

# Aston Clinton Parish Council

## Reserves Policy

### 1. Introduction

Aston Clinton Parish Council (ACPC) are required to maintain adequate Financial Reserves to meet its needs.

Sections 32, 43 and 50 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed for meeting estimated expenditure when calculating the budget requirement. However, there is no specified minimum or maximum level of reserves that an authority should hold.

### 2. Purpose

- 2.1 The purpose of this policy is to set out how ACPC will determine and review the level of its general and earmarked reserves.
- 2.2 ACPC will hold GENERAL RESERVES for three main purposes:
- (a) As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
  - (b) As a contingency to cushion the impact of unexpected events or emergencies.
- 2.3 ACPC will hold EARMARKED RESERVES for four main purposes:
- (a) Renewals - to facilitate services, to plan and finance an effective programme of equipment and infrastructure replacement and planned asset maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
  - (b) Carry forward of underspend - some services commit expenditure to projects but cannot be spent from the budget in year. Reserves are used as a mechanism to carry forward these resources.
  - (c) Insurance reserve - to enable ACPC to meet the excesses of claims not covered by insurance.
  - (d) Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

### 3. General Reserves

- 3.1 The general reserves are funds which do not have any restrictions as to their use. These are sometimes referred to as 'working balances'. These reserves can be 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 thereby enabling ACPC to meet its legal, statutory and proper duties and responsibilities. These may include:
- Undertaking essential repairs or maintenance work.
  - Undertaking unexpected administrative duties or to challenge or deflect future threats to the Parish, its people and its environment.
  - Making provisions for potential employment issues e.g. staff ill-health, redundancy obligations, disciplinary or grievance investigations/hearings.
  - Short term cash flow difficulties.
- 3.2 The level of general reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level. ACPC must build and maintain sufficient working balances to cover the key risks it faces .
- 3.3 The primary means of building general reserves will be via an allocation from the annual budget.

- 3.4 The level of financial reserves held by ACPC will be considered during the budget setting process.
- 3.5 If, in extreme circumstances, General Reserve were exhausted due to major unforeseen spending pressures within a particular financial year, ACPC would be able to draw down from its Earmarked Reserves to provide short-term resources.

#### **4. Earmarked Reserves**

Earmarked reserves represent amounts that are generally built up over a period which are earmarked for specific items of expenditure to meet known, or anticipated liabilities or projects. The 'setting aside' of funds to meet known future expenditure reduces the impact of meeting the full expenditure in one year. ACPC, when establishing an earmarked reserve, will set out:

- (a) The reason/purpose of the reserve.
- (b) How and when the reserve can be used.
- (c) Procedures for the management and control of the reserve.
- (d) A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

#### **5. Setting of Reserves**

- 5.1 The Governance and Accountability Practitioners' Guide (2021) sets out guidance and audit considerations for Town & Parish Councils.
- 5.2 Earmarked reserves will be established on a "needs" basis, in line with planned or anticipated requirements.
- 5.3 ACPC will be required to identify the following when making recommendations for each reserve:
  - The reason for/purpose of the reserve
  - How and when the reserve can be used
  - Procedures for management and control of the reserve/s
  - A process and timescales for review of the reserve to ensure continuing relevance and adequacy.
- 5.4 Any decision to set up a reserve must be made by ACPC.
- 5.5 Expenditure from reserves can only be authorised by the Full Council, not by Committees.
- 5.6 If general reserves are used to meet short term funding gaps, they must 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 the purpose for which they were originally established. Virements may be made by ACPC at any time during the year - both to and from reserves (general and earmarked) by resolution of the Full Council.
- 5.7 All earmarked reserves will be recorded on a schedule held by the Responsible Financial Officer which lists the various earmarked reserves and the purpose for which they are held.

#### **6. Review of the Adequacy of Balances & Reserves**

- 6.1 In assessing the adequacy of reserves the strategic, operational and financial risks facing the authority will be taken into account. The level of earmarked reserves will be reviewed as part of the annual budget preparation.
- 6.2 Monies resulting from budgetary underspends will ordinarily be added to the general reserves. If, however, the general reserves are higher than necessary, working balances may be used to reduce the subsequent precept.
- 6.3 If in extreme circumstances general reserves were exhausted, due to unforeseen spending pressure within a particular financial year, ACPC would be able to draw down from its earmarked reserves to provide short-term resources.