

Penistone Town Council

Reserves Policies

1. Purpose

Penistone Town Council is required to maintain adequate financial reserves to meet the needs of its organisation and to ensure financial security. The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

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 yearend general reserve should not be significantly higher than the annual precept. If the number of reserves at the yearend are above a certain level in relation to the annual precept the council must explain the reserves held to the external auditors.

There is no specified minimum level of reserves that an authority should hold, and it is the responsibility of the RFO to advise the council about the level of reserves and to ensure that there are procedures for their establishment and use.

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

2. Types of Reserve

The council holds two types of reserves categorised as:

General Reserves – held to cushion the impact of uneven cashflow or unexpected events,

Ear Marked Reserves – held for specific purposes.

The RFO will keep a schedule of reserves held at the yearend within the council's accounting system.

3. General Reserves

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.

The primary means of building the general reserve is through an allocation in the annual budget.

Approval of the full council is required to move funds from the general reserve.

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.

Guidance states that a council should typically hold between 3- and 12-months expenditure as a general reserve.

The current level of general reserves to be held by the council is set to 3 months of averaged fixed predicted expenditure. For 2025/26 this is calculated as £160,000

4. Earmarked Reserves

Earmarked reserves will be established on a need's basis in line with anticipated requirements to meet known or predicted liabilities.

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

Expenditure from earmarked reserves can only be authorised by the full council.

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

All earmarked reserves are recorded within the councils accounting system which lists the various earmarked reserves and the purpose for which they are held.

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 councils 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 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.

Signed.....Town Mayor, 19th May 2025