



Grange-over-Sands Town Council

Reserves Policy

Adopted April 2021, reviewed June 2024

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 (Clerk) 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, earmarked or restricted (ring-fenced):

1. General

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.

2. Earmarked

Funds allocated 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.

3. Restricted (ring-fenced)

Funds held when expenditure has been committed, but not spent, during the financial year and when funds are donated or granted for specific purposes but not yet spent. Reserves are used as a mechanism to carry forward these resources.

Operation 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 finances, the Council must keep a minimum balance, sufficient to pay one month's salaries to staff, in general reserves.

Earmarked and Restricted (ring-fenced)

Earmarked reserves are established on a 'needs' basis, in line with anticipated requirements.

Any decision to set up a reserve must be made by the Council and 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 earmarked reserves are used to meet short term funding gaps, they must be replenished in the following year.

However, restricted (ring-fenced) 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 reserves are recorded on a central schedule held by the Clerk which lists the various 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.

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 opening reserves allocation for the new financial year is resolved annually at a meeting of the full Town Council.

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 allocation annually.

This policy is reviewed annually.