



Wivenhoe Town Council

Reserves Policy

Introduction

Wivenhoe 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 2020 edition advises:

“As with any financial entity, it is essential that authorities have sufficient reserves (General, Capital and Earmarked) to finance both 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.”

Section 32 and 43 of 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, 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 ensure that there are procedures for their establishment and use.

Types of Reserves

These may be categorised as either general or earmarked or capital.

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.

(JPAG) March 2020 edition advises:

“The generally accepted recommendations with regard the appropriate minimum level of a Smaller Authority’s General reserve is that this should be maintained at between three and twelve months Net Revenue Expenditure (NRE).”

“The smaller the authority, the closer the figure should be to twelve months NRE, the larger the authority the nearer to three months. In practice, any authority with an NRE in excess of £200,000 should plan on three months equivalent.”

WTC’s NRE in 2023/24 is £384,342, 3 months equivalent is £96,086 the balance on general reserves as at 31/03/2023 was £164,543.

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 the EMRs to provide short term resources.

Wivenhoe Town Council has considered its current liabilities and have decided to set a reserve of a minimum of five months NRE. The reserves held will be between five and six months.

Earmarked Reserves “EMR’s

EMR’s 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.

EMR’s 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 overprovision 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.

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

However, EMR’s 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.

Capital Reserve

Proceeds from the disposal of fixed assets by local councils are known as capital receipts and are subject to statutory controls. Such proceeds cannot be used for revenue purposes and can only be used for capital purposes – that is the purchase of fixed assets, the significant enhancement of fixed assets, the making of capital grants, or the repayment of long-term loans.

(Where the total proceeds from the sale of a fixed asset is below a specified amount, currently £10,000, it is deemed to be de minimis and is not subject to these controls.)

Authorities should keep separate records, for capital receipts, so that they can demonstrate compliance with the statutory controls. In practice a capital receipt will involve setting up a capital reserve so that the monies can be properly accounted for.

The Council could allocate other monies to the capital reserve, but that would also be subject to the same controls so is usually avoided.

Management and Control of Reserves

Movements in earmarked reserves, general reserves and capital reserves shall be reported to the Council as part of the budget monitoring 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 Responsible Financial Officer. This will form part of recommendations for the annual budget and precept requested by the Town Council and is currently set at a minimum of five months NRE.

Earmarked reserves will be reviewed annually and updated as and when items arise. If the Council's liabilities/responsibilities change during the year and earmarked funds are needed for a different project, Full Council approval will be required for the change in the allocation of reserves.

Adopted: FTC November 2024

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