

## Downswood Parish Council

### Financial Reserves Policy

#### Version Control

Date of adoption:	<i>2<sup>nd</sup> February 2021 at DPC Full Council meeting</i>
Minute Ref.	10 iii
Latest date of policy review:	<i>6<sup>th</sup> February 2024 *3yrs from adoption date</i>

#### 1) Purpose

- 1.1 Downswood Parish Council has a statutory requirement to maintain adequate Financial Reserves to meet the needs of the organisation. The purpose of this policy is to set out how the Council will determine, review and use these reserves.
- 1.2 Section 49A of the Local Government Finance Act 1992 requires that local precepting authorities in England have regard to the level of reserves needed to meet estimated future liabilities when calculating the budget requirement. There is no specified minimum level of Reserves that an authority should hold.
- 1.3 The Council will hold reserves for three main purposes, specifically;
  - a. to provide a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
  - b. as a contingency to cushion the impact of unexpected events or emergencies; and
  - c. as a means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the general fund.
- 1.4 DPC reserves may be categorised as General, Earmarked or Rinfenced.

#### 2) General Reserves

- 2.1 General Reserves are funds that 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.
- 2.2 Downswood Parish Council seeks to maintain a level of general reserves no less than 6 months (50%) and no more than 12 months (100%), of its annual non-discretionary expenditure as determined in the budget-setting process.
- 2.3 The amount held in General Reserve should be reviewed, risk-assessed and approved by the Council annually as part of the budget-setting process.
- 2.4 Expenditure from the General Reserve can only be made to meet one of the three stated purposes listed in Paragraph 1.3.
- 2.5 Expenditure from Reserves can only be authorised by the Parish Council.

- 2.6 Where General Reserves are used to meet short term financial pressures, they should be replenished the following year.
- 2.7 In times of extreme pressure, the Council must always maintain a minimum General Reserve sufficient to cover 3 months' salaries and associated payroll costs for all employees.
- 2.8 It is expected that all General reserves will be held in the DPC investment account unless drawn upon for the reasons outlined within this policy.

### **3) Earmarked Reserves**

- 3.1 Earmarked Reserves are those generally built up over a period of time to be used to meet known or anticipated liabilities or projects. These reserves can be held for several reasons and are intended to be restricted for that agreed use.
- 3.2 Earmarked Reserves must be established and approved by the Council during the annual budget-setting process. There is no minimum or recommended requirement.
- 3.3 Every earmarked reserve proposal must include reasonable costing for each project and an estimated timescale.
- 3.4 Expenditure from Earmarked Reserves can only be authorised by the Parish Council.
- 3.5 Earmarked Reserves that have been used to meet a specific liability or project do not need to be replenished, having served the purpose for which they were originally established.
- 3.6 In extreme circumstances where General Reserves are reduced to the minimum level permitted within this policy within a financial year, the Council is able to draw down from earmarked reserves to provide short term resources.
- 3.7 Where Earmarked Reserves are used for this purpose, they should be replenished the following year should the initial requirement for the Reserve remain.

### **4) Ringfenced Reserves**

- 4.1 Ring fenced reserves are money or grants (legacies / bequests) allocated for a specific project only. Section 106 funding and the new Community Infrastructure Levy (CIL) funding passed down to parish/town councils are effectively a ringfenced reserve. Grants, legacies or bequests often come with strict criteria as to how and when the money provided must be spent.
- 4.2 Ringfenced Reserves must be established, approved and reviewed by the Council.
- 4.3 Expenditure from Ringfenced Reserves can only be authorised by the Parish Council and can only be used for the purpose for which they were provided.

### **5) Review Period**

- 5.1 This policy should be reviewed and an updated version approved by the Council at least three years from last adoption. This policy can be reviewed and amended as required at any time in the interim period with the approval of the Council.