SHREWSBURY TOWN COUNCIL

Reserves Policy

Introduction

Shrewsbury 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 Smaller Authorities' Proper Practices Panel (SAPPP) formally the Joint Panel on Accountability and Governance Practitioners Guide (JPAG) is responsible for issuing proper practices about the governance and accounts of smaller authorities the (2026/27 edition) advises:

> *As with any financial entity, it is essential that authorities have sufficient reserves (general and earmarked) to finance both their day-to-day operations and future plans.*
>
> *Smaller authorities have no specific right to accumulate funds via the precept. All reserves should be reviewed and justified regularly (i.e. at least annually). It is good practice to transparently publish both the level and rationale of all reserves.*

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 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 to ensure that there are procedures for their establishment and use.

Types of Reserves

These may be categorised as either General or Earmarked and Capital Receipts.

1) 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 2026 edition) advises:

5.33. The general reserve of an authority comprises its cash flow and contingency funds to cover unexpected inflation, unforeseen events and unusual circumstances.

5.34. 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.

5.35. The reason for the wide range is to cater for the large variation in activity level between individual authorities. The smaller the authority, the closer the figure may be to 12 months expenditure, the larger the authority, the nearer to 3 months. In practice, any authority with income and expenditure in excess of £200,000 should plan towards 3 months equivalent general reserve.

5.36. In all of this it is important that each authority adopt, as a general reserve policy, the level appropriate to their size, situation, risks and plan their budget so as to ensure that the adopted level is maintained. Consideration of the minimum level of reserves requires not only consideration of level of income and expenditure but also the risks to that income.

5.37. Authorities with significant self-generated income (other than the precept or levy) should take into account situations that may lead to a loss in revenue as well as increased costs and adapt their general reserve accordingly.

The primary means of building a General Reserve will be through a reallocation of funds - under spend on a completed project, and allocation from the annual budget or income in excess of budget.

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 its EMRs to provide short term resources.

2) Earmarked Reserves (EMR's) and Capital Receipts Reserve (CRR's)

EMRs and CRR'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.

JPAG (March 2026 edition) advises:

5.38. None of the general reserves guidance (5.33 – 5.37) in any way affects the level of earmarked and/or capital receipts reserves that an authority may or should hold.

5.39. There is, in practice, no upper or lower limit to EMR/CRRs save only that they must be held for genuine and identifiable purposes and projects, and their level should be subject to regular review and justification (at least annually and at budget setting) and should be separately identified and enumerated. Significant levels of EMRs in particular may give rise to enquiries from internal and/or external auditors.

Earmarked Reserves

Are held for several reasons and shall only be used for the purpose for which they were created:

a) 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 taking into account asset conditions and asset life. They are a mechanism to smooth expenditure without the need to vary budgets.

b) 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.

c) Developers Contributions – proceeds from developers which can only be used for specified purposes.

d) 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 over-provision 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.

EMRs 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 decision to set up an EMR must be approved by the Town Council. If the EMRs are used to meet short term funding gaps, they must be replenished in the following financial year. However, EMRs 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 Receipts Reserve

Are held following a capital sale and can only be used for capital purchases.

Management and Control of Reserves

General Reserves

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 the recommendations for the Annual Budget and Precept request by the Town Council.

Shrewsbury Town Council aims to maintain the general reserve at a level no lower than any of the following:

- **Three months precept - £1,193,245**
- **Two months revenue budgeted expenditure - £1,094,636**

These levels will be reviewed at least annually as part of the budget setting process.

Earmarked Reserves

Earmarked Reserves shall be reviewed on an individual basis.

This review will be undertaken as part of the year end account management. Approval for the creation, amendment, cessation or continuation of Earmarked Reserves will be resolved by Full Council.