



## Millom Town Council Reserves Policy

### Introduction

Millom 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.

The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, legislation does not specify the minimum level of reserves that an authority should hold, meaning it is the responsibility of the Responsible Financial Officer to follow current best practice and advise the Council, whilst ensuring there are procedures to follow.

The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2022 edition) advises: *'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.*

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

Reserves fall into two categories – general or earmarked.

### General Reserves

These are funds which do not have any restrictions to their use. The general reserve comprises its cashflow and contingency funds to cover unexpected inflation, unforeseen events and unusual circumstances. These reserves can be used to smooth the impact of uneven cash flow, offset budget requirements if necessary or can be held in case of unexpected events or emergencies.

JPAG (March 2022 edition) advises that: *'The generally accepted recommendation with regard to the appropriate minimum level of a Smaller Authority's General Reserves is that this should be maintained at between three and twelve months of Net Revenue Expenditure (NRE).*

*NRE is effectively Precept less any Loan Repayments and/or amounts included in Precept for Capital Projects and transfers to Earmarked Reserves. The larger the authority, the nearer to 3 months. In practice, any authority with expenditure in excess of £200,000 should plan towards 3 months equivalent general reserve.'*

The primary means of building General Reserves will be through a reallocation of funds (underspend on projects) and 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.

### **Earmarked Reserves (EMRs)**

These can be held for several reasons. The money is held for specific items of expenditure to meet known or predicted liabilities or projects. Earmarked Reserves can be used to 'smooth' the effects of certain expenditure commitments over a period of time, thereby reducing the impact of significant expenditure in any one year.

Typically, they are held for the following reasons:

- Renewals, e.g. equipment, planned property maintenance
- To carry forward an underspend where expenditure has been committed to a particular project that cannot be spent in year
- To enable the Council to meet the excess of claims not covered by insurance
- To indicate commitment to a capital project
- To meet known or predicted liabilities

Earmarked Reserves will be established on a 'needs' basis, in line with anticipated requirements, and must be held for a genuine and intended purpose. 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 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.

Earmarked Reserves should be separately identified and enumerated, and should be subject to annual review and justification.

### **Current Level of 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 minimum level of General Reserves to be held by the Council is three/six months of predicted expenditure.

This policy will be reviewed on an annual basis to ensure these levels remain appropriate as changes in activity levels / range of services provided will inevitably lead to changes in the requisite minimum of General Reserves.

Adopted: June 2022

Next review due: June 2023

