



## **WHITNASH TOWN COUNCIL REVENUE RESERVES POLICY**

A key component to sound financial and risk management is that the Town Council maintains adequate reserves and balances to meet either known future commitments or expenditure arising from unforeseen, unexpected or emergency situations.

The purpose of this policy is to:

- Outline the legislative and regulatory framework underpinning the creation, use and assessment of the adequacy of reserves;
- Identify the principles to be employed by the Town Council in assessing the adequacy of the Council's balances and reserves;
- Indicate how frequently the adequacy of the Council's balances and reserves will be reviewed.
- Set out the arrangements relating to the creation, amendment and use of reserves and balances.

**Reserves** – there are 3 types of reserves:

**Sold assets** - a capital receipt if the limit is below £10,000 and there are restrictions on how it can be spent, but no time limit by which it must be spent. Interest can be used for reserves.

**Specific / Earmarked reserves** – the Council decides on ear marked reserves and what they are used for. This usually includes election expenses and capital expenditure projects.

**General Revenue Reserves** – 50% of the Council's total precept will be held in reserves.

Council determines the level of General Revenue Reserves on the advice of the Clerk / Responsible Finance Officer. To include General Revenue Reserves consideration in a Resolution at Precept setting time is best practice.

The minimum for General Revenue Reserves appears to be of the order of 3 months expenditure nett of normal "trading" income to get the Town Council through to the

**Date Approved: 22<sup>nd</sup> March 2012**

**Review Date: November 2012**

arrival of the Precept if it is delayed. In addition to the Specific / Earmarked Reserves (approved by Council) there should also be a general allowance for contingencies like contested by-elections. These would be contingencies in terms of unidentified items out of the control of the council rather than lack of budget due to oversight or overspend.

The General Revenue Reserves is dependent on local circumstances. If there is a Project which is grant-aided but the grant is only paid three weeks after submission of paid invoices there will be a requirement for working capital - that has to be funded from General Revenue Reserve and may be short-term, but needs to be taken into account.

The Town Council should support the principle of prudent budgeting.

Working reserves should be maintained above the Contingencies set in any good budget. General Reserves need to be set at 6 months normal revenue expenditure. Town Councils can wait for at least one month for the Precept payment. There is an argument for 3 months revenue expenditure as your Working Capital Minimum. Any normal income should be valued very prudently so that there is a tendency to overestimate the need for Reserves. Monies set aside for future projects should be identified in the Financial Statements. These are not part of the General Reserves.

All Councils should hold earmarked reserves for:

- *Election costs*
- *Bye-Election costs*
- *Accumulated reserves for Employment Liabilities, gratuities*

An artificially low Precept is as damaging as an artificially high one unless there is a very good explanation for it. If reserves are too low then the Council's solvency and its future activities can be put at risk.

## **Procedure on Balances and Reserves**

When reviewing, amending or increasing General Reserves and / or Specific / Earmarked Reserves the provisions within these Regulations must be followed:

Each committee will by no later than the end of October each year review their Specific / Earmarked Reserve provision and make recommendations to the Finance and General Purposes Committee for any changes. Every recommendation for the provision of a Specific / Earmarked Reserve will contain the following information:

### **The Reason/Purpose for the Specific Reserve:**

- Specific reserves should not be created for general revenue items but may include one-off items. The item should be identifiable and tangible but its cost

**Date Approved: 22<sup>nd</sup> March 2012**

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may not be exact. Round figure Specific / Earmarked Reserves will be acceptable. Specific / Earmarked Reserves should only be created where the funding requirement is to be raised over two or more years.

- \*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. unearmarked) revenue reserves usually lie within the range of three to twelve months of gross expenditure. However, the amount of general reserves should be risk assessed and approved by the Council. (*\*Governance and Accountability for Local Councils Practitioners' Guide*)

#### **How and When the Reserves can be used:**

- Specific / Earmarked Reserves should be used only for the purpose for which they are created. Where that purpose of the Specific / Earmarked Reserve becomes obsolete, or where there is an over provision of funds, the excess may on the approval of members be transferred to other budget headings within the revenue budget or to General Revenue Reserves.
- The use of General Revenue Reserves must be authorised by full council. Where the reserve amount has arisen as a result of excess funds through cancelled or obsolete activities members may elect to use these funds for another purpose for which no other budget is available. General Reserves should not be used in a year where it has been necessary to use General Reserves for emergency or unexpected events as detailed below.
- The use of General Revenue Reserves where the funds have been created to deal with unexpected events or emergencies should only be used for this purpose. Where such exceptional expenditure is approved, additional further expenditure from the general reserve should not be undertaken within that financial year.

#### **Procedures for the reserve's management and control:**

- Movements in Specific / Earmarked Reserves and General Revenue Reserves will be reported to members on an annual basis as part of the precept report, and on an annual basis as part of the annual accounting reports. The use of reserves will be approved by members at full council having regard to this policy and the Town Council's Financial Regulations.

#### **Process and timescales for review of the reserve to ensure continuing Relevance and adequacy:**

- The level of General Revenue Reserves will be reviewed on an annual basis during the Annual Precept Review. The minimum level of General Revenue Reserves will be recommended to members of the Finance and General Purposes Committee by the Clerk / Responsible Finance Officer using

<b>Date Approved: 22<sup>nd</sup> March 2012</b>
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<b>Review Date: November 2012</b>
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approved risk based assessments. This will form part of the recommendations for the Annual Precept Request to the Town Council.

- Specific / Earmarked Reserves will be reviewed on an individual basis by the committee which holds responsibility for it. This review will be undertaken on an annual basis as part of the precept process. Recommendations on creation, amendment, cessation or continuance of Specific / Earmarked Reserves by the committee will be given to the Finance and General Purposes Committee by way of a report on an annual basis at the Precept meeting. Approval for the creation, amendment, cessation or continuance of Specific / Earmarked Reserves will be given by the Town Council.