

TOLLESHUNT D'ARCY PARISH COUNCIL

RESERVES POLICY V1.0

Introduction

Tolleshunt D'Arcy Parish Council is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out how the Council will determine and review the level of reserves.

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. However, there is no specified minimum level of reserves that an authority should hold and it is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

Types of Reserves

Reserves can be categorised as general or earmarked.

Earmarked reserves are held for the following reason:

- Renewals – to enable the Council to plan and finance any agreed projects/expenditure. These reserves are a mechanism to smooth expenditure so that a sensible replacement can be achieved without the need to significantly vary budgets year on year.
- Community Projects that require funding in line with the Action Plan.
- Carry forward of underspend – The Council may commit expenditure to projects, but cannot spend the budget in the year. Reserves are used as a mechanism to carry forward these resources.
- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

General Reserves are held for the following reason:

- funds which do not have any restrictions as to their use. 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.

Use of Reserves

Reserves should not be held to fund ongoing 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.

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

Reviewing the Council's 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.

General Reserves

The level of General Reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level.

The primary means of building general reserves will be through an allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year.

Setting the level of General Reserves is one of several related decisions in the formulation of the medium-term financial strategy and the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment.

If in extreme circumstances General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Council would be able to drawdown from its earmarked reserves to provide short term resources.

Even at times when extreme pressure is put on the Council's finances, the Council must keep a minimum balance sufficient to pay three month's salaries to staff in General Reserves at all times.

Earmarked Reserves

These will be established on a "needs basis", in line with anticipated requirements.

All Earmarked Reserves are recorded on a schedule held by the Responsible Financial Officer which lists the various Earmarked Reserves. A copy of the Earmarked Reserves to be presented to the Council on a monthly basis as part of the Monthly Financial Report.

Current level of financial reserves

The level of financial reserves held by the council will be agreed by the Parish Council during the discussions held regarding the setting of the budget for the next financial year. All virements of funds must be agreed by full Council.

The advised level of total reserve is the annual income figure, to fully cover a years expenditure, but can be varied.

Last Review: May 2025

Next Review: May 2026