



## Reserves Policy

### 1. Purpose

Bayston Hill Parish Council is required to maintain adequate Financial Reserves to meet the needs of the Parish Council. The purpose of this policy is to set out how the Council will determine and review the level of its 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 Clerk/Responsible Finance Officer to advise the Council about the level of Reserves and to ensure that there are procedures for their establishment and use.

### 2. Types of Reserves

Reserves may be categorised as either 'General' or 'Earmarked'

Earmarked Reserves can be held for several reasons and are intended to be restricted for that agreed use. (Such as replacement machinery or replacement play equipment)

General Reserves are funds that 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 and, if necessary, can be held in case of unexpected events or emergencies.

Earmarked Reserves will be established on a 'needs' basis, in line with anticipated requirements.

Any decision to set up a Reserve must be made by the Parish Council. Expenditure from Reserves can only be authorised by the Parish Council. Reserves will not be held to fund ongoing expenditure. This would be unsustainable as, at some point, the Reserves would be exhausted. Any Reserves being used to meet short term funding gaps must be replenished in the following year.

Earmarked Reserves that have been used to meet a specific liability (or project) would not need to be replenished, having served the purpose for which they were originally established. The level of General Reserves is a matter of judgment and so this policy does not attempt to prescribe an overall level. However, the current level of General Reserves to be held by the council is targeted to be no more than 50% of the annual precept figure. The minimum reserves should cover six months wages (£50,000) whilst the maximum should be 50% of the precept. (£91,000) 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.

The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its Risk Assessment, which is reviewed annually. If, in extreme circumstances, General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year then the Parish Council would be able to draw down from its Earmarked Reserves to provide short-term resources.

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

### 3. Opportunity costs of holding Reserves

In addition to allowing the Council to manage unforeseen financial pressures and plan for known or predicted liabilities, there is a benefit to holding Reserves in terms of the interest earned on funds which are not utilised. This investment income is fed into the budget strategy. However, in recent years the interest rate offers little reward for the amount invested. However, there is an "opportunity cost" of holding funds in Reserves, in that these funds cannot then be spent on anything else. Given the opportunity costs of holding Reserves, it is critical that Reserves continue to be reviewed by the Parish Council on a monthly basis. The annual budget process is also an opportunity to confirm that the Reserves are still required and that the level maintained is still appropriate.

### 4. Policy in Practice

The Council will hold Reserves for these three main purposes: -

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the General Reserves
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of the General Reserves
- A means of building up funds (Earmarked Reserves), to meet known or predicted requirements.

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