



Lostwithiel Town Council

Reserves Policy

Approved 25 January 2022 Minute ref. 256/21

1. Purpose

1.1 Lostwithiel 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 Local authorities need to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. There is no specified minimum or maximum level of reserves that an authority should hold. It is the responsibility of the Councillors and the Responsible Financial Officer (RFO) to determine the level of reserves and to ensure that there are procedures for their establishment and use.

1.3 The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) 2021 edition advises:-

“Reserves:

5.31. 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.

5.32. General Reserve — 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 (12) months Net Revenue Expenditure (NRE). NRE (subject to any planned surplus or deficit) is effectively Precept\Levy less any Loan Repayment and/or amounts included in Precept\Levy for Capital Projects and transfers to Earmarked Reserves. The reason for the wide range (3 to 12 months) is to cater for the large variation in sizes of individual authorities. The smaller the authority the closer the figure should be to 12 months NRE, the larger the authority the nearer to 3 months. In practice, any authority with an NRE in excess of £200,000 should plan on 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 and situation and plan their Budget so as to ensure that the adopted level is maintained. Changes in activity levels/range of services provided will inevitably lead to changes in the requisite minimum level of General Reserve in order to provide working capital for those activities.

5.33. Earmarked and Other Reserves — None of the above in any way affects the level of Earmarked and/or Capital Receipts Reserves (EMR/CRRs) that an authority may or should hold. There is, in practice, no upper or lower limit to

EMR/CRRs save only that they must be held for genuine and intended purposes, and their level should be subject to regular review and justification (at least annually), and should be separately identified and enumerated. Significant levels of EMRs in particular may give rise to enquiries from Internal and/or External Audit

2. Types of Reserves

2.1 General Reserves are held to cushion the impact of uneven cashflows or unexpected events. They provide a working balance and a contingency. In general, a robust level of reserves should be maintained and take account of operational and financial issues facing the Town Council. These are funds which do not have any restrictions as to their use.

2.2 Earmarked Reserves can be held for several reasons. They provide a means of accumulating funds, for use in a later financial year, to meet known planning policy initiatives. The money is held for specific items of expenditure to meet known or predicted liabilities or projects. Earmarked 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. Typically, they are held for four main reasons: -

- a) Renewals
- b) To carry forward an underspend
- c) To indicate commitment to a capital project
- d) To meet known or predicted liabilities

3. Review of Reserves

3.1 The level of both General and Earmarked Reserves will be reviewed at least annually and will always be part of the budget setting process. A level of General Reserve will be maintained which equates to between 3- and 12- months expenditure.

4. Governance

4.1 This policy will be reviewed by Council every year following the Council's year end.