



FINANCIAL RESERVES POLICY

1. Introduction

Wincanton Town Council is required to maintain adequate financial reserves to meet the needs of the organisation.

Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

2. Guidelines

The level of reserves required will vary according to local circumstances and will be informed by the Council's future expenditure plans. There is no specified minimum or maximum level of reserves that an authority should hold. It is the responsibility of the Responsible Finance Officer (RFO) and Councillors to determine the level of reserves and to ensure that there are procedures for their establishment and use under the recommended guidance detailed in paragraph 3.

It is essential that the Council has sufficient Reserves (General and Earmarked) to finance both its day-to-day operations and future plans. It is important, however, given that its funds are generated from taxation/public levies, that such reserves are not excessive.

3. General Reserve

The Good Councillors Guide to Finance and Transparency 2019 and The Governance & Accountability for Local Councils Practitioners Guide, March 2019 recommends the appropriate minimum level of a Smaller Authority's General Reserves that this should be maintained at **between three (3) and twelve (12) months** of Net Revenue Expenditure. The reason for the wide range (3 to 12 months) is to cater for the large variation in sizes of individual authorities.

The smaller the authority the closer the figure should be to 12 months, the larger the authority the nearer to 3 months. In practice, any authority with a Net Revenue of Expenditure in excess of £200,000 should plan on at least 3 months equivalent General Reserve. In all of this it is important that each authority adopt, as a General Reserve policy, the level appropriate to their size and situation and plan their Budget so as to ensure that the adopted level is maintained.

Wincanton Town Council's Net Revenue Expenditure is £344,008 for 2021/2022 and so should aim for between 3.5 and 4 months in general reserves.

The main purposes of the General Reserves are firstly to operate as a working balance to help manage the impact of uneven cash flows and secondly, to provide a contingency to cushion the impact of emerging or unforeseen events or genuine emergencies.

In general, a robust level of reserve should be maintained and take account of operational and financial issues facing the Town Council. A well-run authority with a prudent approach to setting its budget will each year consider its level of general reserves. These general reserves will also need to be supported by earmarked reserves for specific needs, contingencies and commitments. In assessing the level of the Town Council's reserves, account needs to be taken of the risks facing the Council in terms of any significant unforeseen expenditure requirements.

4. Earmarked Reserves (EMRs)

There is, in practice, no upper or lower limit to earmarked reserves only that they must be held for genuine and intended purposes and their level should be subject to regular review and justification (at least annually) and should be separately identified and enumerated. Significant levels of EMRs in particular may give rise to enquiries from Internal and/or External Auditors.

Earmarked Reserves provides a means of accumulating funds, for use in a later financial year, to meet known or planned policy initiatives. Earmarked Reserves will increase through decisions of the Council and will decrease as they are spent on their specific intended purposes.

When an earmarked reserve is established, a clear reason/purpose should be set out, together with how and when the funds are expected to be used. It is the responsibility of the Responsible Finance Officer (RFO) to ensure funds are spent in line with their purpose. The purpose of each Earmarked Reserve should be reviewed annually to ensure that it is still relevant.

Restricted reserves

Restricted reserves are monies received that cannot be used for any other purpose than what the money was received for, such as CIL, S106 money, a grant received for a specific purpose.

Where an actual overall Budget Deficit occurs at Year End, the Reserves must be reviewed and action taken to enable Reserves to be replenished or for the Reserves Policy to be revised accordingly.

5. Governance concerning the Balances and Reserves

Balances and reserves are reported at each Finance and General Purposes committee and any changes required are recommended to the full Council for consideration.

Reserves are reviewed as part of the budget process and year end process.

Where potential Budget Deficits arise during the financial year, the matter is reviewed by the Finance & General Purposes Committee and, if appropriate, a virement from General Reserves is recommended for approval by the Town Council.

Approved at the full Council – August 2021