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**HEYBRIDGE BASIN PARISH COUNCIL**

**Reserves Policy**

1. **Introduction**

Heybridge Basin Parish Council is required to maintain adequate financial reserves to meet the needs of its operations and to ensure financial security. 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.

1. **Types of Reserves**

Reserves can be categorised as general or earmarked.

**2.1 General Reserves**

General Reserves are funds which do not have any restrictions on their use. These reserves can be used to cushion the impact of uneven cash flows, offset budget requirements, if necessary, or can be held in case of unexpected events or emergencies.

Setting the level of General Reserves is agreed with the Annual Budget.

**JPAG (March 2024 edition) advises:**

*“The generally accepted recommendation with regard to the appropriate minimum level of a Smaller Authority’s General Reserve is that this should be maintained at between three and twelve months net revenue expenditure.”*

*“The smaller the authority, the closer the figure should be to 12 months expenditure, the larger the authority the nearer to 3 months. In practice, any authority with income and expenditure in excess of £200,000 should plan towards 3 months equivalent general reserve.”*

*“Authorities with significant self-generated income (other than the precept or levy) should take into account situations that may lead to a loss in revenue as well as increased costs and adapt their general reserve accordingly.”*

The primary means of building general reserves will be through an allocation from 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 earmarked reserves to provide short-term resources.

Even at times when extreme pressure is put on the Council’s finances the Council must keep a minimum balance sufficient to pay three month’s salaries to staff in General Reserves at all times.

**2.2 Earmarked Reserves**

Earmarked Reserves will be established on a “needs” basis, in line with anticipated requirements.

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

Where the purpose of an Earmarked Reserve becomes obsolete, or where there is an over-provision of funds, the excess may, on the approval of the parish council, be transferred to other budget headings within the revenue budget, to general reserves or other EMRs.

Reserves should not be held to fund on-going 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, earmarked reserves 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 Earmarked Reserves are recorded on Scribe Accounts by the Responsible Financial Officer and lists the various Earmarked Reserves and the purpose for which they are held.

Reviewing the Council’s Financial Risk Assessment is part of the budgeting and year-end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of Reserves.

Earmarked Reserves can be held for several reasons:

* Money given under a Section 106 agreement to be spent on a specific project or area within the village.
* Money given under a CIL agreement to be spent to support development by funding infrastructure that the council, local community, and neighbourhoods want.
* Renewals – to enable the Council to plan and finance an effective programme of equipment and infrastructure replacement and planned property 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 underspend - some services commit expenditure to projects but cannot spend the budget in that 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.
* Election Costs – An election could be called at any time if a vacancy becomes available.
* Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

1. **Management and Control of Reserves**

Movements in Earmarked Reserves and General Reserves shall be reported to the Parish Council as part of the quarterly ‘Budget v Actual Report’ and at monthly meetings if required. The use of Reserves shall be approved by the Parish Council.

The level of General Reserves shall be reviewed on an annual basis during the annual budget review and agreed by the Parish Council. The minimum level of General Reserves shall be recommended to the Parish Council by the Responsible Financial Officer. This will form part of the recommendations for the Annual Budget and subsequent Precept demand by the Parish Council.

The current level of General Reserves to be held by the Council is set at between three and six months of predicted expenditure.

Earmarked Reserves shall be reviewed on an individual basis. This review will also be undertaken as part of the Annual Budget Review. The approval for the creation, amendment, termination, or continuation of Earmarked Reserves will be given by the Parish Council.

1. **Current Level of Financial Reserves**

**Balances at 7th May 2024**

Bank  **£194,401.61**

Earmarked Reserves £130,901.61

General Reserves £17,000.00

**£147,901.61**

1. **Document Control**

To be reviewed at least annually.

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