Willoughby Parish Council

RESERVES POLICY

The Parish Council's Reserves Policy was adopted at the Council meeting held on 11 March 2025 and will be reviewed every two years.

1. INTRODUCTION

Willoughby Parish Council is required to maintain sufficient financial reserves to finance both its day-to-day operations and future plans. The purpose of this policy is to set out how the Council will determine and review the level of reserves.

Section 50 of the Local Government Finance Act 1992 requires that billing and precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.

The Joint Panel on Accountability and Governance Practitioners Guide 2024 refers to:

- Earmarked reserves – there is no upper or lower limit to Earmarked reserves, save that they must be held for genuine and identifiable purposes and projects, and their level should be subject to regular review and justification (at least annually and at budget setting) and should be separately identifiable and enumerated.
- General reserves - the level of a smaller authority's general reserve is that it should be maintained between three and twelve months of net revenue expenditure. The smaller the authority, the closer the figure may be to 12 months expenditure.

There is no specified minimum level of reserves that an authority should hold. 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.

The Council's policy on the establishment, maintenance and adequacy of reserves and balances will be considered annually.

The Council will hold reserves for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing - this forms part of the general reserves

- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves

- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the general fund.

2. GENERAL FUND

The general fund does not have any restrictions as to its use. These reserves can be used to smooth the impact of uneven cash flows and are also held in case of unexpected events or emergencies.

The general fund balance is to be maintained at a minimum level of 12 months operational costs less regular income (other than the Precept), which may increase subject to an annual risk assessment carried out by the Responsible Financial Officer (RFO) when setting the budget for the forthcoming year. Any surplus in the reserve above the required balance may be used to fund capital expenditure, be appropriated to earmarked reserves or exceptionally used to limit any increase in the precept.

3. FINANCIAL RISK MANAGEMENT

In order to assess the adequacy of the general fund when setting the annual budget, the RFO will take account of the strategic, operational and financial risks facing the Council. The requirement of the level of the general fund balance for the forthcoming year will therefore be based upon a risk assessment of the Council's main areas of income and expenditure and take into account any provisions and contingencies that may be required.

The main items to be considered are:

Financial Risk	*Analysis of Risk*
Pay inflation is greater than budgeted	The cost-of-living increase is above the level allowed for in the estimates.
Contractual inflation is greater than budgeted	A general assumption is made when estimating the percentage increase on rates and utilities. This may increase above budgeted inflation. Professional and other services costs may increase above estimate.
Treasury Management income is not achieved	The actual interest rate realised is below the rate predicted at budget.
All Income from fees and charges is lower than budgeted	That a decrease in revenue is realised from estimate.
Contingent liabilities are realised	That the Council becomes liable to pay contingent liabilities.

4. EARMARKED RESERVES

Earmarked reserves represent amounts that are generally built up over a period of time 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. The Council, when establishing an earmarked reserve, will set out the reason/purpose of the reserve:

a. Renewals – to enable services to plan and finance an effective programme of equipment and infrastructure replacement and other 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.
b. Carry forward of underspend - some services commit expenditure to projects but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources. Such use will be specifically authorised by the Council as part of the normal year-end procedures.

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

Expenditure from reserves can only be authorised by the Council but may be reflected in the budget for the subsequent year.

Procedures for the management and control of the reserve; a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

Other earmarked reserves may be set up from time to time, throughout the financial year to meet known or predicted liabilities.

5. CURRENT LEVEL OF FINANCIAL RESERVES

The level of financial reserves held by the council will be agreed by the Parish Council during the discussions held regarding the setting of the budget the next financial year, and as far as is practicable be retained consistently from year to year.

The level of general reserves to ultimately be held by the Parish Council is 12 months operational costs less regular income (other than the Precept).