



Lowestoft Town Council

Reserves Policy

1.0 Introduction

- 1.1 Lowestoft 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 As authorities have no legal powers to hold revenue reserves other than those for reasonable working capital needs, or for specifically earmarked purposes, whenever an authority's year-end general reserve is significantly higher than the annual precept, an explanation has to be provided to the auditor.
- 1.3 Although sections 31A and 42A 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, there is no specified minimum level of reserves that an authority should hold. It is the responsibility of the Responsible Financial Officer and the Council to determine the level of reserves and to ensure that there are procedures for their establishment and use and in all circumstances the Council and relevant committees must be alerted if the reserves are less than three months' or at realistic risk of reaching less than three months' of the budgeted expenditure for the relevant year.
- 1.4 This Council conducts a major review of its reserves through its annual budgeting process and, on an ongoing basis, through at least once (usually twice) per month scrutiny of its finances through formal meetings. Additionally, day-to-day management of financial matters by the Responsible Financial Officer and scrutiny by working groups of councillors ensure that changes affecting risk management and reserves levels are identified and alerted to Council.

2.0 Types of Reserves

- 2.1 Reserves can be categorised as earmarked (held for a specific purpose) or general (other reserves held as part of strong financial management, including to cushion the impact of uneven cash flows or unexpected events). There is some degree of hybridisation with the Repairs and Maintenance (undesignated assets) and Capital Works (undesignated assets) Earmarked Reserves, which exist for the specific purposes that their names suggest but also incorporate some contingency element for unexpected or emergency events.
- 2.2 Earmarked reserves can be held for several reasons. As the name suggests these represent amounts which are 'earmarked' for specific items of expenditure to meet known or predicted liabilities or projects. Earmarked reserves can be used to spread expenditure commitments over a period of time thereby reducing the impact of that commitment on any one year.

Earmarked reserves are typically held for:

- Renewals - used to plan and finance an effective programme of equipment replacement, planned property repair and maintenance or grounds maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
- Carry forward of under-spend - Some expenditure budgeted for projects in a given financial year cannot be spent in that year. Reserves are used as a mechanism to carry forward these resources.
- Insurance – to enable the Council to meet excesses not covered by insurance



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- Other Earmarked – may be set up from time to time to meet known or predicted liabilities.

2.3 General reserves are often referred to as the 'working balance' and is money which is not earmarked for specific purposes but rather a sum of money held in anticipation of uneven cash flow or set aside to deal with unexpected events or emergencies. The general reserve needs to be regularly reviewed using a risk-based assessment.

3.0 Policy Statement

3.1 Earmarked reserves will be established to reflect anticipated financial requirements. The primary means of building an earmarked reserve will be through a combination of direct allocation from the annual budget, and where an underspend occurs against any budget linked to that earmarked reserve. The Council will set a target level for each earmarked reserve, which is reviewed annually. Once an earmarked reserve reaches its target level, any underspend against budgets linked to that earmarked reserve will be redirected into the General Reserve.

3.2 Any decision to set up or extinguish redundant reserves must be reviewed by the Finance and Governance Committee and recommended to Full Council for formal approval. The Council will be required to identify the following when making recommendations for each reserve:

1. The reason/purpose of the reserve
2. How and when the reserve can be used
3. Any procedures for the management and control of reserves
4. A process and timescales for review of the reserve to ensure continuing relevance and adequacy

3.3 All Earmarked reserves are recorded by the Responsible Financial Officer and include the purpose for which the earmarked reserve is held. See Appendices for details of current Earmarked Reserves held by Lowestoft Town Council.

3.4 Reviewing the Council's Financial Risk Assessment is part of the annual budgeting by the Finance and Governance Committee and the year-end accounting procedures. Part of this process identifies planned and unplanned expenditure items and thereby indicates an appropriate level of reserves.

3.5 A general reserve will be held by the Town Council to cushion the impact of uneven cash flows, and the impact of unexpected, unforeseen, emergency and uninsured situations. See Appendices for details of the General Reserve held by Lowestoft Town Council.

3.6 The primary means of building a general reserve will be through direct allocation from the annual budget, or where there is an underspend against budget and the applicable Earmarked Reserve has already reached its target level.

3.7 If, in the most 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. The Council must at all times keep a minimum balance sufficient to pay four months' salaries to staff and associated expenses e.g. National Insurance, tax contributions and pensions.



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4.0 Principles to Assess the Adequacy of Balances and Reserves

- 4.1 A considerable degree of professional judgement is required in making any financial assessment and the Responsible Financial Officer can only be expected to provide advice with the help and possible guidance from councillors and other advisory sources.
- 4.2 Setting the budgets is the responsibility of the Council on the advice of the Finance and Governance Committee and the Responsible Financial Officer. This forms the foundation of setting the precept.
- 4.3 In order to assess the adequacy of reserves when setting the budget, both the Responsible Financial Officer and the Committee should take account of the strategic, operational and financial risks facing the Council. The financial risks should be assessed in the context of the Council's overall approach to risk management.
- 4.4 Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the Council's financial management arrangements.
- 4.5 Balancing the annual budget by drawing on general reserves must be viewed only as a legitimate short term option. General reserves must be viewed as a short-term resolution of unexpected costs, they must not be used to finance recurrent expenditure or to finance foreseeable or anticipated projects. Foreseeable or anticipated project costs should be properly budgeted for and included in earmarked reserves. Adjustments to the budget and precept must take account of the financial needs of the Council and the need to maintain required earmarked reserves and general reserves in line with the Council's policy.
- 4.6 The assets register and condition survey reports should be reviewed at least once annually to facilitate prioritisation and budgeting of maintenance and capital works, and minimise/mitigate the risk of unforeseen and unbudgeted expenditure requirements creating pressure on Earmarked Reserves

5.0 Governance Concerning the Balances and Reserves

- 5.1 The policy on balances and reserves will be reviewed annually as part of the review of Financial Regulations by the Finance and Governance Committee and reported to the Town Council as part of the budget-setting process. This will include a report from the Responsible Financial Officer on the adequacy of the reserves (earmarked and general) taking into account the forthcoming financial year and the Council's medium and long-term financial plans or projects.
- 5.2 The Responsible Financial Officer and the Finance and Governance Committee should review the levels of earmarked reserves held and recommend extinction of redundant earmarked reserves and creation of new earmarked reserves as part of the annual budgeting process. Any recommendations will then be taken to Full Council for formal consideration and approval.

