

Cowes Town Council

Reserves Policy

Adopted by Council: [insert date]

Review Frequency: Annually as part of budget setting

Responsible Committee: Finance, Acquisitions and Staffing Committee

1. Purpose of the Policy

Cowes Town Council maintains reserves to ensure financial stability, continuity of services, and effective risk management.

This policy sets out:

- why reserves are held,
- how different types of reserves are defined and managed, and
- how reserve levels are reviewed and justified.

The policy supports prudent financial planning and provides transparency to members, auditors, and the public.

2. Legal and Regulatory Framework

There is no statutory or legal maximum on the level of reserves that a Town Council may hold.

Cowes Town Council determines its reserve levels in accordance with:

- sound financial management principles,
- professional guidance issued by bodies such as CIPFA and NALC (advisory), and
- local circumstances, risks, and future commitments.

The Council does not apply a fixed percentage or “months of expenditure” limit. Reserve levels are judged on reasonableness, justification, and review, not numerical thresholds.

3. Types of Reserves

3.1 General (Unallocated) Reserves

General reserves are held to:

- provide a buffer against unforeseen expenditure or income shortfalls,
- manage cash-flow timing differences between income and expenditure,
- protect the continuity of services, and
- avoid sudden or excessive increases in the precept.

The appropriate level of general reserves is determined by:

- the scale and complexity of the Council’s operations,
- staffing and contractual commitments,
- asset ownership and maintenance responsibilities,
- exposure to inflation and external cost pressures, and
- the overall risk profile of the Council.

As a medium-sized Town Council, Cowes Town Council recognises that it requires a level of general reserves sufficient to absorb financial shocks without service disruption.

3.2 Earmarked Reserves

Earmarked reserves are funds set aside for specific, approved purposes, including:

- planned projects,
- known future expenditure,
- asset replacement or major repairs, and
- other identified liabilities.

Each earmarked reserve will:

- have a clear purpose,

- be approved by Council, and
- be reviewed regularly to ensure it remains appropriate.

Earmarked reserves are not available for general spending unless formally reallocated by Council.

3.3 Ring-Fenced Funds

Ring-fenced funds are held where:

- funding is legally restricted, or
- funds are subject to external conditions.

These monies are accounted for separately and cannot be used for other purposes.

4. Use of Reserves

Reserves may be used:

- to fund approved expenditure,
- to meet unexpected costs,
- to manage financial risk, or
- to support budget sustainability.

The use of reserves will be:

- approved by Council as part of the budget process or by formal resolution, and
- clearly recorded in the Council's financial records.

Reserves are not intended to replace proper budgeting, but to support financial resilience.

5. Review and Governance

- All reserves will be reviewed at least annually as part of the budget-setting process.
- The Finance, Acquisitions and Staffing Committee will consider:
 - the adequacy of general reserves,
 - the purpose and balance of earmarked reserves, and
 - the Council's risk exposure and forthcoming commitments.
- Council will formally note and approve the reserve position.

This review will be documented to provide a clear audit trail.

6. Transparency and Accountability

Cowes Town Council is committed to:

- transparency in the reporting of reserves,
- clear explanation of why reserves are held, and
- ensuring that reserves are appropriate, justified, and proportionate.

Holding reserves above or below any indicative benchmark is not, in itself, evidence of good or poor practice. What matters is that reserves are planned, reviewed, and aligned with risk and need.

7. Policy Review

This policy will be reviewed:

- annually as part of budget setting, or
- sooner if there is a significant change in the Council's financial position or responsibilities.