

KIDSGROVE TOWN COUNCIL



Reserves Policy

July 2020

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1. Introduction

Kidsgrove Town Council strives to maintain adequate financial reserves to meet the needs of the organisation and to protect against the risk of the council having insufficient funding for future projects whilst ensuring that public money is not being unnecessarily hoarded. The purpose of this policy is to set out how the Council will determine and review the level of reserves.

Local authorities are required under statute to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement¹. However, there is no specified minimum level of reserves that an authority should hold. It is the responsibility of the Responsible financial Officer and the Members of the Council to determine the level of reserves and to ensure that there are procedures for their establishment and use.

The Good Councillors Guide to Finance and Transparency 2017 and Governance and Accountability for Smaller Authorities in England (2020) advises that a council should typically hold between three- and twelve-months expenditure as a general (revenue) reserve. If the reserve is too low then it may not be enough to cover unexpected expenditure or emergencies, whilst if it is too high then local electors have paid a tax which is not being used for the benefit of the local community.

2. Types of Reserves

a. Earmarked Reserves

This provides a means of accumulating funds, for use in a later financial year, to meet known or planned policy initiatives.

Earmarked Reserves will increase through decisions of the Council and will decrease as they are spent on their specific intended purposes.

The purpose of an Earmarked Reserve is to set aside amounts for projects that extend beyond one year or as a contingency against a specific situation occurring. Where expenditure is planned in future accounting periods, it is prudent to build up reserves in advance.

When an earmarked reserve is established, a clear reason/purpose should be set out, together with how and when the funds are expected to be used. It is the responsibility of the Responsible Finance Officer (RFO) to ensure funds are spent in line with their purpose. The purpose of each Earmarked Reserve should be reviewed at least annually to ensure that it is still relevant.

The Council may hold an Election Reserve, as all reasonable costs of holding town council elections can be fully recharged by Newcastle Borough Council. In the case of contested elections in all three wards the costs can be relatively high (approximately £10,000 in 2017).

¹ Local Government Finance Act 1992, Sections 32 and 43

b. General Reserves

General reserves are money held that isn't ring fenced in any way. The purpose of general reserves to provide a working balance. Governance and Accountability for Smaller Authorities in England (2020) recommends that the minimum level should be maintained at between three and twelve months Net Revenue Expenditure (NRE), which is essentially precept/income minus transfers to earmarked reserves and capital expenditure. It is further suggested that Councils with NRE over £200,000 remain nearer the 25% NRE level than the 100% level.

Having insufficient general reserves is a risk to the council due to the financial impact of emergencies and unforeseen events. The Council's risk assessment should be considered when determining an appropriate level of general reserves.

3. Procedure for Reserves Review

Kidsgrove Town Council will review and produce and approve clear and transparent statements of reserves held:

- At the precept/budget setting
- At year end for inclusion in the report on the end of year accounts.
- At any time that changes to earmarked reserves are resolved at Full Council.

Earmarked reserves will be explained and justified in the statement.

General reserves should be examined to ensure they are adequate to protect the Council against risks.

The Reserves Statements will explain the reserves held and will be approved by Full Council.

4. Procedure for spending from Reserves.

Spending from any reserve must be by approval of the Full Council upon recommendation from the Clerk/RFO or from a committee.

To be reviewed annually.

Review Date: July 2021