



RESERVES POLICY

Introduction

Local Authorities are empowered to hold reserves through section 32 and 43 of the Local Government Finance Act 1992.

Reserves are an essential part of good financial management; they assist the Council to manage unpredictable financial pressures and plan for future spending commitments.

Legislation states the Council must set a balanced budget, in setting the balanced budget the Council should consider the following:

- What level of expenditure is required to deliver the desired level of services;
- What income the Council can generate through fees and charges to support the expenditure;
- The amount of reserves available to support the Council's expenditure;
- The level of reserves required to fund the Council's capital projects contained within the medium-term financial plan;
- The level of Precept the Council is prepared to charge local residents.

Reserves-Definition

This Council's reserves fall into three main categories:

1. The General Reserve;
2. Earmarked Reserves to fund future revenue and capital costs;
3. Major Projects Reserve.

1. The General Reserve

The level of this reserve is designed to reflect the general cash flow and day to day risks surrounding the delivery of the Council's services. There is no specific guidance on the minimum level of the general reserve, the Council should determine what is a prudent level of reserve based on its own circumstances, risks and uncertainties.

2. Earmarked Reserves

Earmarked reserves are set up for identified projects. These are sums set aside for service departments to meet future expenditure not contained within the annual revenue budget. They are created by carrying approved unspent budgets or over recovery on income into earmarked reserves, also if expenditure on certain items is delayed then these may be earmarked for completion in the following year.

3. Major Projects Reserve

This is created from sums raised via the Precept and other receipts with restrictions on use (CIL, Solar Farm Receipts and other receipts of a capital nature), this reserve is designed to finance capital projects and other projects for the benefit of the community.

Reserves Policy

General Reserve

As stated above there is no hard and fast rule governing the level of general reserve, using a ratio of Precept to income generated from activities, in this Council 60% Precept 40% other income, the cash flow risk is considered to be medium, based on this income mix the level of General Reserve should be between four and six months operating costs (excluding capital projects). If the General Reserve drops below four months operating costs it should be topped up by either contribution from the Precept or by virement of sufficient funds from the Earmarked or Major Projects Reserves to restore the General Reserve to an acceptable level. If the General Reserve exceeds six months operating costs, surplus funds should be carried into the Major Projects Fund or a new Earmarked Reserve created to support future years Precept.

Earmarked Reserves

Earmarked Reserves are created by carrying surpluses into the following financial year, these may be either underspends on expenditure or over recovery on income budgets. They may also be created to smooth irregular revenue expenditure by making an annual allowance in the budget (for example an Election Reserve). The practice of rolling over budgets due to over budgeting is not allowed, accounting for such surpluses will take place each year end, when the overall financial position of the Council can be established and the treatment of the surplus/deficit is decided by the Full Council.

Earmarked Reserves are controlled by the committee responsible for the delivery of the relevant services and are set up and spent by resolution of that committee. The committee in conjunction with the head of service should define:

- The reason for/purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the reserve's management and control;
- Timescale for review of the reserve to ensure its continuing relevance and adequacy.

Major Projects Reserve

The Major Projects Reserve is funded partially by an amount determined each year (subject to any constraints or no requirement) to be included in the annual budget calculation and claimed via the Precept, it may also be funded via special receipts whose use is restricted to projects specifically for the benefit of the community.

The Major Projects Reserve is controlled by the Council in conjunction with the Town Clerk and is set up and spent by resolution of the Council. Capital Projects are defined in the strategic plan (NB strategic plan to be completed). Projects should be reviewed annually, and progress reported to the Council. If for any reason the project is abandoned, then the funds can be re-allocated to a new project or returned to the General Reserve to support the Precept.

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