

BIRCHWOOD TOWN COUNCIL RESERVES POLICY

Introduction

Birchwood Town Council is required to retain sufficient 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 all local authorities to consider the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

As legislation does not specify the minimum level of reserves that an authority should hold, 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 2024 edition) section 5.31 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.'*

Section 5.32 states: *'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.'*

Reserves fall into two main categories – General or Earmarked.

General Reserve

The General Reserve is the cash flow which does not have any restrictions placed upon it regarding its use. This reserve can be used to ease an impact of uneven cash flows, and may be drawn on in case of unanticipated events or emergencies, or to cover unexpected inflation, etc.

JPAG (March 2024 edition) section 5.34 advises that: *'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.'*

Section 5.36 states: *'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.'*

The current minimum level of the General Reserve held by Birchwood Town Council is approximately six months of predicted expenditure.

The primary means of building the General Reserve will be through reallocating 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 used in the previous year.

Setting the level of the General Reserve is one of several related decisions in the preparation of the medium-term financial strategy and the annual budget. The Council must build and maintain adequate working balances to cover any key risks it faces, as expressed in its financial risk assessment.

If the General Reserve became 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

These can be held for a number of reasons. The money is held for specific items of expenditure to meet known or predicted liabilities or projects. Earmarked Reserves (EMRs) can be used to relieve pressure from the effects of certain expenditure commitments over a period of time, reducing the impact of significant expenditure in any one year.

JPAG (March 2024 edition) section 5.34 advises that: *'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.'*

Birchwood Town Council currently holds Earmarked Reserves for the following reasons:

BTC Vehicles / General Equipment – building reserves for the replacement of vehicles when they reach the end of their financially viable life and / or for the replacement of equipment either for the office (such as computers, printers, etc.) or larger pieces of equipment / machinery required by the maintenance team.

Community Development Fund – this fund covers items such as new benches, speed indicator devices, new play equipment for play parks, memorials, etc.

Elections – reserves are held to cover any unanticipated bye-elections that may be required due to unforeseen circumstances.

Contingency Fund – This Earmarked Reserve is held to meet known or predicted liabilities.

Earmarked Reserves' underspends may be carried forward where expenditure has been committed to a particular project / fund that cannot / has not been spent in year

Any decision to set up an additional reserve must be made by the Council. Expenditure from reserves can only be authorised by the Council.

In extreme cases, earmarked reserves can be drawn upon for short-term needs.

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

Management of Reserves

The level of financial reserves held by the Council will be agreed by the Town Council during discussions held regarding the setting of the budget for the next financial year.

If the Council decided to invest any reserves and surplus funds which are not immediately required to meet expenditure, it would do this based on the principles set out in its Investment Strategy.

This policy will be reviewed on an annual basis.

This policy was adopted by Birchwood Town Council on 26th March 2023 and was amended for clarity on 5th August 2024.