



Patchway Town Council - Reserves Policy

Introduction

The Council is required, under statute, to maintain adequate financial reserves to meet the needs of the organisation. Section 50 of the Local Government Finance Act 1992 requires that billing and precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.

As councils have no legal powers to hold revenue reserves other than those for reasonable working capital needs or for specifically earmarked purposes, whenever a council's year-end general reserve is significantly higher than the annual precept, an explanation should be provided to the auditor.

The Council's policy on the establishment, maintenance and adequacy of reserves and balances will be considered annually.

The Council will hold reserves for these two main purposes:

- 1. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the general reserves;*
- 2. Earmarked Reserves (EMR) to ensure that the council has enough funding to see through or undertake any projects they can in their remit. This is also good practice to ensure that public money is being allocated and used the correct way.*

General Reserves:

The council's general reserves are the monies which are held for no specific purpose and are there to cushion the council's finances against any unexpected expenditure or unexpected issues with the council's cash flow. The council's general reserves should be, in line with good practice, three months of the council's 'running costs. It is bad practice for the councils to keep allocating monies from a general reserve for all projects that aren't budgeted for as these reserves are not endless and should not be exhausted. Any surplus funds at the end of the year, from the current budget, should be earmarked in line with the council's strategic plan to ensure that the councils' aims, and objectives are achieved with the correct funding without the need for unnecessary borrowing.

Earmarked Reserves

Earmarked Reserves represents the amounts that are built up over time which are for specific items of expenditure or the council's projects. These will be transferred from the general reserve to earmarked reserves to ensure that the money allocated is not used for something else.

The Council, when establishing an earmarked reserve, will set out:

- 1. The reason / purpose of the reserve;***
- 2. How and when the reserve can be used;***
- 3. Procedures for the management and control of the reserve; a process and timescale for review of the reserve to ensure continuing relevance and adequacy.***

The current Earmarked reserves are contained in Appendix A

Review of the adequacy of balances and reserves

In accessing the adequacy of reserves the strategic, operational and financial risks facing the authority will be taken into account. The level of earmarked reserves will be reviewed as part of the annual budget preparation.