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Town Council

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RESERVE POLICY

Introduction

St Neots Town Council is required by statute to maintain adequate financial reserves sufficient to meet the needs of the organisation and in addition has statutory limitations on how it spends certain receipts which it must ensure are accounted for separately to the Council's general fund. The purpose of this policy is to set out how the Council will determine and review the level of its reserves.

Sections 32 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.

Types of Reserves

Reserves can be categorised as general or earmarked.

Earmarked Reserves

The council may establish ringfenced (earmarked) reserves for any reason where it reasonably believes it may incur expenditure in the future.

Examples are set out below:

- Renewals – to enable services to plan and finance an effective programme of vehicle, equipment and infrastructure replacement and planned property maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
- Carry forward of underspend - some services commit expenditure to projects but cannot spend the budget in 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.

The general reserve is not ringfenced (earmarked) for any specific expenditure, but is intended to cover the unexpected/emergency expenditure, smooth the impact of uneven cashflow and act in an agile manner to cover short term risks associated with lower than expected income or higher than expected costs. The general reserve will be replenished as part of the budget process in any year where it has been utilised for unexpected/emergency expenditure.

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 made by the Full Council. Expenditure from earmarked reserves

can only be authorised by the Full Council.

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.

General Reserves

The Joint Panel on Accountability and Governance (JPAG) Practitioners' Guide, which sets out the 'proper practices' for how the council must maintain its accounts, recommends that the minimum level of general reserves should be between three and twelve months of net revenue expenditure. Net revenue expenditure is defined as precept, less amounts included in precept for loan repayment, capital projects & transfers to reserves.

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 twelve months of net revenue expenditure. Authorities with significant self-generated income (other than precept or levy) should take into account situations that may lead to a loss in revenue as well as increased costs to adapt their general reserves.

The level of General Reserves is a matter of judgement for the Council, having considered the strategic operational and financial risks faced. 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.

Level of Financial 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.

The minimum level of general reserves to be held by the Council is **three twelfths** of the annual precepted figure, i.e. to fully cover three months' of net revenue expenditure. The figure of three twelfths of the precept is to be held rather than three months' expenditure.

Based on a precept of £2,008,010 for 2024/2025 the minimum reserve level (3/12) will be £502,002.

Having considered the short-term risks associated mainly with inflation increases, including salaries backpay and increase in energy costs, the appropriate level of general reserve to be maintained by the Council to cover unexpected/emergency expenditure is at a level being half of its precept (6/12), ie £1,004,005.

The Council will therefore maintain its general reserve between three and six twelfths of the annual precept and will respond accordingly if the level of general reserves drops lower than this bracket or exceeds it.

Where the level of general reserve exceeds the appropriate level of six twelfths, the Finance and Governance Committee will make recommendations to the Council on the allocation/expenditure of surplus funds.

The level of general reserves were agreed and this document adopted by the Full Council on 25th June 2024 and will be reviewed again when setting the budget for the financial year 2025/2026.