



Waldringfield Parish Council

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Waldringfield Parish Council Reserves Policy

This policy was adopted at the meeting of Waldringfield Parish Council on 8th December 2020

Waldringfield Parish Council

1 Introduction

Waldringfield Parish Council is required to maintain adequate financial reserves. This policy sets 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 at least annually about the level of reserves and to ensure that there are procedures for their establishment and use.

2 Types of Reserves

Reserves can be categorised as general or earmarked.

Earmarked reserves can be held for several reasons:

- Renewals – to enable the planned renewal of the council’s physical assets. These reserves are a mechanism to enable a smoothing of expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
- Carry forward of an underspend on particular projects.
- 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 including building up funds for particular projects.

General Reserves are funds which do not have any restrictions as to their use. Increasing or expending these reserves can be used to smooth the impact of uneven cash flows, offset the budget requirement if necessary or used to deal with unexpected events or emergencies.

3 Earmarked Reserves

Earmarked reserves will be established when needed, in line with anticipated requirements. Any decision to set up a reserve must be made by the Council. Expenditure from reserves can only be authorised by the Council. Reserves should not be held to fund on-going expenditure. 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.

All Earmarked Reserves are recorded on a schedule held by the Responsible Financial Officer listing the purpose for which they are held.

4 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. Setting the level of General Reserves is one of several related decisions in the formulation of the medium term financial strategy and the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment.

Waldringfield Parish Council

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 pressure is put on the Council's finances the Council is committed to keeping a minimum balance sufficient to pay three month's salaries to its staff in General Reserves at all times.

5 **The Cost of Holding Reserves**

Depending on fluctuating interest rates, funds held in reserve may keep pace or more with inflation or may dwindle in value. Their adequacy in real terms needs to be reassessed at least annually.

There is an opportunity cost of holding funds in reserves, in that these funds cannot then be spent on anything else. Given the opportunity costs of holding reserves, it is critical that reserves continue to be reviewed each year as part of the budget process to confirm that they are still required and that the level is still appropriate.

6 **Current Level of Financial Reserves**

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 level of financial reserves held by the council will be agreed by the Parish Council during when setting the budget for the next financial year.