

Reserves Policy

Purpose

The Council is required to maintain adequate financial reserves to meet foreseeable needs and commitments, and to ensure money is available in the event of an emergency.

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.

The Council will hold reserves for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
- A contingency to cushion the impact of unexpected events or emergencies.
- A means of building up funds, to meet known or predicted requirements and projects.

The Council has no legal powers to hold revenue reserves other than for reasonable working capital or for specifically earmarked purposes, therefore the year-end general reserve should not be significantly higher than the annual precept.

General Reserve

The use of this is not restricted. These reserves can be used to smooth the impact of uneven cashflows or can be held in case of unexpected events or emergencies. The level held by the Council for the forthcoming year will be based upon a risk assessment of the Council's main areas of income and expenditure and consider any provisions and contingencies that may be required. This is a matter of judgement.

The current level of general reserves to be held by the Council will be determined at the time of setting the annual budget but should reflect between 3 and 9 twelfths of the annual expenditure of the Council as required i.e. to cover 3 – 9 months running costs and should include:

- Salary commitments
- Contractual requirements
- Income levels below budgeted level
- Insurance reserve to enable the Council to meet the excesses of claims not covered by insurance

The use of General Reserves must be authorised by The Council. Where the reserve amount has arisen because of excess funds through cancelled or obsolete activities the Council may elect to use these funds for another purpose for which no other budget is available. The budget should be regularly reviewed.

If, in extreme circumstances, General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Council can draw down from its Specific Reserves to provide short-term resources.

Earmarked Reserves

These are to be set up to meet known or predicted liabilities, for example:

- Projects identified by the Council e.g., replacing buildings, play equipment or street furniture

- Future election costs
- Devolution of services

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

Reserves should not be used to fund ongoing expenditure. To the extent that Reserves are used to meet the short-term funding gaps, they should be replenished in the following year. However, Specific Reserves that have been used to meet a liability or project would not need to be replenished, having served the purpose for which they were originally established.

Management and Control of Reserves

Movements in Specific Reserves and General Reserves shall be reported to the Council on a monthly basis as part of the normal accounting reports, and on an annual basis as part of the annual accounting report. The use of Reserves shall be approved by the Council having regard to this policy and the Councils' Financial Regulations.

General Reserves will be reviewed each year as part of the budgetary process. The minimum level of General Reserve will be recommended to the Council. This will form part of the recommendations for the Annual Budget and Precept Request to the Council.

Earmarked Reserves shall be reviewed on an individual basis. This review will also be undertaken as part of the budgeting process. Approval for the creation, amendment, cessation, or continuance of Specific Reserves will be given by the Council.

This policy may be reviewed by the Finance and Governance Committee but must be approved by the Council.