

BONINGALE PARISH COUNCIL

Reserves Policy

Purpose of this policy

Boningale Council is responsible for managing public money in the best interests of the community to provide local services and maintain community assets.

This policy will set out the regulatory framework and guidance to assist the Council in its responsibility and sets out Boningale Parish Council's approach to the level of reserves held by the Council.

Scope

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.

Setting the budgets is the responsibility of the Full Council in collaboration with the Clerk/Responsible Financial Officer.

In order to assess the adequacy of Reserves when setting the budget, both the Responsible Financial Officer and the Council should take account of the strategic, operational and financial risks facing the Council. The levels of Earmarked Reserves held should be reviewed as part of the annual budgeting process before formal approval of the budgets and precept.

This policy should be read in conjunction with the Council's investment strategy and updated in the case of any significant long term investments.

Policy Aims

- To maintain an appropriate balance between holding excessive reserves and retaining a prudent level of funds.
- To ensure reserves are held at an adequate and appropriate level for the Council's needs.
- To rely on advice from the Responsible Finance Officer when determining the appropriate reserve levels, primarily during the budget setting process.
- To avoid accumulating excessive reserves that could be seen as holding onto public monies unnecessarily.
- To recognise the need to balance financial prudence with responsible financial management of precept funds.

Boningale Parish Council

Reserves Policy

Adopted: 17th June 2026

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- To adopt a transparent and accountable approach to managing the Council's reserve levels as part of overall financial management.
- To maintain earmarked reserves to save for and plan the maintenance and replacement of the Council's key assets should there be any, to ensure they are adequately funded and cared for over the long-term.

Definitions and Recommended Levels

Reserves can be categorised as **earmarked** or **general**.

Earmarked Reserves

Earmarked Reserves should be established on a “needs” basis in line with anticipated requirements and held for a specific purpose.

Earmarked Reserves will increase through decisions of the Council and will decrease as they are spent on their specific intended purposes

Earmarked reserves are typically held for four main reasons:

- Renewals - Used to plan and finance an effective programme of equipment replacement, planned property repair and maintenance or grounds maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
- Carry forward of under-spend - 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 earmarked reserves may be set up from time to time to meet known or predicted liabilities.

Reserves should not be held to fund on-going 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 would not need to be replenished, having served the purpose for which they were originally established.

General Reserves

General Reserves are funds which do not have any restrictions as to their use so are not earmarked for any specific expenditure, but are held to cushion the impact uneven cash flows or unexpected events and allows the council to act in an agile manner.

Examples of such events could include:

- Loss of staff, including long-term sick, and the potential requirement for interim staff.
- Insurance claims not met.
- Higher than expected election costs.
- Unanticipated legal costs.
- Risks associated with inflation and cost of living crisis.

Boningale Parish Council

Reserves Policy

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- Funding unexpected repair and replacement of assets.
- Higher than expected debtors.
- Natural disasters or extreme weather events causing damage to Council property and infrastructure.
- Changes in legislation or regulations requiring unplanned expenditure.
- Reductions in external funding sources.
- Capping of Town Council Precept by Central Government.
- Devolved services.

The General Reserve will be replenished as part of the budget process in any year where it has been spent for unexpected/emergency expenditure. Reserves of this nature can be spent or earmarked at the discretion of members, subject to approval by Council.

The “General” or “Emergency” Reserve needs to be regularly reviewed using a risk based assessment.

Recommended Level

The Practitioners’ Guide 2025 (section 5) sets out the ‘proper practices’ for how the council must maintain its accounts and recommends that the minimum level of general reserves (contingency) should be between three and twelve months of net revenue expenditure.

Net revenue expenditure is defined as precept, less amounts included in precept for loan repayment, capital projects and transfers to reserves.

As with any financial entity, it is essential that the Council has sufficient reserves (general and earmarked) to finance both the day-to-day operations and future plans. There is no specific right to accumulate funds via the precept, therefore, all reserves should be reviewed and justified regularly (i.e. at least annually). It is good practice to transparently publish both the level and rationale of all reserves.

The level of General Reserves is a matter of professional judgement and so this policy does not attempt to prescribe a level, however, Boningale Parish Council finds holding six months appropriate, and it shall not be allowed to decrease to a figure less than 30% of routine budget expenditure as this will expose the Council to the risk of not being able to meet unforeseen costs.

Legislation and Guidance

Local Government Act 1972, Section 111, supports the ability to adopt a Reserves Policy as part of responsible financial management.

Local Government Finance Act 1992, Section 32 requires local authorities to calculate their budget requirement, which includes the provisions for reserves. Section 43 requires precepting authorities including Parish Councils to determine the amount of their precept.

In the Annual Governance and Accountability Return – Annual Governance Statement, the Council asserts;

Boningale Parish Council

Reserves Policy

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“We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements.”

To ensure a positive response, the Council needs to have regard to the need to put in place a Reserves Policy and have reviewed the level and purpose of all Earmarked Reserves.

Review of Effectiveness

Reviewing the Council’s Financial Risk Assessment is part of the budgeting and year end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of Reserves.

The Council’s Internal (and External) Auditors review the council’s reserves and their justification annually as significant levels of earmarked reserves may give rise to enquiries. Therefore, this policy will be reviewed annually by The Council.