



# Persore Town Council

## Persore Town Council - Financial Reserves Policy 2023/24

### Introduction

The Council is required to maintain adequate financial reserves to meet the needs of the Town Council. The purpose of this policy is to set out how the Council will determine and review the level of reserves.

Persore Town Council's annual budget will be set to cover all known and expected expenditure for the financial year. Reserves are for potential expenditure not included in the annual budget when set, and will be held for four broad purposes:

- 1) A working balance to help cushion the impact of uneven cash flows.
- 2) Means of building up funds to meet known or predicted requirements such as:  
vehicles that need replacing at some point. Life of said vehicle should be estimated and funds built up to provide sufficient resources for a replacement.
- 3) Carry forward underspends - grants or an annual budget that has been provided for specific items but could not be delivered or only partially delivered in that financial year. The monies should be held in reserves until the project can be fully delivered.
- 4) A contingency to cushion the impact of unexpected events or emergencies such as:
  - Temporary additional staff to cover long term sick.
  - Assets damaged requiring repair.
  - Income falls below planned budget.

Where a decision is made to allocate some budget to reserves the budget will specify what monies are being allocated to specific earmarked funds or to general reserves.

Pershore Town Council's reserves are held in two financial products:

- Savings account - Barclays Bank (the account also holds monies from the day-to-day income and expenditure to maximise bank interest)
- Investments Account - Barclays Bank Wealth Management

**Types of Reserves** - Reserves are categorised as Earmarked or General.

### **1) Earmarked Reserves**

Earmarked Reserves will be held for genuine and intended purposes of expenditure which the council considers likely to be required in the future and greater than that which can be funded from a single year's budget.

Each earmarked reserve will be for a specific purpose and will be separately identified on a spreadsheet.

The level of each earmarked item will be reviewed annually and justified prior to setting the annual budget.

At the annual review the justification for maintaining each earmarked reserve and the amount will be documented.

New earmarked reserves may be created during the financial year as requirements are identified. Available funds may be identified within the main annual budget or general reserves may be reclassified as earmarked funds.

Any decision on creating or spending earmarked reserves will be made by the Council on recommendation from the Finance and Property Committee.

Decisions to spend from reserves may also be reflected in the budget for the subsequent year.

### **2) General Reserves** - Any revenue reserve not earmarked

These funds do not have restrictions as to their use. These reserves will be used to smooth the impact of uneven cash-flows but principally will be held in case of unexpected events or emergencies.

The level of the General Reserve for each year will be based upon a risk assessment of the council's main areas of income and expenditure and consider any provisions and contingencies that may be required. Risks to be considered will as a minimum include:

Adopted Date: 16<sup>th</sup> October 2023

Date to be reviewed: October 2024

- Salary inflation greater than budgeted level
- Contract inflation greater than budgeted
- Income levels below budgeted level
- Unexpected essential repairs or maintenance work

Any decision on creating or spending General Reserves will be made by the Council.

Decisions to spend from Reserves may also be reflected in the budget for the subsequent year.

Level of General Reserve - The Council will follow: The Joint Panel on Accountability & Governance Practitioners Guide (JPAG) which recommends that the General Reserve falls between three to twelve months of gross annual expenditure. Smaller Councils with limited budgets will lean towards twelve months reserves and larger ones towards three months. Pershore Council as a larger Council will target a three-month reserve: **2023/24 goal: £103,750.**

#### **Capital Receipts Reserve - Funds from Asset Sales.**

The council retains a Capital Reserve following the sale of assets. These monies will only be spent on capital assets. This reserve will be reviewed annually.

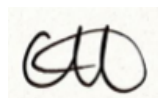
#### **Procedures**

This Financial Reserves Policy shall form a part of the Financial Regulations of Pershore Town Council and will be reviewed annually. This Policy may only be amended or varied by resolution of the Council.

This policy was adopted at the meeting of Pershore Town Council on **16<sup>th</sup> October 2023**

#### **Signed on behalf of Pershore Town Council**

Town Clerk



Date 16.10.23

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Date to be reviewed: October 2024

**Background Information** - extracts from The Joint Panel on Accountability & Governance Practitioners Guide (JPAG – March 2023 edition)

**Reserves**

5.30. 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.

5.31. 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.

**General reserves:**

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

5.33. 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.

5.34. 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.

5.35. 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.

5.36. 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.

**Earmarked and other reserves:**

5.37. None of the above in any way affects the level of earmarked and/or capital receipts reserves that an authority may or should hold.

5.38. 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.