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## **GENERAL AND EARMARKED RESERVE POLICY**

### **1.0 Background**

1.1 Kingswood Town 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 local precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, there is no specified minimum or maximum level of reserves that an authority should hold. It is the responsibility of the Responsible Financial Officer (RFO) to advise the town council about the level of reserves and to ensure that there are procedures for their establishment and use.

1.2 Consideration should be given to the CIPFA guidance notes on Local Authority Reserves and Balances issued in 2008 and the Audit Commission document 'Interpreting the accounts' published in September 2014.

### **2.0 Purpose of Reserves**

2.1 The Council will hold reserves for these three main purposes:

- a. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves.
- b. A contingency to cushion the impact of unexpected events or emergencies: this also forms part of general reserves.
- c. A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements.

### **3.0 Review of the Adequacy of Balances and Reserves**

3.1 In assessing the adequacy of reserves the strategic, operational, and financial risks facing the authority will be considered. The level of earmarked reserves will be reviewed as part of the annual budget preparation.

3.2 The council's internal and external auditors will review the levels of the council's reserves and their justification on an annual basis.

## **4.0 General Reserves**

4.1 The General Reserve is a balance on the Council's revenue account which is not held for any specific purpose other than to cushion the Council's finances against any unexpected short-term problems in the Council's cash flow. A council should typically hold between three and twelve months expenditure as a general reserve. The primary means of building general reserves will be through an allocation from the annual budget and will form part of the medium-term financial strategy of the Council.

4.2 These reserves are to be maintained at a level based upon a risk assessment carried out annually by the RFO when setting the budget for the forthcoming year, in so far as funding allows. Any surplus on the reserve above the required balance may be used to fund capital expenditure, be appropriated to earmarked reserves or used to limit any increase in the precept. If in extreme circumstances general reserves were exhausted due to major unforeseen spending pressures within a particular year the Council would be able to draw down from its earmarked reserves to provide short term resources. Even at times of extreme financial pressure the Council will keep a minimum balance in general reserves sufficient to pay at least three month's salaries to staff and cover existing contractual obligations.

4.3 The general reserve will be replenished as part of the annual budget process in any year where it has been utilised for unexpected emergencies and expenditure.

4.4 The town council will aim to hold 25% of its net expenditure by the end of the financial year 2025/26, building up the reserve over the three year period, due to being a brand new council and no other opportunity to place funds in the general reserve.

## **5.0 Earmarked Reserves**

5.1 Earmarked Reserves represent amounts that are generally built up or set aside over a period of time which are earmarked for specific items of expenditure to meet known or anticipated liabilities or projects. The setting aside of funds to meet know future expenditure reduces the impact of meeting the full expenditure in one year.

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

- a. the reason/purpose of the reserve
- b. how and when the reserve can be used
- c. procedures for the management and control of the reserve
- d. a process and timescale for review of the reserve to ensure continuing relevance and adequacy

5.3 When a new Earmarked fund is created, this policy will be amended to include the new reserve, to comply with the above.

5.4 The council has the following earmarked reserves:

### **Elections**

- a. This Earmarked Reserve is to cover the cost of by elections across the town wards within the parish boundary. The current expected cost of a single by election is £8,000, therefore the council must build this reserve to hold sufficient funds to cover the cost of 2 by elections. The council will consider the balance of the reserve each year as part of its budget setting process. This reserve will be used when a by election is called and managed by South Gloucestershire Council. SGC will invoice the council for work undertaken to manage the by election.

### **Carry Forward Reserve**

- b. There will be times when the council commits to expenditure from its current year budget but does not incur the cost during the current financial year, and has an intention to incur the cost in a future financial year. Where this occurs the corresponding budget will be transferred to the carry forward reserve at year end and a corresponding entry into the earmarked reserve in the new financial year.

### **CIL and S106 Receipts Reserve**

- c. CIL and S106 receipts are subject to statutory restrictions and can only be used for certain types of expenditure. In accordance with Financial Regulations, the CIL and S106 Reserve will ensure that these funds are kept separately and managed appropriately.

### **Grants Reserve**

- d. The council will, from time to time, be in receipt of a grant that is for a particular purpose and will need to record expenditure to the grant provider periodically. Therefore, any grant received will be placed into its own earmarked reserve for the purpose of monitoring its expenditure and reporting to the grant provider.

## **6.0 Policy Review**

6.1 This policy will be amended when a new earmarked reserve is created.

6.2 The policy will be managed and reviewed annually by the Finance and Administration Committee, as part of the budget setting procedure.