



## Reserves Policy

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1.0	25 July 2018	M. Harper	Adopted at PC meeting 25/07/18 minute ref
1.1	11 January 2021	M Harper	For review and agreement at Resources meeting 20 January 2021 for approval at PC meeting
1.2	27 January 2021	M Harper	Adopted at PC meeting 27 January 2021 minute ref 20/21.70.7.7

## **1. Introduction**

Danbury Parish Council ('DPC') is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out how DPC 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, based on appropriate guidance from internal and external auditors, to advise DPC on the level of reserves and to ensure that there are procedures for establishment and use.

## **2. Types of Reserves**

Reserves can be categorised as general, earmarked or ringfenced.

General Reserves are 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 as provision for unexpected events or emergencies, including unplanned expenditure or non-receipt of income.

Earmarked reserves can be held for several reasons, including but not limited to:

- Renewals – to enable DPC to plan and finance an effective programme of vehicle, equipment and infrastructure replacement and planned property maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to significantly vary budgets year on year.
- Carry forward of underspend – DPC may commit expenditure to projects, but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.
- Insurance reserve – to enable DPC to meet the excesses of claims.
- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities

Ringfenced reserves are monies or grants received for a specific purpose.

## **3. Use of Reserves**

Reserves should not be held to fund on-going 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 may 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 their original purpose.

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

Expenditure from reserves and the virement of monies can only be authorised by DPC; this authority has been delegated to the Resources Committee as part of the Terms of Reference: Decision/Delegated Powers 5 – The Committee has ultimate responsibility to ensure financial balance and probity of the Parish Council.

Reviewing DPC's Financial Risk Assessment is part of the budgeting and year end accounting procedures and identifies planned and unplanned expenditure items, thereby indicating an appropriate level of Reserves.

#### **4. General Reserves**

The minimum 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, where necessary, 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. DPC 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, DPC 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 finances DPC must keep a minimum balance sufficient to cover three month's payroll costs to staff in General Reserves at all times.

#### **5. Earmarked Reserves**

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

All Earmarked Reserves are 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.

#### **6. Current level of financial reserves**

The target level of financial reserves held by DPC will be agreed during the discussion held regarding the setting of the budget for the next financial year.

The advised level of general reserves is half of the annual precepted figure, to fully cover six months expenditure, but can be varied.