RESERVES POLICY

1. INTRODUCTION

The Town Council is required by statute to maintain financial reserves sufficient to meet the needs of the organisation and in addition has statutory limitations on how it spends certain receipts which it must ensure are accounted for separately to the council's general funds.

Whilst there is no statutory minimum (or maximum) level of reserves, the council should only hold general reserves for reasonable working capital needs or specific earmarked purposes.

The Council's Internal and External Auditors review the council's reserves and their justification annually.

This policy sets out how the council will manage its General reserves (Contingency), and Earmarked Reserves.

2. POLICY AIMS

- Maintain an appropriate balance between holding excessive reserves and retaining a prudent level of funds.
- Ensure reserves are held at an adequate and appropriate level for the Council's needs.
- Rely on advice from the Responsible Finance Officer when determining the appropriate reserve levels, primarily during the revenue budget setting process.
- Avoid accumulating excessive reserves that could be seen as holding onto public monies unnecessarily.
- Recognise the need to balance financial prudence with responsible financial management of precept funds.
- Adopt a transparent and accountable approach to managing the Council's reserve levels as part of overall financial stewardship.
- Maintain earmarked reserves to save for and plan the maintenance and replacement of the Council's key assets, such as play areas, to ensure they are adequately funded and cared for over the long-term.

3. DEFINITIONS

General Reserve

The General Reserve, also referred to as Contingency is not ringfenced (earmarked) for any specific expenditure, but is intended to cover the following working capital needs:

- To smooth the impact of uneven cashflow.
- To cover unexpected/emergency expenditure.
- To allow the Council to act in an agile manner.

The General Reserve will be replenished as part of the budget process in any year where it has been spent for unexpected/emergency expenditure.

Earmarked Reserves

The council may establish Earmarked (ringfenced) Reserves for any reason where it reasonably believes it may incur expenditure in the future. The council's current earmarked reserves are

detailed for the redevelopment of play areas as they become outdated, and according to their expected lifespan. Ear-marked reserves are also set aside for 'all out' elections every 4 years.

4. LEGISLATION AND GUIDANCE

Local Government Act 1972, Section 111, supports the ability to adopt a Reserves Policy as part of responsible financial management.

Local Government Finance Act 1992, Section 32 requires local authorities to calculate their budget requirement, which includes the provisions for reserves. Section 43 requires precepting authorities including Town Councils to determine the amount of their precept, which relies on understanding reserve levels.

Governance and Accountability for Smaller Authorities in England (2022) by the Joint Panel on Accountability and Governance (JPAG). This guidance recommends adopting a Reserves Policy and provides advice on appropriate reserve levels. The most recent publication (2024) is cited in this policy.

The Good Councillor's Guide to Finance and Transparency (2018) by the National Association of Local Councils (NALC). This guide for local councillors emphasises the importance of maintaining appropriate reserve levels and having a clear Reserves Policy.

In the Annual Governance and Accountability Return – Annual Governance Statement, the Council asserts;

"We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements."

To warrant a positive response, the Council needs to have regard to the need to put in place a Reserves Policy and have reviewed the level and purpose of all Earmarked Reserves.

5. RECOMMENDED LEVELS

As with any financial entity, it is essential that the Council has sufficient reserves (general and earmarked) to finance both the day-to-day operations and future plans. We have no specific right to accumulate funds via the precept. Therefore, 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.

The Joint Panel on Accountability and Governance (JPAG) Practitioners' Guide 2024 (section 5.34), which sets out the 'proper practices' for how the council must maintain its accounts, recommends that the minimum level of general reserves (contingency) should be between three and twelve months of net revenue expenditure. Net revenue expenditure is defined as precept, less amounts included in precept for loan repayment, capital projects and transfers to reserves.

For an authority of the council's size, it states that the lower end (three months, or 25%) is appropriate.

The above recommended minimum level does not affect the level of earmarked reserves and/or capital receipts reserves that may or should be held by the Council. There is no upper limit to

earmarked reserves, 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.

Should a Council have significant levels of earmarked reserves, this would give rise to enquiries from internal and/or external auditors.

6. GENERAL RESERVES (CONTINGENCY)

General Reserves are often referred to as the "working balance", money which is not earmarked for specific purposes but rather sums of money held in anticipation of uneven cashflow or set aside to deal with unexpected events or emergencies. This is usually created through surpluses as a result of activities being postponed, cancelled or coming in under budget. Reserves of this nature can be spent or earmarked at the discretion of members, subject to approval by the Council.