6.0 Reserves Currently Maintained

- 6.1 The Council is working towards achieving a target level of general reserves no less than the equivalent of four months' committed expenditure for that particular year



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There are of course many variables and unknown quantities. As the Council reaches its Earmarked Reserves targets, any underspend against corresponding budgets can be redirected into the General Reserve, potentially contributing towards earlier-than-projected attainment of those targets. On the other hand, the Town Hall and Marina projects will be going through critical phases during the same period which may affect this.

Revisions	
Date	Amendment
April 2021	Added at point 1.3 – ‘and in all circumstances the Council and relevant committees must be alerted if the reserves are at 3 month’s or at realistic risk of reaching 3 months of the precept for the relevant year’
April 2021	Ahead of point 3.2 added the heading ‘Budgeted and Intended Earmarked Reserves for 2021-22’
April 2021	At point 6.1 amended four months to six months and added ‘This aspiration is to be embedded within a five year budget plan.’
July 2021	Text revisions at 2.1, 2.3, 3.1, 3.3, 3.4, 3.6, 3.7, 3.8 & 6.1. Appendices added.
May 2022	Second sentence added at 2.1. 3 additional sentences added at 3.1. ‘either directly or through such delegations to Committees, Sub-Committees, or officers as may be in place at the time’ added at 3.1. All text added at 6.1. Reference to appendix added at 3.4 and 3.6. 3.8 added. Wording changed at 3.3. Final sentence added at 3.7.

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APPENDIX 1 – Town Council Reserves

Reserve	Purpose	Target	Target Date
General Reserves	The General Reserves represent the Town Council's "working balance" i.e. money which is not earmarked for specific purposes but rather a sum of money held in anticipation of uneven cash flow or to deal with unexpected events and emergencies.	Four months committed expenditure for the year	Ongoing
Repairs and Maintenance	To meet any unforeseen repair and maintenance costs across the Town Council's assets	£300,000	Ongoing
Capital	To meet the Town Council's capital works commitments across its assets.	£300,000	Ongoing
Compliance	Used to evenly spread the cost of compliance surveys that occur less than annually.	Varies	Ongoing
Community Safety	To meet the Town Council's commitment to community safety including the potential future provision of CCTV	£100,000	Ongoing
Climate Emergency	To help achieve the Town Council's declaration of a Climate Emergency and its commitment to achieve net zero carbon emissions by 2030 and to maintain the solar panels across our assets	£50,000	Ongoing
Vehicles and Grounds Maintenance Equipment	To replace Town Council vehicles, mowers and grounds maintenance equipment when they are at end of life.	£120,000	Ongoing
Parks and Open Spaces	To meet the Town Council's five-year plan commitments	£200,000	Ongoing
Allotments	For the maintenance of the Town Council allotment sites	£75,000	Ongoing
Waterways and Ponds	Emergency Works	£10,000	Ongoing
Play Areas	To repair and eventually replace the Town Council's play equipment and outdoor fitness equipment	£ 1,000,000 for 15x play areas	Ongoing
Tennis Courts	To repair and eventually replace the Town Council's Tennis Courts	£400,000	Ongoing
Public Conveniences	To repair and eventually replace the Town Council's public conveniences	£400,000	Ongoing
Community Halls	For the maintenance of community halls And the eventual replacement of Uplands septic tank	£80,000	Ongoing
Marina Theatre	For the maintenance of the Marina Theatre	£200,000	Ongoing

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Triangle Market	For the Maintenance of the Triangle Market site and replacement of the kiosks	£75,000	Ongoing
Town Hall	To be looked at after the Town Hall refurbishment has been completed	F&G	Ongoing
Offices & IT	For the replacement of Office and IT equipment	£100,000	Ongoing
Staff, Training and Development	To meet any unforeseen staff payroll operations and training for staff and councillors	£300,000	Ongoing
Professional Services	To meet the Town Council's contracts and other professional arrangements with third parties including legal advisers, banks, insurers, consultants, auditors, and ESC Democratic Services	£175,000	Ongoing
Civic, Arts and Heritage, and Festive Lights	To fund any large heritage purchases, the replacement of mayoral robes and festive lights and for any unbudgeted civic purchases such as Lowestoft Porcelain	£100,000	Ongoing
Normanston Park	The upkeep of the park including its structures	Varies	Ongoing
Denes Oval	The upkeep of the park including its structures	Varies	Ongoing
Belle Vue Park	The upkeep of the park including its structures	Varies	Ongoing
Sparrows Nest	The upkeep of the park including its structures	Varies	Ongoing
Kensington Gardens	The upkeep of the park including its structures	Varies	Ongoing
Fen Park	The upkeep of the park including its structures	Varies	Ongoing
CIL & External Funding	To hold Community Infrastructure Levy funds.	No Target	Ongoing