



Reserves Policy

May 2025

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Reserves Policy 2025
Next review: May 2026

1. Purpose

- a. Spilsby Town Council is required by law 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.

- b. 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 specified minimum level of reserves that an authority should hold and it is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

The advice from the Lincolnshire Association of Local Councils (LALC) is:

A Council should hold a minimum of 3 months and a maximum of 6 months reserves to ensure the smooth running of the council in the event of:

- *Dealing with severe emergency/financial demand within the parish (flood, terrorism attack etc).*
- *In the event that the precept is delayed/withheld by the District Council.*

2. Types of Reserves

Reserves can be categorised as General Reserves or Earmarked Reserves.

- a. Earmarked reserves can be held for several reasons:
 - i. Renewals - to enable services to plan and finance an effective programme of equipment replacement, planned property maintenance and identified projects.
 - ii. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
 - iii. Carry forward of underspend - some services commit expenditure to projects, but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.
 - iv. Insurance reserve - to enable the Council to meet the excesses of claims not covered by insurance.
 - v. Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.
- b. General reserves are funds which do not have any restrictions as to their use. These reserves can be used to smooth the impact of uneven cash flows, offset the budget requirement if necessary or can be held in case of unexpected events or emergencies.

3. Earmarked Reserves

- a. Earmarked reserves will be established on a “needs” basis, in line with anticipated requirements.
- b. Any decision to set up a reserve must be given by the Council.

- c. Expenditure from reserves can only be authorised by the Council.
- d. Reserves should not be held to fund ongoing expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. To the extent that reserves are used to meet short term funding gaps, they must be replenished in the following year.

However, earmarked reserves that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established.

- e. All earmarked reserves are recorded on a central schedule held by the Responsible Financial Officer which lists the various earmarked reserves and the purpose for which they are held.
- f. Reviewing the Council's Financial Risk Assessment is part of the budgeting and year end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of Reserves.

4. General Reserves

- a. The level of general reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level. The primary means of building general reserves will be through an allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year.
- b. Setting the level of general reserves is one of several related decisions in the formulation of the medium-term financial strategy and the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment.
- c. If in extreme circumstances general reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Council would be able to draw down from its earmarked reserves to provide short term resources.
- d. Even at times when extreme pressure is put on the Council's finances the Council must keep a minimum balance sufficient to pay two month's salaries to staff and one month's financial commitments in general reserves at all times.

5. Current Levels of Financial Reserves

- a. The level of financial reserves held by the Council will be agreed by the Administration Committee and Full Council during the discussions held regarding the setting of the budget for the next financial year.
- b. The Town Council resolved to follow the guidance of LALC to ensure that General Reserves does not fall below 3 months running costs of the Town Council and no more than 6 months running costs of the Town Council.

The current level of general reserves to be held by the Council is five twelfths (+ or - 10%) of the annual precept figure; i.e., to fully cover up to four months expenditure.

The maximum figure of five twelfths of the precept is to be held rather than five months expenditure costs due to the substantial nature of the council's commercial payment activities.

This maximum base figure is £267,726 (+ or – 10%) for the total precept income demand submitted to East Lindsey District Council being £641,463 for the financial year 2022/2023

- c. The Council's current level of ear marked reserves is £[Insert Figure Here] ([Insert Date Here]) for previously specified and agreed equipment replacement, planned property maintenance, and identified projects. The above levels of reserves will be presented to a future meeting of the Town Council for ratification.

6. Review

This document will be reviewed annually.