



WAREHAM
Town Council

Wareham Town Council Reserves Policy

Contents

INTRODUCTION..... 3

POLICY AIMS 3

DEFINITIONS 3

 Earmarked Reserves..... 3

 General Reserves 4

LEGISLATION AND GUIDANCE..... 4

RECOMMENDED LEVELS 5

 GENERAL RESERVES (General Fund) 5

 EARMARKED RESERVES..... 6

CONCLUSION 6

INTRODUCTION

Wareham Town Council is required by statute to maintain adequate financial reserves 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. The purpose of this policy is to set out how the Council will determine and review the level of 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 specified minimum level of reserves that an authority should hold, and it is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

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.

POLICY AIMS

- To maintain an appropriate balance between holding excessive reserves and retaining a prudent level of funds.
- To ensure reserves are held at an adequate and appropriate level for the Council's needs.
- To rely on advice from the Responsible Finance Officer when determining the appropriate reserve levels, primarily during the revenue budget setting process.
- To avoid accumulating excessive reserves that could be seen as holding onto public monies unnecessarily.
- To recognise the need to balance financial prudence with responsible financial management of precept funds.
- To adopt a transparent and accountable approach to managing the Council's reserve levels as part of overall financial stewardship.
- To 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.

DEFINITIONS

Reserves can be categorised as earmarked or general.

Earmarked Reserves

Earmarked reserves will be established on a "needs" basis, in line with anticipated requirements.

Earmarked reserves can be held for several reasons:

- Renewals – to enable services to plan and finance an effective programme of vehicle, equipment and infrastructure replacement and planned property maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
- Carry forward of underspend - some services commit expenditure to projects but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these

- resources.
- Insurance reserve – to enable the Council to meet the excesses of claims not covered by insurance.
- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

Any decision to set up a reserve must be made by the Council. Expenditure from reserves can only be authorised by the Council.

Reserves should not be held to fund on-going expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. To the extent that reserves are used to meet short term funding gaps, they must be 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.

All Earmarked Reserves are recorded on a central schedule held by the Responsible Financial Officer which lists the various Earmarked Reserves and the purpose for which they are held.

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.

General Reserves

General Reserves are funds which do not have any restrictions as to their use.

The General Reserve, also referred to as the General Fund, 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.

Setting the level of General Reserves is one of several related decisions in the formulation of the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment.

If in extreme circumstances General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Council would be able to draw down from its earmarked reserves to provide short-term resources.

LEGISLATION AND GUIDANCE

Local Government Act 1972, Section 111, supports the ability to adopt a Reserves Policy as part of responsible financial management. This has previously been done as part of the Councils Financial Regulations.

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 (Practitioners' Guide 2025) by the Smaller Authorities Proper Practices Panel recommends adopting a Reserves Policy and provides advice on appropriate reserve levels. The most recent publication (2025) is cited in this policy.

The Good Councillor's Guide to Finance (2025) by the National Association of Local Councils (NALC) for local Councillors emphasizes 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 ensure 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.

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. There is 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 Practitioners' Guide 2025 (section 5) sets out the 'proper practices' for how the council must maintain its accounts and 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 Wareham Town Council's size, it is recommended around three to five months is appropriate given its projects and risks to other income.

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 at budget setting) and should be separately identified and enumerated.

Should a Council have significant levels of earmarked reserves for a prolonged period of time without explanation, this would give rise to enquiries from internal and/or external auditors.

GENERAL RESERVES (General Fund)

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, consideration needs to be given 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 which disrupt 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. The level of contributions will be determined annually, taking account of the impact on council taxpayers, the availability of surpluses, and the level of earmarked reserves.

The General Reserve shall not be allowed to decrease to a figure less than 30% of routine budget expenditure as this will expose the Council to the risk of not being able to meet unforeseen costs.

EARMARKED RESERVES

Earmarked Reserves should be established on a "needs" basis in line with anticipated requirements. Earmarked Reserves will increase through decisions of the Council and will decrease as they are spent on their specific intended purposes.

The purpose of an Earmarked Reserve is to set aside amounts for projects that extend beyond one year or as a contingency against a specific situation occurring. Once an Earmarked Reserve has been established by the Town Council it is the responsibility of the Responsible Financial Officer to ensure funds are spent in line with their purpose.

The purpose of each Earmarked Reserve should be reviewed annually to ensure that it is still relevant. If a specific reserve is no longer considered relevant or there is an overriding financial requirement to fund a priority elsewhere virement can be considered.

Expenditure from Earmarked Reserves, or virement can only be authorised by the Policy Resources and Finance Committee, and Full Council, within the delegated financial limits set in the Council's Financial Regulations.

All Earmarked Reserves are recorded separately within the accounts, listing the amount and its purpose.

CONCLUSION

This Reserves Policy sets out the Town Council's approach to maintaining an appropriate level of

financial reserves to support its operations and fulfil its 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 annual review to confirm it remains fit-for-purpose and supports the Council's strategic objectives.