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Fakenham Town Council

RESERVES POLICY

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1. Purpose

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.

Local Councils have no legal powers to hold revenue reserves other than for reasonable working capital or for specifically earmarked purposes.

The Auditor may seek an explanation of the year-end value of reserves in relation to the annual precept.

2. Types of Reserve

The council holds 2 types of reserves categorised as: General Reserves and Earmarked Reserves. General (contingency) Reserves are held to cushion the impact of uneven cashflow or unexpected events.

Earmarked Reserves are held for specific purposes. The Responsible Financial Officer will keep a schedule of reserves within the council's accounting package, which is reviewed annually in the budget setting process.

3. General Reserves

General Reserves, set aside in the budget as Contingency funds, do not have any restrictions as to their use. These reserves can be used to smooth the impact of uneven cash flows, offset budget requirements if necessary or can be held in case of unexpected events or emergencies.

Guidance states that 'a council should typically hold between 3-12 months net revenue expenditure as a general reserve', specified as Contingency funds in the budget.

(JPAG Practitioners Guide 2023 & Good Councillor's Guide on Finance & Transparency).

Elements of risk to the council's finances will be estimated and a minimum level of reserves recommended to council, with regard to the guidance, as part of the annual budget setting process.

The Finance Committee, as part of its quarterly review, will endeavour to ensure the minimum is maintained.

4. Earmarked Reserves

Earmarked Reserves will be established on a “needs” basis in line with anticipated requirements to meet known or predicted liabilities.

Earmarked Reserves are reviewed and / or established by the council at the annual budget setting meeting.

All Earmarked Reserves are recorded within the council’s accounting package with the purpose for which they are held.

Sums can be moved between earmarked reserve headings should the need arise or should priorities change.

The council may hold Earmarked Reserves in the following categories:

- Where budgeted expenditure for projects is not spent within the financial year the surplus may be carried forward as an earmarked resource.
- Where Reserves are built up over a time period say, to meet significant anticipated future expenditure such as development projects.

There is no statutory upper limit save that Reserves must be held for genuine and intended purposes.

Reserves are not held to fund general expenditure.

When reserves are used, schedules are updated, and amendments made in the year end reconciliations.

5. Ringfenced Reserves

These are funds that cannot be used for any other purpose beyond the external conditions imposed.

Reviewed at Finance Subcommittee 19th February 2024

Ratified at Full Council 28th February 2024