In assessing the level of the Town Council's general reserves, account needs to be taken of the risks facing the Council in terms of any significant unforeseen expenditure requirements. This could include:

- Loss of staff, including long-term sick, and the potential requirement for interim staff.
- Insurance claims not met.
- Higher than expected election, and/or by-election costs.
- Unanticipated legal costs.
- Risks associated with inflation and cost of living crisis.
- Funding the repair and replacement of assets.
- Higher than expected debtors.
- Natural disasters or extreme weather events causing damage to Council property and infrastructure.
- Cyber-attacks or IT system failures disrupting Council operations.
- Changes in legislation or regulations requiring unplanned expenditure.
- Reductions in external funding sources.

Further major elements which could impact adversely on future precepts are:

- Capping of Town Council Precept by Central Government.
- Devolved services.

The optimum level for the General Reserve is determined by an assessment of the Council's potential exposure to financial risks and the need to maintain financial sustainability without placing undue pressure on the precept. In November 2024, the Council's Reserves Policy was revised to define the lowest tolerable level of reserves that could be held without increasing the precept, while establishing an aspirational target of General Reserves equivalent to 25% of the Annual Precept. Based on a precept of £1,007,627, this equates to a target reserve level of approximately £251,906.

account the impact on council taxpayers, the availability of year-end surpluses, the level of earmarked reserves, and the Council's medium-term financial position. For 2026/27, the Council is increasing its General Reserve from £175,000 to £200,000 as part of a phased approach towards the 25% target.

7. EARMARKED RESERVES

Earmarked Reserves are established on a needs-based approach in line with anticipated and approved future requirements. They are created by resolution of the Council and are increased or reduced as funds are allocated or spent for their specific intended purposes.

The purpose of an Earmarked Reserve is to set aside funds for defined projects or commitments that extend beyond a single financial year, or to mitigate the financial impact of a specific, identifiable risk. Once an Earmarked Reserve has been established, it is the responsibility of the Responsible Financial Officer to ensure that expenditure is applied strictly in accordance with the purpose for which the reserve was created.

For the 2026/27 financial year, the Council has reviewed its Earmarked Reserves to ensure they align with corporate priorities, asset responsibilities, and medium-term financial planning. The proposed Earmarked Reserves for 2026/27 reflect planned capital investment, operational preparedness, and improved budget clarity, and include allocations for play area improvements, allotment infrastructure, election costs, memorials, environmental enhancements, and potential asset acquisition to support future operational needs.

The total Earmarked Reserve allocations for 2026/27 amount to £183,072. When combined with the Council's contingency provision, total reserves are £383,072, representing approximately 28% of the total budget. This level of reserves demonstrates prudent financial management while supporting planned investment and safeguarding the Council's financial resilience. The total proposed budget for 2026/27 is £1,390,693, of which £1,007,621 is allocated to revenue expenditure.

The purpose and level of each Earmarked Reserve shall be reviewed annually as part of the budget-setting process to ensure continued relevance and value for money. Where a reserve is no longer required for its original purpose, or where there is an overriding financial requirement to fund a higher priority, virement or reallocation may be considered, subject to appropriate approval.

All Earmarked Reserves are recorded in a separate spreadsheet, updated by the Responsible Financial Officer. This lists the amounts, and the purpose they are held for, including the plan to increase reserves to meet future expected needs.

8. CONCLUSION

This Reserves Policy sets out the Town Council's approach to maintaining an appropriate level of financial reserves to support our operations and fulfil our responsibilities to the local community.

By adopting this policy, the Council commits to:

- Regularly reviewing the adequacy and purpose of both its general contingency reserves and earmarked reserves to ensure they continue to meet the identified needs.
- Making transparent, evidence-based decisions when setting reserve levels as part of the annual budget process.
- Utilising reserves judiciously and only for the intended purposes, with robust oversight and approval mechanisms.
- Reporting on the state of the Council's reserves in its annual financial statements and other public communications.
- Aligning reserve management practices with relevant legislation, regulations, and sector guidance to demonstrate sound financial stewardship.

The Council recognises that maintaining appropriate reserve levels is crucial for its financial resilience and ability to deliver services effectively. This policy will be subject to regular review to confirm it remains fit-for-purpose and supports the Council's strategic objectives.