

Barningham Parish Council Reserves Policy

Introduction

Barningham Parish Council is required to maintain adequate financial reserve to meet the needs of the organization. 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 Financial Act 1992 require local authorities to have regards 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.

Types of Reserves

Reserves can be categorised as **General** or **Earmarked**

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 budget requirements if necessary or can be held in case of unexpected events or emergencies. Even at times when extreme pressure is put on the council's finances the council must keep a minimum balance sufficient to pay three months' worth of contractual obligations to staff and contractors in general reserves at all times. Councils should also be aware of the guidance as given in Proper Practices (March 2025) which states that "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 of net revenue expenditure. The reason for the wide range is to cater for the large variation in activity level between individual authorities. The smaller the authority, the closer the figure may 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. In all of this it is important that each authority adopt, as a general reserve policy, the level appropriate to their size, situation, risks and plan their budget so as to ensure that the adopted level is maintained. Consideration of the minimum level of reserves requires not only consideration of level of income and expenditure but also the risks to that income. 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 level of general reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level. 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.

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Earmarked reserves can be held for several reasons:

Renewals – to enable services to plan and finance an effective programme of equipment replacement and 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.

Carry forward of underspend – this will allow expenditure for projects/services to carry forward in to future budgets.

Other earmarked reserves may be set up from time to time to meet known or predicted liabilities and may include an insurance reserve to enable the Council to meet the excesses of claims not covered by insurance.

Earmarked reserves will be established on a “needs” basis, in line with anticipated requirements. Any decision to set up a reserve must be given by the council. Expenditure from reserves can only be authorised by the council. Reserves should not be held to fund ongoing 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 a central schedule held by the Responsible Financial Officer which 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.

Policy In Practice

The Council will hold Reserves for these three main purposes:

1. A working balance to help cushion the impact of uneven cash flows – this forms part of the General Reserves.
2. A contingency to cushion the impact of unexpected events or emergencies – this also forms part of the General Reserves.
3. A means of building up funds (Earmarked Reserves), to meet known or predicted requirements.

Procedure

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

Expenditure from reserves can only be authorized by the Council.

The reserves will be reviewed by the Council as part of the annual budgeting process.

The Responsible Financial Officer will maintain a detailed schedule of all reserves which will form part of the accounts package.

Current Levels of Financial Reserves

The level of financial reserves held by Barningham Parish Council will be agreed by full Council.

The current level of general reserves to be held by the council is between 50-60% of the annual precepted figure, i.e. to fully cover approximately six months of contracted expenditure.

Adopted by Barningham Parish Council August 2025

Review Annually