Full Council adopted 14th April 2026

MARY TAVY PARISH COUNCIL

Reserves Policy

1.Purpose

1.1 Mary Tavy Parish Council is required to maintain adequate Financial Reserves to meet the needs of the Parish Council. 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.

1.2 Local Councils have no legal powers to hold revenue reserves other than for reasonable working capital or for specifically earmarked purposes. It follows that the year-end General Reserve should not be significantly higher than the annual precept. If the amount of reserves at the year-end are above a certain level in relation to the annual precept the council must give an explanation of the reserves held to the Auditor.

1.3 There is no specified minimum level of reserves that an authority should hold, and it is the responsibility of the Responsible Financial Officer (RFO) to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

1.4 The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2022 edition) advises:

> *"As with any financial entity, it is essential that authorities have sufficient reserves (General and Earmarked) 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."*

1.5 The purpose of this policy is to set out how the Council determines and reviews the level of reserves.

2. Types of Reserve

2.1 The council may hold types of reserves categorised as: General Reserves, Earmarked, and Ringfenced

- General Reserves - held to cushion the impact of uneven cashflow or unexpected events,
- Earmarked -held for specific purposes
- Ringfenced - held for one purpose only and cannot be transferred, for example grants allocated for a specific project only, which may not be used for any other purpose

The Responsible Financial Officer will keep a schedule of reserves held at the year-end within the council's accounts.

3. General Reserves

3.1 General Reserves do not have any restrictions as to their use. These reserves can be used to smooth the impact of uneven cash flows, offset budget requirements if necessary or can be held in case of unexpected events or emergencies.

3.2 The primary means of building the General Reserve is through an allocation in the annual budget.

3.3 Approval of the full council is required to move funds from the General Reserve.

3.4 The level of financial reserves held by the council will be agreed by the council during the discussions held regarding the setting of the budget for the next financial year.

3.5 Guidance states that 'a council should typically hold between 3 and 12 months expenditure as a general reserve' (Good Councillor's Guide on Finance & Transparency).

JPAG (March 2022 edition) advises:

"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 (3) and twelve (12) months Net Revenue Expenditure (NRE)."

"The smaller the authority, the closer the figure should be to 12 months NRE, the larger the authority the nearer to 3 months. In practice, any authority with an NRE in excess of £200,000 should plan on 3 months equivalent."

3.6 This will be in addition to any amounts needed to replenish reserves which have been spent in the previous year. 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 Earmarked Reserves to provide short term resources.

4. Earmarked Reserves

4.1 Earmarked Reserves 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 auditors.

4.2 Earmarked Reserves will be established on a "needs" basis in line with anticipated requirements to meet known or predicted liabilities.

4.3 Earmarked Reserves must be reviewed and / or established by the council at the annual budget setting meeting.

4.4 Expenditure from earmarked reserves can only be authorised by the full council at a Parish Council meeting.

4.5 Any decision to set up a reserve must be made by the Council.

4.6 All Earmarked Reserves are recorded within the council's accounts and held by the Responsible Financial Officer which lists the various Earmarked Reserves and the purpose for which they are held.

4.7 Sums can be moved between earmarked reserve headings, by council resolution only, should the need arise or should priorities change.

The council may hold Earmarked Reserves in the following categories:

• Carry forward of underspend, where some expenditure is budgeted for projects but not spent in that financial year. Reserves are used as a mechanism to carry forward these resources.

• Reserves built up over a time period, for example, to pay for an election. The setting aside of funds over a period of time to meet known future expenditure reduces the impact of meeting the full expenditure in one year.

There is no statutory upper limit save that they must be held for genuine and intended purposes.

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.

Reserves should not be held to fund ongoing expenditure. This would be unsustainable, as at some point the reserves would be exhausted. If reserves are used to meet short term funding gaps, they must by 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.

5. <u>Ringfenced Reserves</u>

5.1 These are funds that cannot be used for any other purpose.

- **S106 Developers Contribution** – generated through new housing developments.
- Other ringfenced funds, for example donations/grants for a specific item could occur during the year.

Next review date April 2027