

Middlezoy Parish Council Reserves Policy (Finance)

Date Adopted: 15th December 2020 Minute Reference:

Next Review: December 2022

Purpose of a Reserves Policy (Finance

Middlezoy Parish Council is required to maintain adequate financial reserves to meet the needs of the organisation, but has no legal powers to hold reserves other than those for reasonable working capital needs or for specifically earmarked purposes.

The purpose of this policy is to set out how the Parish Council will determine and review the level of such reserves and how they will be used.

Local government legislation requires parishes to have regard to the level of reserves needed for meeting estimated future expenditure, when calculating their budget. However, there is no specified minimum or maximum level of reserves that an authority should hold, and it is the responsibility of the Responsible Financial Officer to advise the Parish Council about the level of reserves, and to ensure that there are key protocols for their establishment and use. Reserves can be used for long term planned or exceptional expenditure on the following conditions:

- The expenditure must not be recurring
- Income in reserves from the sale of fixed assets can only be used for capital projects or acquisition of land, buildings or vehicles.

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.

Types of Reserve

Reserves can be categorised as earmarked (held for a specific purpose), general (held to cushion the impact of uneven cash flows or unexpected events), or ringfenced (held for one specific purpose only and cannot be transferred).

Earmarked Reserves

Earmarked reserves are a means of building up funds over several years to deliver a defined project, predicted liabilities or for known significant expenditure. They are not to be used for emergency operations. Earmarked reserves must be reviewed and/or established by the Council at the annual budget setting meeting. Any changes to the proposed use of reserves must be agreed by the Council. The RFO will note earmarked reserves movements at the end of the financial year. Earmarked reserves are held for specific purposes or projects, or to meet known or predicted liabilities ie:

- Renewals – to enable the Parish Council to plan and finance an effective programme of equipment replacement. These reserves are a mechanism to smoot expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.

- Carry forward of underspend – some expenditure is budgeted for projects, but is not spent in that financial year. Reserves are used as a mechanism to carry forward these reserves.

General Reserves

General reserves are funds which do not have any restrictions as to their use. These reserves can be used to smooth the impact of uneven cash flow, offset the budget requirement if necessary or can be held in case of unexpected events or emergencies or 6 months annual expenditure.

If in extreme circumstances general reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Parish Council would be 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 two month's salary to staff. Agreement from full Council is required to move funds from the general reserves.

Ringfenced Reserves

Ringfenced are grants allocated for a specific project only, this money must not be used for any other purpose.

Review of Reserves

Given the 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.