

Reserves Policy

Adopted by Council minute 226/19/20

Full Council Meeting – 27th April 2020

Reserves are funds retained by Council at the end of the financial year for spending in future years. They represent cash on hand for use against both expected and unexpected events. There are three different types of reserve that may be employed by Council. They are General Reserve, Specific reserves, sometimes called “earmarked reserves” and gifts, donations and grants.

Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed. However, there is no specified minimum or maximum 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 key protocols for their establishment and use.

General Reserve

The General Reserve, unlike other reserves, is not set aside for an identified use. It is a safety buffer to ensure, within reason, Council has sufficient funds to carry out its functions. Any surplus or deficit at the end of a financial year is carried to General Reserve. In line with NALC guidelines the General Reserve will be maintained at a level equal to one year's precept. Since it is unlikely that net expenditure in a budget year will be exactly equal to budget a variance within plus or minus 10% is permissible. The budget for the following year must be set to return the General Reserve to a level equal to the precept before such correction.

In order to reduce excessive fluctuations in the precept a variance in excess of 10% will be adjusted to reach equality between General Reserve and precept over two financial years.

Specific reserves

A specific reserve is money set aside for an identified purpose.

A specific reserve can be created when expenditure that was budgeted to take place within the year but has actually been deferred to the following year. This concept makes allowance for the practical difficulties that can prevent Council completing projects within a financial year. However, public money must not be hoarded in reserves. When no expenditure has been incurred against such a reserved item by the end of the following financial year the responsible committee must reaffirm its intention to carry out the project in order to retain its reserve. Should there be no spending during two financial years after the creation of the reserve it will be released. If the spending committee still intends to make this expenditure it must include it in its budget for the following year. Council will then decide on the merits of such a project against others competing for inclusion in the budget.

Specific reserves may also be accrued over a number of years to build a sum for known large expenditure such as property maintenance or as an insurance fund for possible expenditure such as election costs.

Specific reserves are ring fenced for spending on the identified items.

Gifts, donations and grants

Money may be given to Council by gift, donation or grant for identified purposes. If it is not already clear, Council should seek guidance from the donor or grant administrator on the use of possible left over funds when the money is received. These funds will be held ring fenced for their identified purpose until completely depleted.

Should Council not obtain clear guidance on surplus money each new Council must seek to obtain such guidance from the donor or grant administrator in its first financial year within its four year term.

20th April 2020