



## **CORFE MULLEN TOWN COUNCIL**

# **GENERAL AND EARMARKED RESERVES POLICY**

## **1. INTRODUCTION**

- 1.1 Corfe Mullen Town Council (the 'Council') is required to maintain adequate financial reserves to meet the needs of the organisation.
- 1.2 Para 1.13 of the Joint Panel on Accountability and Governance (JPAG) Practitioners' Guide - March 2024 states that authorities need to have regard to the need to put in place a General Reserve Policy and have reviewed the level and purpose of all earmarked reserves.
- 1.3 Para 5.31 of the JPAG Practitioners' Guide - March 2024 states that it is essential that authorities have sufficient general and earmarked reserves to finance both their day-to-day operations and future plans. It is important, however, given the Councils funds are derived in the main by public money, that such reserves are not excessive.
- 1.4 Para 5.34 of the JPAG Practitioners' Guide - March 2024 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 3 and 12 months of net revenue expenditure, subject to any planned surplus or deficit, is effectively the precept less any loan repayment and/or amounts included in the precept for capital projects and transfers to earmarked reserves.

The reason for the wide range is to cater for the large variation in sizes of individual authorities. The smaller the authority the closer the figure should be to 12 months expenditure, the larger the authority the nearer to 3 months. In practice, any authority with an income and expenditure in excess of £200,000 should plan 3 months equivalent general reserve. In all of this it is important that each authority adopt, as a General Reserve Policy, the level appropriate to their size and situation and plan their budget to ensure that the adopted level is maintained. Changes in activity levels/range of services provided will inevitably lead to changes in the requisite minimum level of general reserve in order to provide working capital for those activities.

- 1.5 Para 5.38 of the JPAG Practitioners' Guide - March 2024 refers to earmarked and other reserves and states that none of the above in any way affects the level of earmarked and/or capital receipts reserves an authority may or should hold.

There is, in practice, no upper or lower limit to save, only that they must be held for genuine and identifiable purposes, and their level should be subject to regular review and justification, at least annually and should be separately identified and enumerated. Significant levels may give rise to enquiries from Internal and/or External Auditors.

## **2. PURPOSE**

The purpose of this policy is to set out how the Council will determine and review the level of general and earmarked reserves.

## **3. TYPES OF RESERVES**

Reserves are categorised as follows:

- General - held to cushion the impact of uneven cash flows or unexpected events, or
- Earmarked - held for a specific purpose.

### 3.1 Earmarked Reserves

Typically held for four main reasons:

1. **Capital:** used to plan and finance an effective programme of equipment replacement and/or planned property repairs and maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
2. **Projects:** may be set up from time to time to meet known or predicted liabilities for specific projects.
3. **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.
4. **CIL and Section 106:** shows monies received, spent and current balance.

### 3.2 General Reserves

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. Reserves of this nature can be spent or earmarked at the discretion of members, subject to approval by Council.

The level of general reserves is a matter of judgement. The primary means of building a general reserve will be through reallocation of funds i.e., where an expenditure item may come under budget or increased level of income.

## 4. CREATION AND DISPOSAL OF RESERVES

- 4.1 Earmarked reserves will be established on a 'needs' basis in line with anticipated requirements.
- 4.2 Any decision to create or dispose of reserves must be reviewed by the Finance & Administration Committee and recommended to the Full Council for approval. The Council will be required to identify the reason/purpose of the reserve and identify how and when the reserve will be used when making recommendations for each earmarked reserve.
- 4.3 Reserves should not be held to fund ongoing expenditure.

## 5. ADEQUACY OF BALANCES AND RESERVES

- 5.1 A considerable degree of judgement is required in making any financial assessment and the Responsible Financial Officer (RFO) can only be expected to provide advice with the help and possible guidance from the members and other advisory sources.

## 6. GOVERNANCE

- 6.1 General and earmarked reserves will be reviewed quarterly as part of the management accounts presented to the Finance & Administration Committee. Once reviewed by the Finance & Administration Committee, any recommendations will then be taken to the Full Council for formal approval.

General reserves must be viewed as a short-term resolution for unexpected costs, they must

not be used to finance recurrent expenditure or to finance foreseeable or anticipated projects.

## **7. CURRENT RESERVES**

- 7.1 The level of general reserves is to be not less than sufficient to pay three months' salaries and operational expenses and no more than six months i.e. half the annual precept in any year.
- 7.2 At the start of each financial year there should be three to six months reserves in case there is a delay in receiving the precept from the unitary/billing authority.

## **8. REVIEW**

- 8.1 This General and Earmarked Reserves Policy was presented to the Finance & Administration Committee meeting held on 21 May 2024, for approval and adoption, minute no. FA 24/09 and ratified at the Full Council meeting on 28 May 2024, minute no. TC 24/32.
- 8.2 This policy will be reviewed by the Finance & Administration Committee annually or when there are changes to legislation, whichever is the sooner.

## **9. REFERENCES**

- 9.1 Local Government Act 1992
- 9.2 Local Audit and Accountability Act 2014
- 9.3 Joint Panel for Accountability and Governance (JPAG) Practitioners Guide - March 2024

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<sup>i</sup> Local Audit and Accountability Act 2014, an authority is a 'smaller authority' if its gross expenditure for the year does not exceed £6.5m