

HARBLEDOWN AND ROUGH COMMON PARISH COUNCIL

FINANCIAL RESERVES POLICY

1. Purpose

Harbledown and Rough Common Parish Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the organisation. Section 50 of the Local Government Finance Act 1992 requires that billing and precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating their budget requirement.

The Council's policy on the establishment, maintenance and adequacy of reserves and balances will be considered annually and will be consistent with meeting the Council's overall strategic objectives.

The 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 – 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, 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. The Governance & Accountability for Local Councils Practitioners Guide 2014

2.25 ...as councils have no legal powers to hold revenue reserves other than those for reasonable working capital needs or for specifically earmarked purposes, whenever a council's year-end general reserve is significantly higher than the annual precept, an explanation should be provided to the auditor. Earmarked reserves, which are set aside for specific purposes and for savings for future projects, should be realistic and approved by the council. However, the amount of general reserve should annually be risk assessed and approved by the Council.

3. Types of Reserves

- i) **Specific Reserves** (earmarked/allocated reserves) can be held for several reasons and shall be used only for the purpose for which they are created.
 - Renewals – to enable services to plan and finance an effective programme of equipment replacement and planned property maintenance. Since a modest change in the budget in any one year may have a disproportionate effect on the precept, these reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets dramatically from year to year.

- Carry forward of underspend - expenditure committed to a project but not spent in the budget year. Reserves can be used as a mechanism to carry forward this resource.
- Developers contributions – proceeds from developers that can only be used for specific purposes.
- Other specific reserves may be set up from time to time to meet known or predicted liabilities.
- Where the purpose of a Specific Reserve becomes obsolete, or where there is an over-provision of funds, the excess may on the approval of the Council be transferred to other budget headings within the revenue budget or to the General Reserves or to one of more other Specific Reserves.

ii) **General Reserves:** - this is often referred to as the “working balance”. This typically comprises of three elements.

- The first is a sum of money which is not earmarked for specific purposes but rather set aside to deal with unexpected events or emergencies. This “minimum working balance” needs to be regularly reviewed using a risk-based assessment.
- The second is money held in anticipation of uneven cash flow (for example the precept income received six-monthly in advance and VAT reclaimed annually retrospectively).
- Any amount held in excess of these make up the third sum of monies and is usually created through surpluses as a result of activities being postponed or cancelled. Reserves of this nature can be spent or earmarked at the discretion of members, subject to approval by Council.

4. Review of the adequacy of balances and reserves

In accessing the adequacy of reserves, the strategic, operational and financial risks facing the Council will be considered. The level of all reserves will be reviewed as part of the annual budget preparation by the Finance Committee and recommendations put before the full Council for resolution.

The reserves policy was adopted on: 28th October 2024

Minute reference: 157/24 g