Cheselbourne Parish Council
Reserves Policy

Adopted: July 2026

1. Purpose

The Parish Council (Council) is required to maintain adequate financial reserves to meet the needs of the organization. The purpose of this policy is to set out how the Council 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 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

Reserves can be categorized as general or earmarked.

Expenditure from Reserves can only be authorised by the Council.

Earmarked Reserves can be held for several reasons:

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

General Reserves are funds which to not have any restrictions 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 in case of unexpected events or emergencies. The Smaller Authorities Proper Practices Panel (SAPPP) advises councils to maintain a general reserve equivalent to three to twelve months' net expenditure to cover contingencies and cash flow issues.

Earmarked Reserves (EMR)

EMR will be established on a 'needs' basis, in line with anticipated requirements.

Any decision to set up a reserve must be given by the Council.

EMR 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 in the following year. However, EMR 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.

All EMR are recorded on a central schedule held by the RFO which lists the various EMR and the purpose for which they are held.
Reviewing the Council's Financial Risk Assessment is part of the budgeting process and year end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of resources.

General Reserves

The level of general reserves is a matter of judgement and should be reviewed periodically to ensure they are at an appropriate level for the prevailing economic conditions. The primary means of building general reserves will be through an allocation of 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. The Council 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, the Council would be able to draw down from its EMR to provide short term resources, provided these are then replenished at the next budgetary cycle, unless the Council agrees the EMR(s) used is no longer required.

Opportunity cost of holding reserves

Given the opportunity costs of holding reserves, it is critical that reserves continue to be reviewed each year as part of the budget process to confirm that they are still required and that the level is still appropriate.

Current level of financial reserves

The level of financial reserves to be held will be agreed by the Parish Council during the budget setting process for the next financial year. At this point, the Appendix to this policy will be updated to record the General and EMR to be held for the budget period.

Appendix

Prevailing Reverses to be held for the budget year 2026-2027

General Reserve:

1. The level of General Reserve shall be maintained at £2,486.00 – 22.6% of the planned annual expenditure
2. Planned annual expenditure for 2026-27 had been forecast as £11,000.00

Earmarked Reserves

EMR for the budget year 2026-27 have been set at:

1.	PlusBus	£610.00
2.	Venue hire	£20.00
3.	Defibrillator	£150.00
4.	Play Park repairs & renewal	£4,449.88
	Total EMR	**£5,229.88**