

RESERVES POLICY

Introduction

Great Dunmow 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.

It is essential that the Town Council has sufficient reserves (General and Earmarked) to finance both its day to day operations and future plans. It is important that such funds are not excessive as they are generated from taxation.

Paragraph 5.33 of Governance & Accountability for Smaller Authorities – A Practitioner's Guide March 2023 states that the generally accepted recommendation with regard to the appropriate minimum level of a smaller authority's general reserve is that it should be maintained at between 3 and 12 months net revenue expenditure.

Types of Reserves

Reserves can be categorised as general, earmarked or ring-fenced.

Earmarked reserves can be held for several reasons:

- Renewals – to enable services to plan and finance an effective programme of vehicle, equipment and infrastructure 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 within the 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.

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

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 schedule (within the Balance Sheet and Budget) 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 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.

Ring-fenced Reserves

A ring-fence is a protective move in finance to segregate finances away from the rest for a specific purpose. It may be done to prevent the money being available for any other purpose.

Current level of financial reserves

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

The current level of reserves held by the Council is shown on the Balance Sheet attached to the Annual Return.

Adopted by the council on 12th February 2015

Reviewed 23rd November 2017

Reviewed 22nd November 2018

Reviewed 21st November 2019

Reviewed 19th November 2020

Reviewed 4th April 2024