

FINANCIAL RESERVES POLICY

ADOPTED NOVEMBER 2018 REVIEWED AND APPROVED MAY 2022

1. Introduction

The Parish Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the organisation.

The Local Government Finance Act 1992 requires local authorities in England and Wales to have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.

The Parish Council's policy on the establishment, maintenance and adequacy of reserves and balances will be considered annually.

The Council will hold reserves for these three main purposes:

- 1.i. A working balance to allow for any unexpected short term cash flow problem;
- 1.ii. A contingency to cushion the impact of unexpected events or emergencies – this also forms parts of general reserves;
- 1.iii. A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the general fund.

2. General Fund balance (working balance)

The general fund balance, commonly termed the 'working balance', is a balance on the council's revenue account which is not held for any specific purpose other than to cushion the council's finances against any unexpected short term problems in the council's cash flow.

The general fund balance is to be maintained at a level based upon a risk assessment carried out annually by the Responsible Finance Officer (RFO) when setting the budget for the forthcoming year.

Any surplus on the reserve above the required balance may be used to fund capital expenditure, be appropriated to earmarked reserves or used to limit any increase in the precept.

3. Financial Risk Management

In order to assess the adequacy of the general fund when setting the annual budget, the RFO will take account of the strategic, operational and financial risks facing the council.

The requirement of the level of the general fund balance for the forthcoming year will therefore be based upon a risk assessment of the council's main areas of income and expenditure and take into account any provisions and contingencies that may be required.

- 3.i. The Parish Council as a general guide will seek to hold the equivalent of a half-yearly Precept payment as a working balance.
- 3.ii. Plus to hold contingencies for emergencies (in general, half level of Precept).

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4. Earmarked Reserves

Earmarked Reserves represents amounts that are generally built up over a period of time which are earmarked for specific items of expenditure to meet known or anticipated liabilities or projects.

The 'setting aside' of funds to meet known future expenditure reduces the impact of meeting the full expenditure in one year.

The Council, when establishing an earmarked reserve, will set out:

- The reason / purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the management and control of the reserve;
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

4.i. Earmarked reserves, as appropriate for the current year, will be shown in the Accounts file.

Susan Turner, Clerk and RFO

1st May 2022