Kenilworth Town Council

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FINANCIAL RESERVES POLICY

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Review – December 2026

1. Purpose

1.1
Kenilworth 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.

1.2
Sections 32, 43 and 50 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. The level of reserves required will vary according to local circumstances, and will be influenced by their longer-term spending plans. It is the responsibility of the Responsible Financial Officer (RFO) and Councillors to determine the level of reserves and to ensure that there are procedures for their establishment and use.

1.3
The Good Councillors Guide to Finance and Transparency 2018 and the Joint Panel on Accountability and Governance (JPAG) 2019 suggests that a Council should typically hold between 3 and 12 months Net Revenue Expenditure as a **general (revenue) reserve.** If the reserve is too low then it may not be enough to cover unexpected expenditure or emergencies, whilst if it is too high then local electors have paid a tax which is not being used for the benefit of the local community.

2. Types of Reserves

2.1

General (revenue) reserves are held to ensure a secure financial position for the Council that is not unduly open to the risks presented by unexpected liabilities and uneven cashflows. General Reserves are funds which do not have any restrictions on their use.

2.2
Earmarked Reserves (EMRs) can be held for several reasons. As the name suggests the Reserves comprise amounts which are "earmarked" for specific items of expenditure to meet known or predicted liabilities or projects. Specific Reserves can be used to "smooth" the effects of certain expenditure commitments over a period of time thereby reducing the impact of significant expenditure in any one year. "Earmarked" reserves are typically held for four main reasons:

a) Renewals – to plan and finance an effective programme of equipment replacement, planned property repair and maintenance or grounds maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets. Earmarked Reserves currently include, for instance, 'Equipment Upgrades' and 'Castle Green'.
b) To build up a reserve over a number of years to cover a known expense that is not incurred annually. Earmarked Reserves currently include, for instance, 'Election Fund'.
c) To build up a reserve over a number of years to fund a project that requires more than a single year's contribution. This is used to smooth the expenditure requirements across several years. Earmarked Reserves currently include, for instance, 'Special Projects Fund'.
d) Other earmarked reserves - may be set up from time to time to meet known or predicted liabilities.

A full list of EMRs is shown in the Town Council minutes. Any decision to set up a reserve must be given by the Council.

2.3
Community Infrastructure Levy (CIL) Reserve represents the value of CIL funds passed over to the Council from the District Council, but which has yet to be spent on infrastructure items. Section 5.138A of the Governance & Accountability for Local Councils Practitioners Guide 2018 requires CIL funds to be kept in a separate reserve.

3. Monitoring and Reviewing Reserves

3.1
Reserves will be reviewed at each year end by the Town Council, as part of its Financial Risk Management Process and having regard to the set budget.

The reserves will also be considered as part of the budget setting process. This is to include a general reserves projection over an eight-year period beyond the year being budgeted for. This is to demonstrate how the general reserves are forecast to be maintained within the levels detailed in item 3.3 over the longer term. This information is to be presented as part of the approval of the budget for the forthcoming year.

3.2 .
The primary means of building General Reserves will be through an allocation from the annual budget. This may include any amounts needed to replenish reserves that have been spent in the previous year.

3.3

The Council must maintain sufficient working balances to cover the key risks it faces, as expressed in its Financial Risk Assessment.

The Council will plan to retain a level of general reserves of not less that £75,000 and must not exceed 100% of the Council's average non-CIL annual expenditure for the previous three financial years'. The minimum level of general reserves is based on the following list of identified 'unexpected' items that would not be included in budgeted expenditure.

Examples of unexpected expenditure items may include:
By-elections
Buying in temporary staffing provision – to cover emergency /non-envisaged absence
Unusually high service charge
Inadequate insurance cover
Cash flow issues – access to accounts (e.g. following change to council administration)
Withdrawal of other funding from ongoing commitments

In the situation where an unplanned expenditure has occurred, the Council will consider this at its next Quarterly Review.

3.4
Any decision to transfer balances from the Reserves must be reviewed by the Finance and General Services Committee and recommended to the Full Council for formal approval.

3.5
Expenditure from Reserves is subject to compliance with the Council's Financial Regulations in the normal way.

3.6
If in extreme circumstances General Reserves are exhausted due to major unforeseen spending pressures within a particular financial year, the Council will be able to draw down from its Earmarked Reserves to provide short term resources.

3.7
Earmarked Reserves are established on a "needs" basis in line with anticipated requirements. Councillors review the levels and are asked to approve any additions and carry forward balances at the end of each financial year.

3.8 Reviewing the Council's Financial Risk Assessment is part of the annual budgeting by Committees and the year-end accounting procedures. Part of this process may identify planned and unplanned expenditure items and thereby indicate where specific additional reserves may need to be added to Earmarked Reserves.

3.9
The CIL reserve is monitored monthly within the Council's Management Accounts. The Council must spend each tranche of CIL funds within five years of receipt. CIL Regulation 59C requires funds to be spent on the provision, improvement, replacement, operation or maintenance of infrastructure or anything else that is concerned with addressing the demands that developments place on an area.

3.10 With the exception of the By-Election Reserve, if there has been no movement (debit or credit) on any Earmarked Reserve for at least four years, consideration will be given by the Council as to whether retention of the reserve is still justified.

4. Principles to Assess the Adequacy of Balances and Reserves

4.1
Setting the budgets is the responsibility of the Finance & General Services Committee in collaboration with the RFO, and a recommendation is then made to full Council for formal approval. This forms the foundation of setting the precept.

4.2
In order to assess the adequacy of Reserves when setting the budget, both the RFO and the Committees should take account of the strategic, operational and financial risks facing the Kenilworth Town Council Committees / Council. This is to include consideration of the long-term adequacy of the Reserves not solely for the budgeted year. The financial risks should be assessed in the context of the Council's overall approach to risk management. The RFO should ensure that the Council has put in place effective arrangements for internal audit of the control environment and systems of internal control.

4.3
Setting the level of Reserves is just one of several related decisions in the formulation of the long and medium term financial strategy as well as the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the Council's financial management arrangements. In addition to the cash flow requirements of the Council the following factors should be considered:
• Inflation and interest rates – consider borrowings/debts and inflationary pressure on rental income, salaries, utilities and other contracts and purchase requirements;
• Estimates of the level and timing of future revenue receipts
• The Town Council's capacity to manage in-year budget pressures, particularly where demand can lead to pressure
• Planned efficiency savings / productivity gains
• The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments.
• The adequacy of the insurance arrangements to cover major unforeseen risks.
• Availability of other funding sources, e.g., CIL monies or grants for projects.

5. Governance concerning Financial Reserves

5.1
The Reserves will be reviewed annually following the Council's year end.

5.2
This will include a report from the RFO, prepared in collaboration with the Finance & General Services Committee, on the adequacy of the Reserves (Revenue, Earmarked and CIL) taking into account the forthcoming financial year and the Council's medium and long-term financial plans or projects.

5.3
The RFO in collaboration with the Finance Committee should review the levels of Earmarked Reserves held and make recommendations to Full Council on creation of additional Reserves

as well as the extinction of redundant Earmarked Reserves as part of the approval of the year-end Financial Statements.

5.4
Earmarked reserves can be created or deleted by full Council at any time deemed appropriate.