

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

Any decision to set up a new earmarked reserve shall be authorised by the Council or the Finance Committee. Where possible, the name of the fund should help to identify the purpose for which it has been earmarked.

All earmarked reserves shall be recorded on a central schedule held by the Responsible Financial Officer which lists when the reserve was created and the purpose for which it is held.

Any movements in earmarked reserves shall be reported to the Finance Committee as part of the quarterly financial reports and to the Council as a whole at the year end.

The Council is to decide whether to carry forward unspent project budgets as earmarked reserves or to cancel the project and let the monies revert to the general fund.

#### **6. Adoption and Review**

This document will be reviewed at least annually.

<b>Version</b>	<b>Change description</b>	<b>Issue date</b>
1.0	First issued	11 January 2022
1.1	EMR updated	11 April 2022
1.2	Policy reviewed	25 November 2022

## Annex: Current Financial Reserves

The following earmarked reserves have been approved:

Earmarked Reserve	Created on	Amount	Reason
S106 Bassett Road	01/09/2017	£ 12,981	Developer contribution towards leisure facilities
Westwoods Capital Works	31/03/2020	£ 12,000	Earmarked for new heating system
Community Activity Grant	29/09/2020	£ 525	Ringfenced for seated exercise class
Snow clearance †	11/01/2022	£ 1,500	Contingency
Election costs †	11/01/2022	£ 2,300	Contingency
Pavilion roof	25/10/2022	£ 5,000	Asset renewal
Playground equipment	25/10/2022	£ 7,500	Asset renewal
<b>Total Earmarked</b>		<b>£ 41,806</b>	

† Money held as a reserve as it is not required every year