

Aust Parish Council

Reserves Policy

Version	Date adopted	Minute ref.	Main changes	Review due
1.0	12/01/2021		First adoption. Based on SLCC model policy.	---
1.1	14/01/2025	2025-01-8.3	Updated 'reserve holdings' section to reflect change to banking arrangements	January 2029

Introduction

Aust Parish Council is required to maintain adequate financial reserves to meet the needs of the council. 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 Finance Act 1992 require local authorities to have regard 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.

Earmarked reserves are funds which are held towards a specific anticipated cost or as contingency against costs which are judged likely to arise in the future. Earmarked reserves can be held for several reasons, for example:

- Renewals – to enable an effective programme of asset replacement or maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets significantly from year to year.
- Carry forward of underspend - some services commit expenditure to projects, but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.
- Insurance reserve – to enable the Council to meet the excesses of claims not covered by insurance.
- Other known or reasonably anticipated liabilities – such as the cost of elections.

General Reserves are funds which do not have any restrictions as to their use and are used to fund the day-to-day business of the council. 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

Earmarked Reserves.

Earmarked reserves will be established on a “needs” basis, in line with anticipated requirements.

A decision to set up or remove a reserve must be made by the Council. The levels of each identified Earmarked Reserve heading shall be reviewed by the Council at the budget setting meeting each year (normally the January meeting).

All Earmarked Reserves are recorded on a schedule held by the Responsible Financial Officer (Clerk) which lists the various Earmarked Reserves and the purpose for which they are held.

Any spending against an Earmarked Reserve will be reported to the council meeting at which the spend is approved.

General Reserves

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.

Given that council funds are drawn from taxation, it is important that the levels of reserve held are not excessive. The Practitioners Guide¹ recommends that smaller authorities should hold a general reserve fund of between 3 and 12 months net income. For very small councils such as Aust PC, the expectation is that the level should be nearer to 12 months income.

Aust PC will typically aim to hold **12 months income (precept)** in general reserves. This will be reviewed annually as part of the annual budget setting process. The exact level will of course vary over the year as both income and expenditure are not spread evenly over time, but any significant deviation from that expected should be reported to Council by the RFO.

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.

Reserve holdings

The Council currently holds both a Current Account and an Instant Access Savings Account with Unity Trust Bank. The Current Account is subject to a monthly charge and does not attract any interest.. The Savings account attracts a moderate rate of interest (2.6% as of January 2025).

The RFO has authority to transfer funds between the two Unity Trust accounts as required. Payments can only be made from the Current account, with the authorisation of two councillors.

Under the council's Financial Regulations, the RFO is responsible for ensuring that the council's financial resources are held safely and efficiently. To maximise the interest obtained, the RFO will ensure that the bulk of reserve funds are held in the interest-bearing Savings account, with transfers to the Current account as required to cover payment obligations.

The RFO will make recommendations to council as to whether any change of banking arrangements should be considered, including any change to the location of earmarked reserve funds in order to optimise the balance between ease of access and financial prudence.

Review

This policy will be reviewed at least once every four years.

¹ Joint Panel on Accountability and Governance "Practitioners Guide", March 2024, section 5.35.