Drinkstone Parish Council

Reserves Policy

Document Reference	DPC06
Approval Committee	Full Council
Version	2
First Adopted	May 2025
Next Review Date	November 2027

Version	Author	Reason for Issue	Date	Approval Minute
1	Clerk	New Policy	05/2025	
2	Clerk	Policy Review	11/2026	DPC/2261/15

Introduction

Drinkstone 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.

The Accountability and Governance Practitioners Guide (March 2026 edition) advises:

"As with any financial entity, it is essential that authorities have sufficient reserves (General and earmarked) to finance both its day-to-day operations and future plans.

In England, the Local Government Finance Act 1992 requires local authorities, including parish councils as local precepting authorities, to take account of financial reserves when calculating their budget requirement. The relevant provisions for English local precepting authorities are principally sections 49A and 49B of the Act.

There is no generally prescribed statutory minimum level of reserves that every parish council must maintain. The appropriate level should be determined having regard to the council's financial circumstances, planned expenditure, financial risks and future commitments. The Responsible Financial Officer (RFO) is responsible for advising the Parish Council on the adequacy of its reserves and ensuring that appropriate procedures are in place for their establishment, management, use and review.

Types of Reserves

These may be categorised as either General or Specific.

a. General Reserves

General Reserves are funds which do not have any restrictions on their use. They 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.

The Accountability and Governance Practitioners Guide (March 2026 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 of net revenue expenditure.''

''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.''

''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.''

b. Earmarked Reserves

The Accountability and Governance Practitioners Guide (March 2026 edition) advises:

''There is no upper or lower limit to Earmarked Reserves save only that they must be held for genuine and identifiable purposes and projects, and their level should be subject to regular review and justification (at least annually and at budget setting) and should be separately identified and

enumerated. Significant levels of EMRs in particular may give rise to enquiries from internal and/or external auditors.''

Earmarked Reserves shall only be used for the purpose for which they were created:

• **Renewals** – To support the effective planning and financing of equipment replacement and property maintenance and refurbishment. Funds are accumulated incrementally over several years, taking into account the condition and expected lifespan of assets. This approach helps to spread costs over time and manage expenditure without the need for significant fluctuations in annual budgets.
• **Carry Forward of Underspend on an Uncompleted Project** – Where expenditure has been allocated to a project but remains unspent at the end of the financial year, the remaining funds may be transferred to reserves and carried forward to finance the completion of the project in a subsequent financial year.
• **Developers' Contributions** – Funds received from property developers that must be used for specific purposes in accordance with the conditions attached to the contributions.
• **Other Earmarked Reserves** – Reserves that may be established as required to meet known or anticipated future liabilities, financial commitments or specific expenditure requirements.

Where the purpose of an Earmarked Reserve becomes obsolete, or where the reserve is deemed to contain excess funds, the Parish Council may approve the transfer of all or part of the balance to other revenue budget headings, the General Reserve, or one or more other Earmarked Reserves.

The establishment of any Earmarked Reserve (EMR) must be approved by the Parish Council. Where an EMR is used to cover a short-term funding gap, the funds should be replenished in the following financial year. However, where an EMR is used to meet a specific liability or expenditure for which it was established, replenishment will not be necessary once its intended purpose has been fulfilled.

c. Management and Control of Reserves

Movements in Earmarked Reserves and the General Reserve shall be reported to the Parish Council as part of the quarterly budget monitoring report, and at monthly meetings where required. Any use of reserves must be approved by the Parish Council.

The level of General Reserves shall be reviewed annually as part of the budget-setting process and approved by the Parish Council. The Responsible Financial Officer (RFO) shall recommend an appropriate minimum level of General Reserves, taking into account the Council's financial commitments, risks and anticipated expenditure. This recommendation shall form part of the proposals submitted to the Parish Council for approval of the annual budget and Precept.

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

Earmarked Reserves shall be reviewed individually as part of the annual budget review. The Parish Council shall approve the creation, amendment, continuation or closure of each Earmarked Reserve, taking into account its original purpose, current balance and anticipated future requirements.