

Rusthall Parish Council

Reserves Policy

1. Purpose

This Reserves Policy sets out how Rusthall Parish Council (“the Council”) will maintain, manage, and review its reserves in accordance with statutory requirements, proper practices, the Council’s Financial Regulations, and its Investment Policy.

The policy ensures that the Council:

- Maintains adequate financial resilience
- Plans effectively for future expenditure and liabilities
- Supports sound medium- and long-term financial planning
- Demonstrates transparency and accountability in the use of public funds

This policy should be read alongside:

- Financial Regulations
- Investment Policy
- Risk Management Policy
- Asset Register and Asset Management Plans
- Annual Budget and Medium-Term Financial Planning arrangements

2. Legal and Governance Framework

The Council will comply with:

- The Local Government Act 1972
- The Local Government Finance Act 1992
- The Local Government Act 2003
- Proper Practices as set out in *Governance and Accountability for Smaller Authorities*
- Guidance issued by the National Association of Local Councils (NALC)

The Council acknowledges that it has no legal power to hold excessive reserves without clear justification.

3. Definition of Reserves

Reserves are balances held by the Council which are not allocated to normal day-to-day expenditure.

The Council maintains two categories of reserves:

1. General Reserves
2. Earmarked Reserves

4. General Reserves

4.1 Purpose

The General Reserve represents funds available to:

- Cushion the impact of unexpected events or emergencies
- Manage cash flow requirements
- Offset unforeseen expenditure
- Protect against income shortfalls
- Support financial stability between budget cycles

The General Reserve is not intended to fund ongoing operational deficits.

4.2 Level of General Reserves

The Council will maintain a General Reserve appropriate to:

- The size and complexity of the Council
- The level of annual expenditure
- Identified financial risks
- Cash flow requirements
- The Council's overall risk profile

As a general guide, the Council will aim to maintain a General Reserve equivalent to between **three and twelve months of net revenue expenditure**, subject to annual review and risk assessment.

Where reserves fall outside this range, the Council will record the reasons within its budget and financial planning documentation.

4.3 Use of General Reserves

Use of the General Reserve must be approved by the Council and should normally be limited to:

- Emergencies
- Unplanned expenditure
- One-off budget support
- Short-term funding gaps

The General Reserve will not normally be used to support recurring expenditure commitments.

5. Earmarked Reserves

5.1 Purpose

Earmarked Reserves are funds set aside for specific purposes, projects, liabilities, or known future expenditure.

These may include:

- Asset replacement or maintenance
- Capital projects
- Elections
- Community projects
- Insurance excesses or uninsured risks
- Staffing liabilities
- Grant-funded schemes
- Climate, environmental, or infrastructure initiatives

5.2 Establishment of Earmarked Reserves

The Council may establish Earmarked Reserves where:

- Expenditure is planned but the timing is uncertain
- Funds are being accumulated for future projects
- A financial risk has been identified
- There is a statutory or contractual obligation

Each reserve should have:

- A clearly defined purpose
- An estimated target amount where practical
- A review date or trigger for use

5.3 Review of Earmarked Reserves

Earmarked Reserves will be reviewed by the Council at least annually as part of the budget-setting process.

The review will consider:

- Continuing relevance
- Adequacy of balances
- Expected timescales for expenditure
- Whether funds should be released or reallocated

Unused or obsolete reserves may be transferred back to the General Reserve following Council approval

6. Relationship with the Investment Policy

The Council's reserves and investments must be managed consistently.

In accordance with the Council's Investment Policy:

- Funds required for operational expenditure and short-term commitments will remain readily accessible
- Only funds clearly surplus to short- and medium-term requirements may be considered for longer-term investment
- Security and liquidity will take priority over investment return

The Responsible Financial Officer (RFO) will ensure:

- Appropriate cash flow forecasting
- Alignment between reserve levels and investment durations
- Compliance with Financial Regulations and investment limits

7. Adequacy of Reserves

When determining the adequacy of reserves, the Council will consider:

- Inflation and cost pressures
- Risks identified in the Risk Register
- Planned capital expenditure
- Condition of assets and infrastructure
- Future maintenance liabilities
- Potential changes in income or funding
- Election costs
- Staffing and contractual commitments
- Emergencies and unforeseen events

The Council recognises that reserve levels may fluctuate over time depending on operational and strategic requirements.

8. Accounting and Transparency

Reserves will be:

- Clearly identified in the Council's accounting records
- Reported within budget monitoring and year-end accounts
- Reviewed regularly by the Council

Financial reports will distinguish between:

- General Reserve balances
- Individual Earmarked Reserves
- Usable and committed balances

The purpose and movement of reserves should be transparent and properly documented in Council minutes and financial records.

9. Responsibilities

Full Council

The full Council is responsible for:

- Approving the Reserves Policy
- Determining and reviewing reserve levels
- Approving the creation and use of Earmarked Reserves
- Ensuring reserves remain adequate and appropriate

Responsible Financial Officer (RFO)

The RFO is responsible for:

- Advising the Council on reserve adequacy
- Monitoring reserve balances
- Maintaining accurate accounting records
- Reporting reserve movements and forecasts
- Ensuring consistency with the Investment Policy and Financial Regulations

10. Review and Amendment

This policy will be:

- Reviewed annually by the Council
- Updated as necessary to reflect legislative changes, guidance, operational needs, and financial circumstances