**Reserves Policy**

We are required to maintain adequate financial reserves, under statute, to meet the needs of the Parish Council.

Sections 32 and 43 of the Local Govt 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 RFO to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

Council will hold reserves for 3 main purposes:

1. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – General Reserves
2. Contingency to cushion the impact of unexpected events or emergencies – General Reserves
3. A means of building up funds for Earmarked Reserves to meet known or predicted requirements and are accounted for separately but remain legally part of the general fund.

**Types of Reserves**:

Reserves can be categorised as General, Earmarked, Ring-Fenced or Election. Expenditure from reserves can only be authorised by Council.

Earmarked reserves can be held for several reasons:

* Renewals – i.e., to enable Council to plan an effective programme of 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. In addition, 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.

Earmarked Reserves are established on a “needs” basis in line with anticipated requirements.

General Reserves: funds which do not have any restrictions as to their use – commonly termed the ‘working balance’ i.e., not held for any specific purpose other than to cushion the Council’s finances - again any unexpected short-term problem. Any surplus on the reserve above the required balance may be used to fund capital expenditure and be appropriated to Earmarked Reserves or used to limit any increase in the Precept.

These reserves can be used to smooth the impact of uneven cash flows, offset the budget requirement, if necessary, or can be held in case of unexpected events or emergencies.

The Parish Council is required to build and maintain sufficient working balances to cover the key risks it faces and detailed in the financial risk assessment. If in extreme circumstances the General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, Council would be able to draw down from its earmarked reserves to provide **short term resources.**

**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 of our Earmarked Reserves are recorded and the purpose for which they are held.

To simplify how Reserves are categorised:

1. General – it is recognized that a Parish Council should typically hold between 3 and 12 months’ expenditure.
2. Earmarked – Money is allocated for a specific purpose but might not be spent in that financial year. Ring-fenced – Money or grants allocated for a specific project only and must not be used for any other purpose
3. Election – All reasonable costs of holding Parish Council Elections can be fully recharged by the District to local Councils and this covers that possibility.

**Document History**

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