

North Runcton Parish Council

FINANCIAL RESERVES POLICY

Adopted at the Parish Council meeting held8th July 2025.....

Signed.....*K Fuller*.....Chairman

North Runcton Parish Council is required to maintain adequate Financial Reserves to meet the needs of the Parish Council. The purpose of this policy is to set out how the Council will determine and review the level of its Reserves.

The legal context of reserves are within Sections 32 and 43 of the Local Government Finance Act 1992, these laws require local authorities to have regard to the level of Reserves needed for meeting estimated future expenditure when calculating the budget requirement.

Types of Reserves

Reserves are generally categorised as **General** or **Earmarked**.

Earmarked Reserves can be held for several reasons and are intended to be restricted for that agreed use. 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, in cases of force majeure for example, offset the budget requirement, if necessary, or can be held in case of unexpected events or emergencies.

Earmarked Reserves will be established on a 'needs' basis, in line with anticipated requirements and reviewed annually. Any decision to set up a Reserve must be given by the Parish Council. Expenditure from Reserves can only be authorised by the FULL Parish Council.

Reserves will not be held to underpin a revenue spend or any 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 (or capital project) would not need to be replenished, having served the purpose for which they were originally established.

General Reserves – the level of General Reserves is a matter of judgment for the Council to consider; and so this policy does not attempt to prescribe an overall level. However, the current level of General Reserves to be held by most Councils is targeted to be within a range of 50 – 75% of the annual precept figure.

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.

The Parish Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its Risk Assessment & Management Schedules, which are reviewed annually.

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 6 months working capital, in General Reserves at all times.

Opportunity costs of holding Reserves

In addition to allowing the Council to manage unforeseen financial pressures and plan for known or predicted liabilities, there is a benefit to holding Reserves in terms of the interest earned on funds which are not utilised. Any investment income should be fed separately into the annual budget strategy and not necessarily defined within this Policy.

Policy in Practice

The Parish Council should hold Reserves for these three main purposes: –

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

To be reviewed July 2026