

Newton Abbot Town Council



Reserves Policy

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Reviewed By	Finance & Audit Committee

1. Introduction

Newton Abbot Town Council is required to maintain adequate Financial Reserves to meet the needs of its operations and to ensure financial security. The purpose of this policy is to set out how the Council will determine and review the level of reserves.

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 their day-to-day operations and future plans.

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.”

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. However, there is no specific minimum level of reserves which an authority should hold, and it is the responsibility of the Responsible Financial Officer to advise the Town Council about the level of reserves and to ensure that there are procedures for their establishment and use.

2. Types of Reserves

These may be categorised as either General or Earmarked.

2.1 General Reserves

General Reserves are funds which do not have any restrictions on their use.

They cushion the impact of uneven cash flows, offset budget requirements, if

necessary, or can be held in case of unexpected events or emergencies. Setting the level of General Reserves is agreed with the Annual Budget.

Guide (JPAG) (March 2023 edition) advises:

“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 (3) and twelve months (12) of net revenue expenditure (NRE).”

“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.”

“In all of this it is important that each authority adopt, as a general reserve policy, the level appropriate to their size, situation, risks and plan their budget so as to ensure that the adopted level is maintained. Consideration of the minimum level of reserves requires not only consideration of level of income and expenditure but also the risks to that income. “

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.

2.2 Earmarked Reserves 'EMR's

Earmarked reserves are amounts set aside for specific purposes or for general contingencies and cash flow management. For each reserve established, the purpose, usage and the basis of transactions needs to be clearly defined.

None of the general reserve factors aforementioned affects the level of earmarked and/or capital receipts that an authority may or should hold.

EMRs are held for several reasons and *should only be held for genuine and identifiable purposes, and should be subject to regular review, in addition to being separately identified and enumerated.*

- 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.

3. Management and Control of Reserves

Movements in Earmarked Reserves and General Reserves shall be reported to the Finance & Audit Committee as part of the regular Budget Monitoring report. 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 Responsible Financial Officer in consultation with the Town Clerk. This will form part of the recommendations for the Annual Budget and Precept request by the Town Council.

The current level of General Reserves to be held by the Council is set at equal to between three and six months of predicted expenditure.

Earmarked Reserves shall be reviewed on an individual basis. This review will also be undertaken as part of the Annual Budgetary Review. Approval for the creation, amendment, cessation or continuation of Earmarked Reserves will be given by the Town Council.