

# Baginton Parish Council

## Reserves Policy

### Introduction

1. Baginton Parish Council is required to maintain adequate financial reserves to meet the needs of its operations and to ensure financial security. However, given that its funds are generated from public levies, it is important that such reserves are not excessive.
2. There is no specific minimum level of reserves which an authority should hold and it is the responsibility of the Responsible Financial Officer (RFO) to advise the Parish Council about the level of reserves and to ensure that there are procedures for their establishment and use.

### Types of reserve

3. More detailed definitions can be found in sections 4 to 7, but in simple terms reserves can be categorised as General (held to cushion the impact of uneven cash flows or unexpected events), Earmarked (held for a specific purpose) or Ring-fenced (held for one purpose only and cannot be transferred).

### General reserves

4. General reserves are funds that do not have any restrictions on their use. They cushion the impact of uneven cash flows, offset budget requirements, if necessary, or can be held in case of unexpected events or emergencies. Setting the level of General reserves is agreed with the annual budget.
5. The primary means of building General reserves will be through an allocation from the annual budget and reallocation of funds (underspend on a completed project). This will be in addition to any amounts needed to replenish reserves that have been spent in the previous year.

### Earmarked reserves

6. Earmarked reserves are held for several reasons and shall be used for the purpose for which they were created: their level is subject to annual review and justification.
  - 6.1. Renewals – to enable the planning and financing of an effective program of equipment replacement and property maintenance/refurbishment. The funds required are built up incrementally over several years. This 'setting aside' of funds to meet known future expenditure reduces the impact of meeting the full expenditure in one year.
  - 6.2. Carry forward of underspend on an uncompleted project – some expenditure is budgeted for projects, but is not spent in that financial year. Reserves are used as a mechanism to carry forward these resources.
  - 6.3. Developers contributions – proceeds from developers that can only be used for specified purposes.
  - 6.4. Other Earmarked reserves – these may be set up from time to time to meet known or predicted liabilities.

### **Ring-fenced reserves**

7. Ring-fenced reserves are grants allocated for a particular project only; this money must not be used for any other purpose.

### **Management and control of reserves**

8. Reserves can be used for long term planned or exceptional (unbudgeted or higher than expected) expenditure. Budget allocations can be moved from one budget line to another during the course of a financial year, with approval from the Parish Council, as long as the total expenditure for the financial year is not exceeded.
9. The level of General reserves shall be reviewed and agreed by the Parish Council on an annual basis during the budget preparation. The minimum level of General reserves shall be recommended to the Parish Council by the RFO. The level of General reserves to be held by the Council should normally cover between six and twelve months of predicted expenditure.
10. If in extreme circumstances General reserves are exhausted due to major unforeseen spending pressures within a particular financial year, the Parish Council is able to draw down from its Earmarked reserves to provide short term resources. Even at times when extreme pressure is put on the Parish Council's finances, the Council must keep a minimum balance in its General reserves sufficient to pay three months' salary to staff. Agreement from the Council is required to move funds from the General reserves.
11. Earmarked reserves will be established and approved by the Parish Council on a "needs" basis in line with anticipated requirements and these are to be reviewed annually when the budget is agreed. If the Earmarked reserves are used to meet short term funding gaps, they must be replenished in the following financial year.
12. Where the purpose of an Earmarked reserve becomes obsolete, or where there is an over-provision of funds, the Parish Council may approve transfer of the excess to other budget headings within the revenue budget, to General reserves or to one or more other Earmarked reserves. The RFO will note Earmarked reserves movements at the end of the financial year.