

## RESERVES POLICY

### 1. INTRODUCTION

Dartmouth Town Council is required to maintain adequate Financial Reserves to meet the needs of its operations and to ensure financial security. The purpose of this policy is to set out how the Council will determine and review the level of reserves.

The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2020 edition) advises:

*“As with any financial entity, it is essential that authorities have 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.”*

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. However, there is no specific minimum level of reserves which an authority should hold, and it is the responsibility of the Clerk and/or 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.

### 2. TYPES OF RESERVES

These may be categorised as either General or Earmarked

#### 2.1. General Reserves

This represents the non-ring-fenced balance of Council funds. General Reserves are funds which do not have any restrictions on their use. The main purposes of the General Reserves are firstly to operate as a working balance to help manage and minimise the impact of uneven cash flows, emerging or unforeseen events or genuine emergencies. They cushion the impact of uneven cashflows, offset budget requirements, unexpected events or emergencies. In general, a robust level of reserve should be maintained and take account of operational and financial issues facing the Town Council.

JPAG-(March 2020 edition) o

*“The general 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 (3) and twelve (12) months Net Revenue Expenditure (NRE)”*

The primary means of building General Reserves will be through a reallocation of funds (underspend on a completed project) and allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves which have been spent in the previous year. If in extreme circumstances General reserves were exhausted due to major unforeseen

spending pressures within a particular financial year, the Town Council would be able to draw from EMRs to provide short term resources. Further major element which could impact adversely on future precepts are:

- Capping of Town Council Precept by Central Government.
- Possible transfer of services from South Hams District Council
- Possible transfer of assets from South Hams District Council

## 2.2 Earmarked Reserve 'EMR's

EMR's must be held for genuine and intended purposes and their level should be subject to annual review and justification. They should be separately identified to prevent query from internal & external auditors. They are accumulated funds for use in a later financial year, to meet known or planned initiatives. Earmarked reserves will increase through decisions of the Council and will decrease as they are spent on their specific intended purposes.

EMRs are held for several reasons and shall only be used for the purpose for which they are created:

- Renewals- to enable the planning and financing of an effective program of equipment replacement and property maintenance/ refurbishment. Setting aside amounts for projects that extend beyond one year or as a contingency against a specific situation occurring. The funds required are built up over several years when considering asset conditions and asset life. They are a mechanism to smooth expenditure without the need to vary budgets.
- Carry forward of unspent on an uncompleted project but not spent in the budget year. Reserves can be a mechanism used to carry forward those resources.
- The Council may hold an Election Reserve, as all reasonable costs of holding Town Council elections can be fully recharged by South Hams District Council. In the case of contested elections for both wards the costs can be relatively high. (May 2019 £ 3561.45)
- Other Earmarked Reserves- these may be set up from time to time to meet known or predicted liabilities.
- Where the purpose of an Ear Marked Reserve becomes obsolete, or where there is an over provision of funds, the excess may, on the approval of the Town Council, be

transferred to other budget headings within the revenue budget, to General Reserves or move to one or more Ear Marked Reserves.

EMR's will be established on a "needs" basis in line with anticipated requirements and these are to be reviewed annually when the budget is set and agreed.

Any decision to set up an EMR must be approved by Town Council. If the EMR's are to be used for short term funding gaps, they must be replenished the following year. However, EMR's which have been used to meet a specific liability would not need to be replenished, after having served the purpose for which they were originally set up.

### **3. Management and Control of Reserves**

Movements in Ear Marked Reserves and General Reserves shall be included in the monthly Financial Report and shall be reported at a Finance & General Purposes committee meeting as part of the budget monitor documentation. The use of Reserves shall be approved by the Town Council.

The level of Reserves shall be reviewed on an annual basis during the annual budgetary review and approved by the Town Council. The minimum level of General Reserves shall be recommended by the Responsible Finance Officer in consultation with the Town Clerk. The amounts will initially be put to the Finance & General Purposes committee whilst setting the budget. This will then form part of the recommendations for the Annual Budget and the Precept request by the Town Council.

The current level of General Reserves to be held by the Town Council is set between three and six months of predicted expenditure.

Ear Marked Reserves shall be reviewed on an individual basis. This review will also be undertaken as part of the Annual Budgetary Review. Approval for the creation, amendment, cessation, or continuation of Ear Marked Reserves will be given and approved by the Town Council.