

RESERVES POLICY

Purpose

The Parish Council is required to maintain adequate financial reserves to meet foreseeable needs and commitments, and to ensure money is available in the event of an emergency.

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.

The Parish Council will hold reserves for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
- A contingency to cushion the impact of unexpected events or emergencies.
- A means of building up funds, to meet known or predicted requirements and projects.

The Parish Council has no legal powers to hold revenue reserves other than for reasonable working capital or for specifically earmarked purposes, therefore the year-end general reserve should not be significantly higher than the annual precept.

General Reserve (Operational Expenditure)

The use of this is not restricted. These reserves can be used to smooth the impact of uneven cashflows or can be held in case of unexpected events or emergencies. The level held by the Parish Council for the forthcoming year will be based upon a risk assessment of the Parish Council's main areas of income and expenditure and consider any provisions and contingencies that may be required. This is a matter of judgement.

The current level of general reserves to be held by the Parish Council will be determined at the time of setting the annual budget but should reflect between 3 and 9 twelfths of the annual expenditure of the Council as required i.e. to cover 3 – 9 months running costs and should include:

- Salary commitments
- Contractual requirements
- Income levels below budgeted level
- Insurance reserve to enable the Parish Council to meet the excesses of claims not covered by insurance

The use of General Reserves must be authorised by the Parish Council. Where the reserve amount has arisen because of excess funds through cancelled or obsolete activities the Parish Council may elect to use these funds for another purpose for which no other budget is available. The budget should be regularly reviewed.

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

Earmarked Reserves (Operational Expenditure and Capital Expenditure)

These are to be set up to meet known or predicted liabilities, for example:

- Projects identified by the Parish Council e.g., replacing buildings, play equipment or street furniture
- Future election costs
- Devolution of services

All specific Earmarked Reserves are to be 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. There must be clearly definitions for the intended uses for each Earmarked Reserve category, such as using the OPEX reserve for unexpected cost increases or cash flow gaps, and the CAPEX reserve for planned major infrastructure projects.

Earmarked Reserves should not be used to fund ongoing expenditure. However, they can be used to fund unexpected cost increases or cash flow gaps.

Earmarked Reserves that have been used to meet a liability or project would not need to be replenished, having served the purpose for which they were originally established.

Management and Control of Reserves

***Joint Panel on Accountability and Governance (JPAG) 5.39 states: There is no upper lower limit save only that they must be held for genuine and identifiable purposes and projects.**

Movements in Earmarked Reserves and General Reserves shall be reported to the Parish Council on a monthly basis as part of the normal accounting reports, and on an annual basis as part of the annual accounting report. The use of Reserves shall be approved by the Parish Council having regard to this policy and the Parish Councils' Financial Regulations.

General Reserves will be reviewed each year as part of the budgetary process. The minimum level of General Reserve will be recommended to the Parish Council. This will form part of the recommendations for the Annual Budget and Precept Request to the Parish Council.

Earmarked Reserves shall be reviewed on an individual basis. This review will also be undertaken as part of the budgeting process. Approval for the creation, amendment, cessation, or continuance of Earmarked Reserves will be given by the Parish Council. This policy may be reviewed by the Finance and General Purpose Committee but must be approved by the Parish Council.