

Garstang Town Council

Reserves Policy

Date of Review: December (annually)

Version Number	Purpose/Change	Author	Date
V0.1	001 (2000-00) First draft to be approved by Finance Committee	E. Parry, Town Clerk	12/01/2021
	Inclusion of Elections costs	E. Parry, Town Clerk	07/07/2021
V1.0	Approved by Full Council minute 86(2021-22)	E. Parry, Town Clerk	16/08/2021
V1.0	Approved by Full Council minute 169(2023-24)	E. Parry, Town Clerk	20/11/2024
V1.0	Finance Committee minute 022(2024-25) recommendation	E. Parry, Town Clerk	8/10/2024
V1.0	Approved by Full Council minute 097(2024-25) that 'the current levels of reserves to be held by the Council be changed from '3 to 5 months' to '3 to 12 months' in line with JPAG guidance.	E. Parry, Town Clerk	21/10/2024

Reserves Policy

Introduction

Garstang 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.

Types of Reserves

Reserves can be categorised as general or earmarked.

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 in year. Reserves are used as a mechanism to carry forward these resources.
- Insurance reserve – any excess claims to be met by Reserves (code 52) or Legal & Consultancy contingency (code 51)
- 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 central schedule held by the Responsible Financial Officer 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.

Elections Reserve

This earmarked reserve is to cover the cost of by-elections.

The current expected costs, of a by-election is £9,241.07 (Reference Wyre council 05/02/2024).

If a by election were to be called, the costs would be met from the EMR general reserves. The Council would commit to replenish the EMR general reserves over a 4 year period following the election.

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 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.

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 general reserves to be held by the Council is 3 to 12 months' expenditure. These reserves will be held in an Ear Marked Reserve General Reserves.

Reference

The Practitioners' Guide ('the guide') is issued by the Joint Panel on Accountability and Governance (JPAG) to support the preparation by smaller authorities in England of statutory annual accounting and governance statements found in the Annual Governance and Accountability Return.

JPAG Governance & Accountability Practitioners' Guide 2024

5.31. As with any financial entity, it is essential that authorities have sufficient reserves (general and earmarked) to finance both their day-to-day operations and future plans.

5.32. Smaller authorities have no specific right to accumulate funds via the precept. All reserves should be reviewed and justified regularly (i.e. at least annually). It is good practice to transparently publish both the level and rationale of all reserves.

General reserves:

5.33. The general reserve of an authority comprises its cash flow and contingency funds to cover unexpected inflation, unforeseen events and unusual circumstances.

5.34. The generally accepted recommendation with regard to the appropriate minimum level of a smaller authority's general reserve is that this should be maintained at between three and twelve months of net revenue expenditure.

5.35. The reason for the wide range is to cater for the large variation in activity level between individual authorities. The smaller the authority, the closer the figure may be to 12 months expenditure, the larger the authority, the nearer to 3 months. In practice, any authority with income and expenditure in excess of £200,000 should plan towards 3 months equivalent general reserve.

5.36. In all of this it is important that each authority adopt, as a general reserve policy, the level appropriate to their size, situation, risks and plan their budget so as to ensure that the adopted level is maintained. Consideration of the minimum level of reserves requires not only consideration of level of income and expenditure but also the risks to that income.

5.37. Authorities with significant self-generated income (other than the precept or levy) should take into account situations that may lead to a loss in revenue as well as increased costs and adapt their general reserve accordingly.

Earmarked and other reserves:

5.38. None of the above in any way affects the level of earmarked and/or capital receipts reserves that an authority may or should hold.

5.39. There is, in practice, no upper or lower limit to EMR/CRRs save only that they must be held for genuine and identifiable purposes and projects, and their level should be subject to regular review and justification (at least annually and at budget setting), and should be separately identified and enumerated. Significant levels of EMRs in particular may give rise to enquiries from internal and/or external auditors.