

# **BARBY AND ONLEY PARISH COUNCIL - RESERVES POLICY**

## **1. Introduction**

The Council is required, under statute, to maintain adequate financial reserves in order to meet its needs. Section 50 of the Local Government Finance Act 1992 requires that billing and precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.

The Council's policy on the establishment, maintenance and adequacy of reserves and balances will be considered annually.

The Council will 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 parts of general reserves;
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements.

## **2. General Reserves**

Local councils need to hold an amount in reserves to meet unexpected or emergency expenditure, otherwise they could run out of money before the end of the financial year. The precept is set on an estimated budget and therefore there is a risk that some costs may exceed the budget amounts due to increased inflation or other unforeseen factors.

A council should typically hold between 3 to 12 months expenditure as a general reserve. If the general reserve is too low then it may not be enough to cover unexpected expenditure or emergencies, whilst if the general reserve is too high then local electors have paid a tax which is not being used for the benefit of the local community.

Local councils have no legal powers to hold revenue reserves other than for reasonable working capital or for specifically earmarked purposes, therefore the year-end general reserve should not be significantly higher than the annual precept.

Barby and Onley Parish Council will aim to hold between 3 to 12 months expenditure as a general reserve.

## **3. Earmarked Reserves**

The council may have earmarked reserves for specific projects, where money is allocated for a specific purpose. Unlike budgeted expenditure which must be spent from general reserves within the financial year, earmarked reserves can be built up over a period of time and are earmarked for specific items of expenditure to meet known or anticipated liabilities or projects in the future. The 'setting aside' of funds to meet known future expenditure reduces the impact of meeting the full expenditure in one year.

If the amount of reserves at the year-end are above a certain level in relation to the annual precept then the council must advise the external auditor of why this level of reserves is required.

The Council, when establishing an earmarked reserve, will set out the purpose of the reserve; how and when the reserve can be used and will review the continuing relevance and adequacy of the reserve when setting its annual budget.

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