

Walberswick Parish Council

Draft Reserves Policy – proposed for adoption July 2021

1. Purpose

- 1.1. Walberswick Parish Council is required to maintain adequate financial reserves to meet the needs of the Council. The purpose of this policy is to set out how the Council will determine and review the level of reserves.
- 1.2. 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. The Governance and Accountability for Smaller Authorities in England, A Practitioners Guide March 2020 sections 5.31 to 5.33 advises this should be considered as part of the annual budgeting process. 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.

2. Types of reserves

- 2.1. Reserves can be categorised as earmarked (AKA “Ringfenced”) or general.
- 2.2. Earmarked reserves can be held for several reasons:
 - Renewals – to plan and finance an effective programme of new facilities and services, equipment replacement and planned property/land maintenance. These reserves are a mechanism to smooth expenditure so that a sensible programme can be achieved without the need to vary budgets.
 - Carry forward of underspend – where some expenditure to projects cannot be spent in the budget year; reserves are used as a mechanism to carry forward these resources.
 - Monies due to the council under CIL & S.106 agreements.
 - Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.
- 2.3. General reserves are funds which do not have any restrictions as to their use. These reserves are 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.

3. Earmarked reserves

- 3.1. Earmarked reserves will be established on a “needs” basis, in line with anticipated requirements.
- 3.2. Any decision to set up an Earmarked Reserve must be by resolution of the Council.
- 3.3. Expenditure from Earmarked Reserves must be by resolution of the Council.
- 3.4. 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 as soon as possible provided that the purpose for which the Reserve was set up

continues to exist. However, earmarked reserves that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established.

- 3.5. All earmarked reserves are recorded on a central schedule held by the Responsible Financial Officer and which lists the various earmarked reserves and the purpose for which they are held.
- 3.6. 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.

4. General Reserves

- 4.1. The level of general reserves is a matter of judgement and so this policy does not attempt to describe a blanket level. The primary means of building general reserves will be through the annual budgeting process. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year.
- 4.2. 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.
- 4.3. 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.

5. Current level of financial reserves

- 5.1. The level of financial reserves held by the council will be agreed by the council during the discussions held regarding the setting of the budget for the next financial year and year end accounting procedures.
- 5.2. The level of general reserves held by the council will be budgeted to be between 6 months and 12 months of annual expenditure.