



Lewes
Town
Council

Reserves Policy

Adoption date	7 March 2024
Policy Maker	Town Clerk
Responsibility	Finance Committee
Review Cycle	Every 4 years

Introduction

Lewes 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.

The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, legislation does not specify the minimum level of reserves that an authority should hold, meaning it is the responsibility of the Responsible Financial Officer to follow current best practice and advise the Council, whilst ensuring there are procedures to follow.

It is usually recommended that at any given time the Council should hold around three to six months in general reserves to cover eventualities and enable the Council to continue to function.

The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2023 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.”

And further:

“Smaller authorities have no specific right to accumulate funds via the precept. All reserves should be reviewed and justified regularly (i.e. at least annually). It is good practice to transparently publish both the level and rationale of all reserves.”

1. Types of reserves

Reserves fall into two categories – general or earmarked.

1.1 General Reserves

These are funds which do not have any restrictions to their use. These reserves can be used to smooth the impact of uneven cash flow, offset budget requirements if necessary, or can be held in case of unexpected events or emergencies.

JPAG (March 2023 edition) advises that:

“The generally accepted recommendation with regard to the appropriate minimum level of a Smaller Authority’s General Reserves is that this should be maintained at between three- and twelve-months Net Revenue Expenditure (NRE). The smaller the authority the closer the figure may be to 12 months. In practice, any authority with an NRE in excess of £200,000 should plan on 3 months equivalent.”

NRE is effectively Precept less any Loan Repayments and/or amounts included in Precept for Capital Projects and transfers to Earmarked Reserves. Authorities with significant self-generated income (other than the precept or levy) should take into account situations that may lead to a loss in revenue as well as increased costs and adapt their general reserve accordingly.

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 down from its EMRs to provide short term resources. Lewes Town Council has set a reserve of a minimum of 3 months' operational costs.

1.2 Earmarked and other reserves

None of the above in any way affects the level of earmarked and/or capital receipts reserves that an authority may or should hold.

Earmarked Reserves (EMRs) 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 and external auditors.

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

- Renewals – to enable the planning and financing of an effective program of equipment replacement and property maintenance/refurbishment. The funds required are built up incrementally 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 underspend on an uncompleted project – expenditure committed to a project but not spent in the budget year. Reserves can be used as a mechanism to carry forward those resources.
- Developers Contributions – proceeds from developers which can only be used for specified purposes.
- Other Earmarked Reserves – these may be set up from time to time to meet known or predicted liabilities.

Where the purpose of an Earmarked 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 to one or more other Earmarked Reserves.

EMRs will be established on a “needs” basis in line with anticipated requirements and these are to be reviewed annually when the budget is agreed.

Any decision to set up an EMR must be approved by Town Council. If the EMRs are used to meet short term funding gaps, they must be replenished in the following financial year.

However, EMRs 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.

2. Management and Control of Reserves

Movements in Earmarked Reserves and General Reserves shall be reported to the Finance committee as part of the budget monitor documentation. The use of Reserves shall be approved by the Town Council.

The level of General Reserves shall be reviewed on an annual basis during the annual budgetary review and agreed by the Town Council. The minimum level of General Reserves shall be recommended to the Town Council by the Town Clerk (or the Responsible Financial Officer if that is not the Town Clerk). This will form part of the recommendations for the Annual Budget and Precept request by the Town Council and is currently set at 3 months' operational costs.

Earmarked Reserves shall be reviewed on an individual basis. Approval for the creation, amendment, cessation or continuation of Earmarked Reserves will be considered by the Finance committee and ratified by the Town Council.