

Congleton Town Council

Reserves Policy

Introduction

Town Councils are required to hold financial reserves to meet the financial needs of the organisation, there is no statutory minimum (or maximum) level of reserves. The Congleton Town Council (CTC) has no power to hold revenue reserves other than those for reasonable working capital needs or specific earmarked purposes.

The Joint Panel on Accountability and Governance (JPAG) Practitioners' Guide, which sets out the 'proper practices' for how the council must maintain and run its accounts, recommends that the minimum level of general reserves should be between three and twelve months of net revenue expenditure. According to the guidance for authorities with income and expenditure over £200,000, of which CTC is one, it states that the lower end (three months, or 25%) is appropriate ^(5.32-5.36)

The Council's Internal and External Auditors review the council's reserves annually.

General Reserve

The general reserve is not ringfenced (earmarked) for any specific expenditure. Its purposes are to smooth the impact of uneven cashflow or cover unexpected/emergency expenditure. It is not intended to fund on going expenditure. Currently the general reserve is not replenished as part of the budget process, where the general reserve falls below the required recommended levels the RFO will include this discussion as part of the budget setting process on a year by year basis. ^(5.27)

In line with the national guidance (above), CTC will hold a general reserve of between a minimum of 25% and a maximum of 100% of its net revenue expenditure (NRE) - this is the difference between its budgeted income and expenditure. The General Reserve are held in within the balance of the Council CCLA Public Sector Deposit Fund.

The level of the General Reserve is presented to the Finance and Policy Committee and Full Council as part of the Budget Setting and Year End Accounting reports.

Earmarked Reserves

The council may establish Earmarked Reserves (EMR) where it reasonably believes it may incur expenditure in the future. EMR will be identified as part of the closure of accounts procedure and authorised by Council. Any EMR that are not utilised and are no longer required will be returned to the General Reserve as part of the closure of accounts process, this is in order to avoid the build-up of unused resources which should be released for general use. Per the JPAG there is no upper or lower limit to EMR ^(5.38)

Changes to Earmarked Reserves

The discussion and approval of movement from Earmarked Reserves should be approved by Council (see NB for exception) all requests/ requirements will be presented to Council for approval.

End of Year Accounting

The Earmarked Reserves will be reviewed annually and any additions, deletions, virements and use of funds will be presented to Council for approval during the budget setting process.

NB:

Capital Equipment/Capital Contingency Reserves

These reserves are available to purchases fund equipment/fixed asset purchases. These reserves are monitored by the RFO who will arrange for the accounting movements to take place as and when purchases are made, and all purchases are entered on the Fixed Asset Register or Inventory. Should the fund be required to be used for other unexpected asset maintenance/purchases through revenue budgets this movement will be presented to Finance and policy and Council for noting and approval.

Appendix

Extracts from Joint Panel on Accountability and Governance Practitioner's Guide March 2022

5.27. *The key stages in the budgeting process are*

- *decide the form and level of detail of the budget;*
- *review the current year budget and spending;*
- *determine the cost of spending plans;*
- *assess levels of income;*
- *bring together spending and income plans;*
- *provide for contingencies and consider the need for general and earmarked reserves;*
- *approve the budget;*
- *confirm and submit the precept or rates and special levies;*
- *review progress against the budget regularly throughout the year - at least quarterly in all but exempt authorities - including a year-end projection and a clear minuted commentary of likely significant variances from the budget;*
- *virements (transfers between budget lines) are permitted but not required - they should be used to clarify the situation of the authority alongside budget variances arising from unforeseen circumstances.*

5.32. *The general reserve of an authority comprises its cash flow and contingency funds to cover unexpected inflation, unforeseen events and unusual circumstances.*

5.33. *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.*

5.34. *The reason for the wide range is to cater for the large variation in activity level between individual authorities. The smaller the authority, the closer the figure may be to 12 months expenditure, the larger the authority, the nearer to 3 months. In practice, any authority with income and expenditure in excess of £200,000 should plan towards 3 months equivalent general reserve.*

5.35. *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.*

5.36. *Authorities with significant self-generated income (other than the precept or levy) should take into account situations that may lead to a loss in revenue as well as increased costs and adapt their general reserve accordingly.*

5.38. *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. Significant levels of EMRs in particular may give rise to enquiries from internal and/or external auditors.*

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. Significant levels of EMRs in particular may give rise to enquiries from internal and/or external auditors.