



## Reserve Policy

Owner	John Harrison, Town Clerk
Reviewer	Responsible Finance Officer
Previous versions	2023
Templates used/adapted	
Approver	Finance & Governance Committee
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Related policies/procedures	Investment Policy
Policy covers	All HTC
Revisions	Marked in red and strikethrough

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## Purpose

1. Hailsham Town Council is required to maintain adequate financial reserves to meet the needs of the council 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.
2. The purpose of the policy is to set out how the council will manage its reserves and is separate to the council's investments policy.
3. Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 require local authorities to have a regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
4. The advice of the Internal Audit is based on the following guidelines in the Local Accountability and Governance:

*The council needs to maintain reserves to protect against risk, and ensure contingencies are in place.*

*The Joint Panel on Accountability and Governance (JPAG) Practitioner's guide states '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 and twelve months of net revenue expenditure' (para 5.33).*

5. Hailsham Town Council maintains two types of reserves: General Reserves and Earmarked Reserves.

## General Reserves

6. The general reserves are funds which do not have any restrictions as to their use. These reserves cushion the impact of uneven cashflows, offset budget requirements (if necessary), fund short term financial risks and unexpected or exceptional events.
7. The reserve represents the balance in the council's revenue account i.e., the account which records all its financial transactions. Unless allocated for a specific purpose, revenue budget under spendings and windfalls are added to the working balance, while overspendings are taken from the balance.
8. As per the note above the council aims to hold up to 6 months of precept in the general reserves. This represents the non-ring fenced (earmarked) balance of Council funds. This is to be achieved by regular annual contributions from the revenue account. These general reserves will also need to be supported by earmarked reserves for specific needs, contingencies and commitments. This level of contributions will be determined annually, taking account of the impact on council taxpayers and the availability of earmarked reserves.

## Earmarked Reserves

9. Earmarked reserves are created and held for specific ring-fenced purposes or to help smooth out medium- and long-term financial risks and spending plans.
10. Earmarked Reserves will increase through decisions of the Council and will decrease as they are spent on their specific intended purpose. They can also be held as carry forward or underspend. For example, where the Council commits expenditure to specific projects but is unable to spend the budget in the year. Reserves in this instance are used as a mechanism to carry forward budgeted resources. Carry forward should only be an earmarked reserve for 1 year only.
11. Once an Earmarked Reserve has been established by the Town Council it is the responsibility of the Responsible Finance Officer to ensure funds are spent in line with their purpose. All earmarked reserves are recorded on a central register held by the RFO, and the register will list the purpose for which the earmarked reserve is held.
12. The purpose of each Earmarked Reserve should be reviewed annually to ensure that it is still relevant. If a specific reserve is no longer considered relevant or there is an overriding financial requirement to fund a priority elsewhere, virement can be considered.

## Consideration of Financial Risks Short Term Risks

13. To assess the adequacy of the general reserve, the council has considered the strategic, operational, and financial risks faced. The short-term risks that the Town Council faces, with reference to its current plans include:
14. Lower than expected income: Other income – the revenue estimates forming the basis of the precept includes predicted income from a range of sources, such as cemetery income, letting and hiring income. It's difficult to predict with accuracy. If the income received were to fall below the budgeted level, then the balance could be funded from general reserves.
15. Lower than expected income: Calculations for Band D and non-collection allowances giving lower than expected precept tax base. Precept is usually set after the final band D number is received.
16. Lower than expected income: Other risks – e.g., Inflation and costs of living crisis may impact on availability of grants and other income sources.
17. Higher than expected costs: Inflation costs – Utilities sector, unexpected professional fees, shortage of staff resources.

## Consideration of Financial Risks Longer Term Risks

18. Longer term financial risks faced by the council include:
  - Funding the council capital projects and uncertainties therein.
  - Funding deficit in the Local Governance Pension Scheme

- Funding for expenditure that arises once every 2-5 years e.g elections.
- Funding the repairs or replacement of assets
- Changes to legislation e.g., uncertainties created by the income to be generated from CIL

## Review

19. General revenue reserves will be reviewed at the end of the financial year in conjunction with the year's surplus or deficit being added or subtracted.
20. Earmarked reserves are established on a 'needs' basis in line with anticipated requirements. The Council will review the earmarked reserves on an annual basis and will approve any additions or carry forward balances.
21. The Finance and Governance committee will review any decision to transfer an earmarked reserve to the general reserve and then recommend it to Full Council for formal approval.
22. This Policy will be reviewed by the Finance and Governance Committee on an annual basis. Any variation to the Policy will be submitted to Full Council.