



Grange-over-Sands Town Council

Reserves Policy

April 2021

Introduction

Grange Town 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. However, there is no specified minimum level of reserves that an authority should hold, and 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.

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 if necessary or can be held in case of unexpected events or emergencies.

Earmarked reserves are also known as 'ringfenced' or 'designated' and can be held for several reasons:

- **Renewals** - to enable the Council to plan and finance effective programmes of equipment and infrastructure replacement and planned asset and property maintenance. These reserves are a mechanism to smooth expenditure so that sensible replacement and maintenance programmes can be achieved without the need to vary budgets.
- **Carry forward of underspend** – this is when expenditure has been committed, but not spent, during the financial year and when funds are donated for specific

purposes but not yet spent. Reserves are used as a mechanism to carry forward these resources.

- **Insurance reserve** – to enable the Council to meet any insurance claim excesses.
- **Election reserve** – elections can be an unexpected cost when a vacancy occurs mid-term.
- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities such as loans.

Earmarked Reserves

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

Any decision to set up a reserve must be made by the Council.

Expenditure from reserves can only be authorised by the Council.

Reserves should not be held to fund on-going expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. To the extent that reserves are used to meet short term funding gaps, they must be replenished in the following year. However, earmarked reserves that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established.

All Earmarked Reserves are recorded on a central schedule held by the Responsible Financial Officer which lists the various Earmarked Reserves and the purpose for which they are held.

Reviewing the Council’s Financial Risk Assessment is part of the budgeting and year end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of Reserves.

General Reserves

The level of General Reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level. 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.

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 working balances to cover the key risks it faces, as expressed in its financial risk assessment.

If in extreme circumstances General Reserves were 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.

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

Current level of financial reserves

The level of financial reserves held is agreed by the Town Council during the discussions regarding the setting of the budget for the next financial year.

The reserves allocation is reviewed by the Town Council at the end of each financial year.

The Quarterly Finance Reports to the Town Council meeting include the reserves figure so that councillors can monitor fluctuations.

Whilst there is no statutory minimum (or maximum) level of reserves, councils should not hold revenue reserves other than those for reasonable working capital needs or specific earmarked purposes.

The Joint Panel on Accountability and Governance (JPAG) Practitioners' Guide, which sets out the 'proper practices' for how the council must maintain its accounts, recommends that the minimum level of general reserves should be between three and twelve months of net revenue expenditure. This is calculated as a proportion of the precept with any outstanding loans subtracted.

The current level of general reserves to be held by the Council is around six twelfths of the annual precepted figure, i.e., to cover six months' expenditure.

The Council's Internal and External Auditors review the Council's reserves and their justification annually.

This policy is reviewed annually and updated with the agreed reserves schedule.

The allocation of reserves at the end of 2020 financial year is below.

The reserve totalled £244,145 of which £149,0905 was earmarked.

The General Reserve was just under six months' running costs.

General Reserve	
Council	94,240
Earmarked Reserve	
Victoria Hall (includes £50,000 for boilers as quoted)	85,000
Vic Hall Support Group/Donations	15,163
Public Conveniences	15,000
Recreation Ground	5,000
Allotments	2,000
Public Domain	10,000
Public Works Loan Board	17,742
Reserves per AGAR Box 7 March 2020	244,145