WEST BEDLINGTON
TOWN COUNCIL

Policy for Financial Reserves

Approved Minute Ref	
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Version	**1**

West Bedlington Town Council

Reserves Policy

1.0 Purpose

1.1 West Bedlington Town Council (WBTC) is required to maintain adequate financial reserves to meet the needs of the corporate entity. The purpose of this draft policy is to set out how the Council will determine and review the level of reserves.

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1.2 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. Paragraph 2.26 of Governance and Accountability for Local Councils – A Practitioners Guide (2010) states that:

"*Earmarked reserves, which are set aside for specific purposes and for savings for future projects, should be realistic and approved by the council. It is generally accepted that general (i.e. un-earmarked) revenue reserves usually lie within the range of three to twelve months of gross expenditure. However, the amount of general reserve should be risk assessed and approved by the Council.*"

2.0 Types of reserves

2.1 Reserves can be categorised as General or Earmarked.

2.2 Earmarked reserves can be held for several reasons:

Renewals – to enable services to plan and finance an effective programme of vehicle and equipment replacement and planned property maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.

Carry forward of underspend - some services commit expenditure to projects, but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.

Insurance reserve – to enable the Council to meet the excesses of claims not covered by insurance.

Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

2.3 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, emergencies or new projects not previously planned for.

3.0 Earmarked reserves

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

3.2 Any decision to set up a reserve must be made by the full Council. The Finance and Governance Working Group can consider the need for reserves in detail with a view to making a recommendation to Full Council

3.3 Expenditure from reserves can only be authorised by the full Council.

3.4 Reserves should not be held to fund ongoing 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.

3.5 All earmarked reserves should be 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.

3.6 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. The budgeting process should therefore clearly state the reserves position.

4.0 General Reserves

4.1 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.

4.2 Setting the level of general reserves is to be 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.

4.3 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.

4.4 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.

5.0 Current level of financial reserves

5.1 The level of financial reserves to be held by the council will be agreed by the full council during the discussions held regarding the setting of the budget for the next financial year.

5.2 It is suggested that the level of general reserves to be held by the council be 6 (six) twelfths of the annual precepted figure. The figure of 6 (six) twelfths of the precept to be held rather than 6 (six) months expenditure costs to be held is due to the variable nature of the council’s commercial activities.

This figure is **£97, 868** for the total precept of £195,736 in the financial year 2017/18

5.3 The council currently has earmarked reserves of £96,952 for various projects as indicated in Appendix A as at 31st March 2017. The General Reserve level is currently only £60,035.The Council will put in place measures to revise this level for the financial year end 31st March 2018.

RECOMMENDATION

That the Town Council consider adopting a reserves policy that specifies the level of general reserves as a fraction of the precept, and allocates earmarked reserves based on known capital expenditure plans. The reserves policy should be reviewed each year as part of the budget and precept setting process, and tied into the financial risk assessment obligations.

Steven Young

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