Dinnington St John's Town Council

# RESERVES POLICY

## July 2026

# Dinnington St John's Town Council

# Reserves Policy

## Document control

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|---|---|
| **Policy owner** | Responsible Financial Officer / Clerk |
| **Applies to** | All Council funds, committees, services and projects |
| **Draft prepared** | 28th May 2026 |
| **Adoption date** | |
| **Review cycle** | At least annually, normally alongside budget and precept-setting |
| **Next review due** | July 2027 |

## 1. Purpose

The purpose of this policy is to set out how Dinnington St John's Town Council will establish, hold, use, monitor and review its reserves. The policy supports sound financial management, service continuity, transparent budget-setting and compliance with the Council's statutory responsibilities for proper administration of its financial affairs.

## 2. Scope

This policy applies to all revenue, capital, earmarked and restricted reserves held by the Council. It applies to the Council, all committees with delegated budgets, the Responsible Financial Officer (RFO), budget holders and project leads.

## 3. Definitions

| Term | Meaning |
|---|---|
| **General reserve** | The unallocated working balance held to protect the Council against unexpected expenditure, income shortfalls, cash-flow pressure and general financial risk. It is not earmarked for a specific project. |
| **Earmarked reserve** | Money set aside by Council resolution for a specific purpose, project, liability or risk. The reserve remains part of the Council's funds and may be reallocated by Council resolution if circumstances change. |
| **Restricted reserve** | Money that is subject to legal, grant, contractual or donor restrictions. It must be used only in accordance with those restrictions. Community Infrastructure Levy (CIL) funds should be separately identifiable. |
| **Capital reserve** | Money set aside to fund capital expenditure or asset replacement, such as buildings, vehicles, play equipment, IT infrastructure or major works. |
| **Net revenue expenditure** | For the purposes of this policy, the Council's budgeted revenue expenditure less budgeted recurring revenue income other than the precept, excluding ring-fenced capital receipts and restricted funds. The RFO should apply the definition consistently and disclose the calculation in the annual budget report. |

## 4. Policy principles

- Reserves will be held only where they are justified by operational need, financial risk, planned investment, legal restriction or prudent cash-flow management.
- The level of reserves will be risk-assessed, evidence-based and reviewed at least annually.
- The Council will avoid using reserves to support recurring expenditure unless there is a clear, time-limited recovery plan.
- Earmarked reserves will have a stated purpose, estimated value, expected use period and review date.
- Restricted funds, including CIL, will be separately identified and used only for eligible purposes.
- Reserves decisions will be transparent in budget reports, committee reports, year-end accounts and the Annual Governance and Accountability Return where applicable.

## 5. General reserve target

The Council will normally aim to hold an unallocated general reserve within the following range:

| Reserve level | Normal expectation | Action required |
|---|---|---|
| Below 3 months of net revenue expenditure | Outside normal tolerance | RFO to report the reason, risk impact and a recovery plan to Council. |
| 3 to 6 months of net revenue expenditure | Normal target range for a larger town council, subject to local risk assessment | Maintain and review annually. |
| Above 6 months of net revenue expenditure | May be appropriate only where justified by risk, cash-flow, planned works, uncertainty or short-term timing | Council to record the reason and intended use or reduction plan. |

The Council's starting policy benchmark is therefore a general reserve equivalent to 3–6 months of net revenue expenditure, with 3 months treated as the minimum working floor. A higher or lower figure may be recommended by the RFO only where supported by a documented risk assessment and approved by Council.

When setting the annual budget and precept, the RFO will show the calculation of the target range, the forecast year-end general reserve and the proposed closing position after any planned transfers.

## 6. Earmarked reserves

The Council may create earmarked reserves for known or reasonably foreseeable expenditure. Earmarked reserves should not be used to obscure a surplus or avoid transparent budget-setting. Each earmarked reserve must be approved by Council or by a committee acting within delegated authority.

Examples may include:

- elections and by-elections
- building maintenance and asset renewal
- play areas, open spaces and cemetery infrastructure
- vehicles, machinery and equipment replacement
- IT replacement, cyber resilience and records management
- professional fees, legal matters and specialist advice
- staffing restructures, recruitment and training
- grant-funded or partnership projects
- community events and civic projects
- CIL-funded infrastructure projects, recorded separately as restricted funding.

## 7. Establishing, varying or closing an earmarked reserve

A report proposing an earmarked reserve should normally include:

- the purpose of the reserve and the risk, liability or project it supports
- the proposed opening balance and any annual contribution
- the expected timing and amount of expenditure
- any restrictions on use, including grant, legal, CIL or contractual conditions
- the committee, officer or project lead responsible for monitoring it
- the date when the reserve will next be reviewed.

