



Caistor Town Council

RESERVES POLICY

Caistor Town Council is required to maintain adequate 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.

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. The Governance and Accountability for Smaller Authorities in England. The Practitioners Guide March 2025 section 5.32 advises all reserves should be reviewed and justified regularly (i.e. at least annually). It is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use and section 5.31 of the guide states it is essential that authorities have sufficient reserves (general and earmarked) to finance both their day-to-day operations and future plans.

Types Of Reserves

Reserves can be categorised as earmarked or general.

Earmarked reserves must be held for genuine and identifiable purposes and projects, there is no upper or lower limit for EMR but they must only be held for genuine reasons (identifiable purposes) and their level should be subject to regular review and justification (at least annually and at budget setting). They can be held for:

- Renewals – to plan and finance an effective programme of new facilities and services, replacement and planned property and land maintenance. These reserves are a mechanism to smooth expenditure so that a sensible programme can be achieved without the need to vary budgets.
- Carry forward of underspend – where some expenditure to projects cannot be spent in the budget year. Reserves are used as a mechanism to carry forward these resources.
- Insurance reserve – to enable the Council to meet the excesses of claims not covered by insurance.

Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

General reserves of an authority comprises its cash flow and contingency funds to cover unexpected inflation, unforeseen events and unusual circumstances.

Earmarked Reserves

Earmarked reserves will be established on a “needs” basis, in line with anticipated requirements.

Any decision to set up a reserve must be given by the Council.

Expenditure from reserves can only be authorised by the Council.

Reserves should not be held to fund ongoing expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. To the extent that reserves are used to meet short term funding gaps, they must be replenished in the following year. However, earmarked reserves that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established.

All earmarked reserves are recorded on a central schedule held by the Responsible Financial Officer which lists the various earmarked reserves and the purpose for which they are held.

Reviewing the Council's Financial Risk Assessment is part of the budgeting and year end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of Reserves.

General Reserves

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. 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. The primary means of building general reserves will be through an allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year.

Setting the level of general reserves is one of several related decisions in the formulation of the medium term financial strategy and the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment.

If in extreme circumstances general reserves were 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.

Current Level Of Reserves

The level of financial reserves held by the council will be agreed by the council during the discussions held regarding the setting of the budget for the next financial year and year end accounting procedures.

The current level of general reserves to be held by the council is around 40% of the council's operating expenditure. NB Currently the general reserves held is around 35% of expenditure in 25/26 and will be around 36% for 26/27.