



ELSENHAM PARISH COUNCIL

FINANCIAL RESERVES POLICY

&

PROCEDURES

Document Control

Approved on behalf of the Parish Council	19 July 2021
--	--------------

Change History

Version:	Date:	Reason for change:
		New Policy

INDEX

1. Purpose	1
1.1 Types of Reserves.....	1
2. Governance of Reserves and Balances.....	1
3. How and When the Reserve may be Used	2
4. Procedures for the Management and Control of Reserves	2
5. Review of the Level of Reserves	2
6. Principles to Assess the Adequacy of Reserves	3
7. Level of Reserves required to be held by the Council	3
7.1 General Reserves	3
7.2 Specific (Earmarked) Reserves	3
7.3 Ring-Fenced Reserves	3

1. Purpose

- a) Elsenham Parish Council (the Council) is required to maintain adequate financial reserves to meet the needs of the Council. The purpose of this policy is to set out how the Council will determine and review the level of reserves.
- b) 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.
- c) That this Financial Reserves Policy shall form a part of the Financial Regulations of Elsenham Parish Council (the Council) and as such may only be amended or varied by resolution of the Council.

1.1 Types of Reserves

- a) Financial Reserves shall be set aside on an annual basis to provide the Council with financial stability. Since the tax base of the Council is small, a modest change in the budget in any one year may have a disproportionate effect on the precept. This Financial Reserves Policy is intended to minimise that effect.

Reserves may be categorised as follows:

- b) **General Reserves**
 - i) 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 flows, offset the budget requirement, if necessary, or can be held in case of unexpected events or emergencies.
 - ii) General reserves may be built up over a period of time to provide the Council with sufficient funds to cover unexpected or unforeseen expenditure or emergencies.
- c) **Specific (Earmarked) Reserves**
 - i) May be built up over a period of time and earmarked for specific items of expenditure to meet known or predicted liabilities or projects, including the purchase of capital equipment, land or property.
 - ii) Specific (Earmarked) Reserves may be used to ‘smooth’ the effects of certain expenditure commitments over a period of time thereby reducing the impact of significant expenditure in any one year.
- d) **Ring-Fenced Reserves**
 - i) Monies, contributions or grants that are allocated for a specific activity or project, which in general, arise from developer Section 106 Agreements contributions. This type of reserve monies shall be regarded as ring-fenced reserves as the contributions are made in regard to specific project and/or maintenance activities.
- e) **Surpluses**
 - i) Monies in excess of the amounts required for reserves, accrued as a result of activities being postponed or cancelled, may be spent, earmarked or placed into General Reserves at the discretion of the Council.

2. Governance of Reserves and Balances

- a) The Council will review the Reserves Policy as part of the review of Financial Regulations and reporting to the Parish Council as part of the budget setting process.
- b) The Council will have the opportunity to review the levels of Earmarked and Ring-Fenced Reserves held in accordance with the Parish Council’s Financial Regulation and make

recommendation for the creation of additional Earmarked and/or Ring-Fenced Reserves as part of the annual budgeting process.

- c) The Council will be required to identify when making recommendation for each reserve:
 - The reason for and purpose of the reserve.
 - How and when the reserve can be used.
 - Procedures for the reserve's management and control.
 - A process and timescales for review of the reserve to ensure continuing relevance and adequacy.
- d) General Reserve balances will be held by the Parish to cushion the impact of uneven cash flows and the impact of unexpected, unforeseen, emergency and uninsured situations and will be reviewed annually.

3. How and When the Reserve may be Used

- a) If reserves are used to meet short term funding gaps, they must be replenished in the following year. However, specific (earmarked) reserves and ring-fenced reserves that have been used to meet a specific liability will not need to be replenished, having served the purpose for which they were originally established.
- b) The use of **General Reserves** must be authorised by the Council. Where the reserve amount has arisen as a result of excess funds through cancelled or obsolete activities, the Council may elect to use these funds for another purpose for which no other budget is available.
- c) **Specific (Earmarked) Reserves** shall be used only for the purpose for which they are created. Where that purpose of the Specific (Earmarked) Reserve becomes obsolete, or where there is an over-provision of funds, the excess may, on the approval of the Council, be transferred to other budget headings within the revenue budget, or to General Reserves, or to one or more other Specific (Earmarked) Reserves.
- d) **Ring-Fenced Reserves** shall only be used for the purposes that they were established.
- e) Specific (Earmarked) Reserves and Ring-Fenced Reserves are not to be used for general revenue purposes.

4. Procedures for the Management and Control of Reserves

- a) Movements in General Reserves, Specific (Earmarked) Reserves and Ring-Fenced Reserves shall be reported to the Council on a monthly basis as part of the normal accounting reports, and on an annual basis, as a part of the annual accounting report. The use of Reserves shall be approved by the Council having regard to this policy and the Council's Financial Regulations.

5. Review of the Level of Reserves

- a) The level of **General Reserve** shall be reviewed on an annual basis during the annual budgetary review. The minimum level of General Reserve shall be recommended to the Council by the RFO. This will form part of the recommendations for the Annual Budget and Precept Request to the Council.
- b) The level of **Specific (Earmarked) Reserves** shall be reviewed on an individual basis. This review will also be undertaken as part of the annual budgeting process. Recommendations on creation, amendment, cessation or continuance of Specific (Earmarked) Reserves will be given by the RFO to the Council by way of a report forming part of the recommendations for the Annual Budget and Precept Request. Approval for the creation, amendment, cessation or continuance of Specific (Earmarked) Reserves will be given by the Council.
- c) The level of Ring-Fenced Reserves shall also be reviewed on an individual basis and also be undertaken as part of the annual budgeting process. Reporting of all ring-fenced reserves shall be made at regular intervals throughout the financial year and reports to the District

Council – responsible for the overseeing and auditing of S.106 contributions – shall be made as required.

6. Principles to Assess the Adequacy of Reserves

- a) In order to assess the adequacy of unallocated General Reserves when setting the budget, the RFO shall take account of the strategic, operational and financial risks facing the Council.
- b) The financial risks should be assessed in the context of the Council’s overall approach to risk management, with Specific (Earmarked) reference to the Council’s Risk Register.

7. Level of Reserves required to be held by the Council

7.1 General Reserves

- a) A General Reserve shall be built up over time to provide the Council with sufficient funds to cover unexpected or unforeseen expenditure or emergencies, and to meet its legal, statutory and proper duties and responsibilities. This may include:
 - undertaking essential repairs or maintenance work.
 - undertaking unexpected administrative duties or to challenging or deflecting future threats to the village, its people and its environment.
 - making provision for redundancy obligations and any exceptional future costs of investigations and disciplinary hearings.
 - providing for short term cash flow difficulties.
- b) The Council shall aim to maintain a General Reserve equivalent to at least 25% of precept, or 25% of annual expenditure, whichever is the greater.

7.2 Specific (Earmarked) Reserves

- a) Accruing Special Reserves may include reserves for:
 - Election expenses
 - Children’s Play Equipment replacement.
 - Maintenance and replacement of bus shelters, seats, litter bins and notice boards.
 - Such other items that shall from time to time be considered necessary.

7.3 Ring-Fenced Reserves

- a) Ring-Fences Reserves may be granted to, held by and expended by the Council as a result of Section 106 (S.106) Agreements arising from local planning and development schemes. The establishment and terms of the S.106 schemes are outside of the Council’s direct control; the Council being only the recipient of the contribution monies, together with the conditions as to how the particular S.106 contribution may to used and expended.