Earmarked reserves may be increased, reduced, reallocated or closed only by Council resolution, unless the Council's Financial Regulations give a specific delegation to the RFO or a committee. Unused balances should be returned to the general reserve or reallocated by resolution when the original purpose has been completed or no longer applies.

## 8. Restricted funds and CIL

Restricted funds must be separately identifiable in the Council's accounting records and used only for the purpose for which they were received. CIL receipts must be recorded separately from the general reserve and from ordinary earmarked reserves. CIL-funded expenditure should be evidenced, approved and reported in line with the relevant CIL requirements and any reporting requested by the charging authority.

Where a grant or contribution agreement imposes specific terms, those terms take precedence over this policy. The RFO should retain grant offer letters, CIL records, expenditure evidence and any required monitoring returns.

## 9. Use of reserves

- The general reserve may be used to meet urgent, unforeseen or exceptional expenditure, temporary cash-flow pressure or income shortfalls, subject to Council approval or an emergency delegation in the Council's Financial Regulations.
- Earmarked reserves may be used only for their approved purpose unless Council resolves to vary that purpose.
- No reserve may be allowed to fall into a negative balance.
- A decision to fund recurring expenditure from reserves must include a plan showing how the expenditure will be reduced, funded from future budgets or otherwise made sustainable.
- Reserve-funded projects remain subject to normal procurement, budgetary control, approval and reporting requirements.

## 10. Annual review and reporting

The RFO will review reserves at least annually as part of the budget and precept process. For a larger town council, a mid-year review is also recommended so that material movements can be reported before year-end.

The annual reserves report should include:

- opening and forecast closing balances for the general reserve and each earmarked or restricted reserve
- the calculation of the general reserve target range
- proposed transfers to or from reserves
- an explanation of any reserve outside the policy range
- links to the risk register, asset management plan, staffing plan, capital programme and CIL programme where relevant
- confirmation that restricted funds have been separately identified.

## 11. Risk assessment factors

The Council's reserve level should be informed by its own risk profile. The RFO should consider, as a minimum:

- the stability of precept, fees, charges, grants, interest and other income
- exposure to inflation, contract increases and utility costs
- staffing costs, employment liabilities, recruitment risk and continuity of key roles
- asset condition, health and safety duties and urgent repair exposure
- insurance excesses, uninsured losses and claims history
- election and by-election costs
- planned capital works, match-funding commitments and grant timing
- CIL-funded projects and any deadlines or reporting conditions
- cash-flow timing, including VAT recovery and large supplier payments
- legal, contractual, planning, property or governance risks.

## 12. Budget and precept implications

If the forecast general reserve is below the minimum working floor, the RFO should recommend a replenishment plan, normally over one to three financial years depending on affordability and risk. If the forecast general reserve is above the normal target range, the RFO should explain why the balance is being held and recommend either retention, transfer to an appropriate earmarked reserve, use for an approved purpose, or a managed reduction through the budget.

## 13. Roles and responsibilities

| Role | Responsibilities |
|---|---|
| **Council** | Approves this policy, the annual budget, precept, reserve target, creation or closure of earmarked reserves, and material transfers. |
| **Finance / Policy Committee** | Reviews reserve reports and makes recommendations to Council where delegated or required. |
| **Responsible Financial Officer** | Maintains accounting records, calculates reserve requirements, prepares reserve reports, advises on risk and ensures proper classification of funds. |
| **Committees and project leads** | Monitor reserve-funded projects and provide timely information on expected spend, risks and slippage. |
| **Internal auditor** | May review whether reserve controls, reporting and year-end balances are consistent with this policy and proper practices. |

## 14. Accounting and transparency

- Reserves will be clearly identified in the Council's accounting system and year-end working papers.
- Earmarked reserves do not normally require separate bank accounts, but bank and investment balances must be sufficient, secure and managed in line with the Council's investment arrangements.
- Reserve movements will be reported to Council in a way that allows councillors and residents to understand why balances are held.
- The year-end reserve position will be reconciled to the Council's accounting statements and supporting schedules.

## 15. Review of this policy

This policy will be reviewed at least annually, normally before or during budget-setting, and sooner if there is a material change in legislation, proper practices, the Council's services, asset base, staffing structure, risk profile, CIL programme or financial regulations.

**Adopted date:** 21/07/2026

**Minute reference:** F23/27

**Review cycle:** Annually

**Next review date:** July 2027 – Finance Committee