



# FINANCIAL RESERVES POLICY

Chiddingly Parish Council

Adopted by full council July 2020

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### **FINANCIAL RESERVES POLICY**

Chiddingly 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 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.

The Council will hold reserves for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing
- A contingency to cushion the impact of unexpected events or emergencies
- A means of building up funds, to meet known or predicted requirements

There is no specified minimum level of reserves that an authority should hold, and it is the responsibility of the Clerk/Responsible Finance Officer, in cooperation with the Finance Working Party, to advise the Council about the required and also about the available level of Reserves.

### **GENERAL FUND**

The general fund, commonly termed the 'working balance', is a balance on the council's operating account which is not held for any specific purpose other than to cushion the council's finances against any unexpected short-term problems in the council's cash flow. The general fund therefore excludes any "earmarked reserves" or CIL funds held by the Council.

A surplus on the general fund may be used to fund capital expenditure, be appropriated to earmarked reserves, or used to limit any increase in the precept for the subsequent year. If the general fund becomes depleted below the minimum recommended by the RFO and accepted by Council, the fund will be built up in subsequent years (primarily through an allocation from the annual budget) to the agreed minimum balance.

The level of general funds is a matter of judgement and this policy does not prescribe a specific level. However, the Council must maintain sufficient general funds to cover the key risks it faces, as expressed in its financial risk assessment. The levels may change from year to year. Guidance states that 'a council should typically hold between 3 and 12 months expenditure as a general reserve' (Good Councillors Guide on Finance & Transparency 2017).

## Financial Reserves Policy

**Financial Risk Management:** The general fund balance is to be maintained at a level based upon a financial risk assessment carried out by the Responsible Finance Officer (RFO) when setting the budget for the forthcoming year. The RFO will take account of the strategic, operational, and financial risks facing the Council and base the assessment on Council's areas of income and expenditure and consider any provisions and contingencies that may be required.

### **EARMARKED RESERVES**

Earmarked Reserves (EMR) represent amounts earmarked for specific items of expenditure to meet known or anticipated liabilities or projects. There will generally be a specific reason & purpose, limitations on how & when the reserve can be used, and management & control through annual review. The level of earmarked reserves should be reviewed by Council as part of the annual budget setting process to ensure continuing relevance and adequacy.

### **STATUTORY EARMARKED RESERVES (CIL)**

Local Authorities also hold reserves that arise out of the interaction of legislation and proper accounting practices. At Chiddingly Parish Council this is: Community Infrastructure Levy (CIL) – this reserve holds the proceeds from the CIL Neighbourhood fund paid to Chiddingly Parish Council by Wealden District Council. It can only be used in accordance with CIL regulations - refer to Wealden District Council CIL Team for current requirements.

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