



## Hordle Parish Council – Reserves Policy

Agreed 17.9.24

### 1. Purpose

Hordle Parish Council is legally required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out how the Council will determine and review the level of reserves, which should be part of the budgeting process. There is no specified minimum level of reserves that an authority should hold.

### 2. Types of reserves

#### 2.1 Earmarked Reserves:

These can be held for several reasons:

- a. Renewals – to plan and finance an effective programme of new facilities and services, replacement and planned property and land maintenance. These reserves are a mechanism to smooth expenditure so that a sensible programme can be achieved without the need to vary budgets.
- b. Carry forward of underspend – where some expenditure to projects cannot be spent in the budget year. Reserves are used as a mechanism to carry forward these resources.
- c. Risk not covered by insurance.
- d. Election and employment matters.
- e. Other Earmarked Reserves may be set up to meet known or predicted liabilities.

#### 2.2. General Reserves:

These are funds which do not have any restrictions as to their use. 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.

### 3. Earmarked Reserves

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

3.2. Any decision to set up a reserve must be given by the Council which must consider:

- a. The reason / purpose of the reserve;
- b. How and when the reserve can be used;
- c. Procedures for the management and control of the reserve; a process & timescale for review of the reserve to ensure continuing relevance and adequacy.

3.3. Expenditure from reserves can only be authorised by the Council.

3.4. Reserves should not be held to fund ongoing expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. If reserves are used to meet short term funding gaps, they must be replenished in the following year. Once Earmarked Reserves have been spent on their specific purpose, they do not need to be replenished.

3.5. All Earmarked Reserves are recorded on a central schedule held by the Responsible Financial Officer and form part of the annual accounting process.

3.6. Reviewing the Financial Risk Assessment is part of the Council's budgeting and accounting procedures and indicates an appropriate level of reserves.

#### **4. General Reserves**

4.1. The level of General Reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level. 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.

4.2. Setting the level of General Reserves is part of formulating 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.

4.3. If General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Council would be able make emergency borrowing from Earmarked Reserves which will be replaced in the next annual budget cycle.

4.4. Any surplus on the General Reserve above the required balance may be used to fund capital expenditure or be appropriated to Earmarked Reserves.

#### **5. Current level of financial reserves**

5.1. The level of financial reserves held by the council for the next financial year will be agreed by the council during the budget/precept setting process.

5.2. The current level of General Reserves to be held by the council is five twelfths of the annual precepted figure, i.e. to cover five months expenditure.