



## FINANCIAL RESERVES POLICY

Prepared by: Siobhan Rumsby/Cllr S Naylor

Reviewed by: Finance Committee / Policies Committee

Approved for recommendation to full Council by: Policies Committee

Reviewed and adopted by: Full Council

Reviewed and adopted by Full Council Meeting dated 5 March 2026

Minute No...26/29 – 4.1.3

Signed by Chair of Parish Council .....[redacted].....

Next Review: May 2027

### Contents

1. Introduction
2. Principles Governing Reserves
3. Overall Reserves Benchmark
4. Types of Reserves
5. Carry Forward of Underspends
6. Setting and Reviewing Reserves
7. Review and Variation of Policy

### 1. Introduction

1.1 Barton under Needwood Parish Council is required to maintain adequate financial reserves to ensure the effective and sustainable delivery of its services.

1.2 Sections 32 and 43 of the Local Government Finance Act 1992 require the Council to have regard to the level of reserves needed to meet estimated future expenditure when calculating its budget requirement. There is no statutory minimum or maximum level of reserves; however, reserves must be held only for reasonable working capital needs or for specific earmarked purposes.

1.3 The Responsible Financial Officer (RFO) has a statutory duty to advise the Council on the adequacy of reserves and to ensure that appropriate procedures exist for their establishment, maintenance and use.

1.4 This policy sets out how the Council will determine, manage and review its reserves. It should be read in conjunction with the Council's Financial Regulations and Investment Policy.

1.5 The Council's reserves position is reviewed annually as part of the budget-setting process and is subject to scrutiny by both Internal and External Audit.

### 2. Principles Governing Reserves

2.1 Reserves are held to:

- Provide working capital and manage uneven cash flow.
- Meet known or predicted liabilities.
- Mitigate financial risks identified in the Council's risk assessment.
- Provide resilience against unforeseen or emergency expenditure (e.g. legal or infrastructure issues).

2.2 Reserves must not be held to fund ongoing revenue expenditure, as this is unsustainable and would lead to their eventual exhaustion.

2.3 Where reserves are used to meet short-term funding gaps, they should normally be replenished in the following financial year. Earmarked reserves used for their intended specific purpose do not require replenishment unless the Council resolves otherwise.

2.4 Holding reserves will be considered as part of the annual budget process, balancing financial resilience against the effective use of public funds.

### 3. Overall Reserves Benchmark

3.1 In line with sector guidance and audit expectations, the Council recognises that total reserves should not normally exceed: **1.15 × the higher of the annual Precept income or Total Payments for the financial year.**

3.2 This benchmark will be calculated and reported by the RFO annually during budget setting and again at year end.

3.3 Where total reserves exceed this benchmark, the Council will consider:

- Earmarking funds for planned community or capital projects;

- Drawing down reserves in line with medium-term plans; or
- Adjusting the future precept where appropriate;
- or reducing the costs of some services that the Parish Council charges for.

#### 4. Types of Reserves

The Council's reserves fall into two main categories:

##### 4.1 General Reserves

4.1.1 General Reserves are unallocated funds held to meet the Council's overall financial needs. They may be used to:

- Smooth the impact of uneven cash flows;
- Meet unexpected or emergency expenditure;
- Provide short-term financial resilience.

4.1.2 General Reserves are not intended to fund ongoing expenditure and should be replenished through the budget process if used or the value diminished materially through inflation.

4.1.3 The Council will normally maintain General Reserves equivalent to **between three and six months of net revenue expenditure**.

4.1.4 As a minimum, General Reserves must not fall below:

- **Half of the annual precept**, and
- **An amount sufficient to cover at least three months' operating costs**, including staff costs.

4.1.5 If, in extreme circumstances, General Reserves are exhausted due to major unforeseen pressures, the Council may temporarily draw on Earmarked Reserves to provide short-term resources, subject to formal Council approval.

##### 4.2 Earmarked Reserves

4.2.1 Earmarked Reserves are held for specific purposes where the Council reasonably anticipates future expenditure or liabilities.

4.2.2 Earmarked Reserves may be established for:

- Planned renewals or replacement of assets, equipment or infrastructure;
- Specific projects or community initiatives;
- Carrying forward of committed but unspent budgets at year end;
- Known or predicted liabilities (e.g. elections, insurance excesses, refurbishment works).

4.2.3 Any decision to create, amend or close an Earmarked Reserve must be made by resolution of Full Council having been previously approved and recommended by the Finance Committee.

4.2.4 Expenditure from Earmarked Reserves may only be authorised by the Council, or in accordance with any specific delegation approved by the Council.

4.2.5 All Earmarked Reserves will be recorded and monitored on a central schedule maintained by the RFO, showing:

- The purpose of each reserve;
- Its opening and closing balances;
- Any planned drawdown or replenishment.

##### 5. Carry Forward of Underspends

5.1 Where the Council has committed expenditure in the approved budget but the expenditure is not incurred within the financial year, the unspent balance may be transferred to a Carry Forward (Earmarked) Reserve.

5.2 A corresponding budget provision will be included in the following financial year to enable completion of the committed project or activity.

##### 6. Setting and Reviewing Reserves

6.1 The level of both General and Earmarked Reserves will be determined by the Council as part of:

- The annual budget-setting process;
- The Council's financial risk assessment;
- Its medium-term financial planning.

6.2 The RFO will provide an annual report to Council detailing:

- The level and purpose of all reserves;
- Compliance with the overall reserves benchmark;
- Any recommendations for changes to reserve levels.

6.3 Internal and External Auditors will review the adequacy and justification of reserves as part of their annual audits.

##### 7. Review and Variation of Policy

7.1 This Reserves Policy will be reviewed at least every two years, or earlier if required, as part of the budget-setting process.

7.2 The Council may, where it determines there is clear justification, make decisions that vary from this policy. Any such decisions will be formally minuted and supported by an explanation of the financial rationale.