

## **Policy on Reserves: Town Council**

The following is an extract from the Council minutes of 27 March 2019.

**12.6 Reserves Policy.** Advice from 'The Good Councillor's guide to finance and transparency 2018' published by NALC and comments on the level of reserves by the external auditor on the 2016 annual return was noted.

**IT WAS RESOLVED to adopt a Policy on Reserves that would:**

- **Differentiate between Capital and Revenue reserves;**
- **Hold 12 months operating expenditure as a general reserve;**
- **Transfer to the general reserve any unspent balances of expenditure on items for which invoices have not been received at the year-end;**
- **Fully provide for earmarked reserves;**
- **Review the Reserves at every year end.**

The following is an extract from 'The Good Councillor's guide to finance and transparency 2018' published by NALC and was considered when the Policy was agreed

### **RESERVES**

Local councils need to hold an amount in reserves to meet unexpected expenditure, otherwise they could run out of money before the end of the financial year. A council should typically hold between 3 and 12 months expenditure as a general reserve. If the general reserve is too low then it may not be enough to cover unexpected expenditure or emergencies, whilst if the general reserve is too high then local electors have paid a tax which is not being used for the benefit of the local community.

*[In 2016 MTC's external auditor commented that 'We note the level of reserves is high in relation to the annual precept. We understand that the Council has plans to earmark these for a specific project. Nevertheless it should have regard the level of reserves when setting future precepts, ensuring that reserves are formally earmarked.' The YLCA also advised a recent branch meeting that Councils should not set a precept when they had sufficient to cover budgeted expenditure].*

Local councils have no legal powers to hold revenue reserves other than for reasonable working capital or for specifically earmarked purposes, therefore the year-end general reserve should not be significantly higher than the annual precept. The council may have Earmarked Reserves for specific projects, where money is allocated for a specific purpose but may not be spent in that financial year. This may include reserves to purchase or renovate a building, develop a sports facility or community centre. The level of, and continued justification for, Earmarked Reserves should be reviewed by council on a regular basis, and not less than annually.

Many councils also hold an Election Reserve, as all reasonable costs of holding local council elections can be fully recharged by the district or unitary council to the local council. In the case of contested elections for a council with several wards then these costs can be relatively high. If the amount of reserves at the year-end are above a certain level in relation to the annual precept then the council must advise the external auditor of why this level of reserves is required.

ENDS