



SANDBACH TOWN COUNCIL

Finance, Governance and Policy Committee 3 August 2022

Reserves Policy

Introduction

1. The Town Council is required by statute to maintain financial reserves sufficient to meet the needs of the organisation and in addition has statutory limitations on how it spends certain receipts, which it must ensure are accounted for separately to the council's general funds.
2. Whilst there is no statutory minimum (or maximum) level of reserves, the Council has no power to hold revenue reserves other than those for reasonable working capital needs or specific earmarked purposes.
3. The Joint Panel on Accountability and Governance (JPAG) Practitioners' Guide, which sets out the 'proper practices' for how the council must maintain its accounts, recommends that the minimum level of general reserves should be between three and twelve months of net revenue expenditure. For larger authorities, it states that the lower end (three months, or 25%) is appropriate. See the Appendix to this policy for JPAG reference.
4. The Council's Internal and External Auditors review the council's reserves and their justification annually.
5. This policy sets out how the Council will manage its reserves and is separate to the approach to investment of those reserves, which involves how the council will hold its assets.

General Reserve

6. The general reserve is not ringfenced (earmarked) for any specific expenditure. Its purposes are to smooth the impact of uneven cashflow or cover unexpected/emergency expenditure. It is not intended to fund on going expenditure.
7. The general reserve will be replenished as part of the budget process in any year where it has been utilised for unexpected/emergency expenditure.
8. In line with the national guidance (above), the Council will hold a general reserve of between a minimum of 25% and a maximum of 100% of its net revenue expenditure (NRE) - this is the difference between its budgeted income and expenditure.

9. This will be confirmed each year as part of the Council's budget setting process and based on figures published in the Council's previous year end accounts.

10. Earmarked Reserves

11. The council may establish ringfenced (earmarked) reserves for any reason where it reasonably believes it may incur expenditure in the future.
12. Earmarked reserves will be identified as part of the closure of accounts procedure and authorised by Council.
13. If earmarked reserves are not applied for the authorised purpose within 3 years they will be returned to the General Reserve as part of the closure of accounts process, in order to avoid the build up of unused resources which should be released for general use.
14. In line with the JPAG guidance attached, there will be no lower or upper limit set for earmarked reserves which will be evaluated, approved and audited on a case-by-case basis.

CL 24.7.22

Appendix

Joint Panel on Accountability and Governance Practitioner's Guide March 2022 (Extract Page 38)

Reserves

5.30. 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.

5.31. 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

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

5.33. 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.

5.34. 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.

5.35. 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.

5.36. 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:

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

5.38. 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.