

Sedlescombe Parish Council Financial Reserves Policy.

Sedlescombe Parish Council (the council) is required, under statute, to maintain adequate financial reserves to meet the needs of the organisation. Sections 32, 43 and 50 (2)(b) of the Local Government Finance Act 1992 requires local precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. There is no specified minimum or maximum level of reserves that an authority should hold but guidance states that ‘a council should typically hold between 3- and 12-months expenditure as a general reserve’ (Good Councillors Guide on Finance and Transparency.)

Local Councils have no legal powers to hold revenue reserves other than for reasonable working capital or for specifically earmarked purposes. It follows that the year-end General Reserve should not be significantly higher than the annual precept. If the amount of reserves at the year-end are above a certain level in relation to the annual precept the council must give an explanation of the reserves held to the Auditor.

In an Audit Commission document ‘Interpreting the accounts’ published in September 2014, the Audit Commission defined the useable reserves of a council as ‘the money it is retaining to fund future spending commitments and to meet unpredictable variations in spending’. The Commission defined useable reserves as including:

- the balance of the council’s general fund.
- earmarked general fund reserves; and
- useable capital receipts.

Regarding the levels of reserves which a council decides to hold, the Commission states that the following issues should be considered:

Elected members are responsible for ensuring that their council’s reserves are appropriate for local circumstances and are accountable to taxpayers for the decisions they make.’

The General Reserves are funds available to the council to spend against the budget set for the year within the council’s ‘powers to spend’. These reserves cushion the impact of uneven cashflows, offset budget requirements (if necessary), fund short-term financial risks (see below), and unexpected or exceptional events.

The primary means of building the general reserves is through an allocation in the annual budget.

Full Council approval is required to move funds from the General Reserve.

Earmarked Reserves can be held for several reasons and shall be used only for the purpose for which they are created and broadly fall under the following headings.

- Renewals – to enable services to plan and finance an effective programme of equipment replacement and planned property maintenance. Since a modest change in the budget in any one year may have a disproportionate effect on the precept, these reserves are a mechanism to smooth expenditure so that a sensible replacement

programme can be achieved without the need to vary budgets dramatically from year to year.

- Carry forward of underspend - expenditure committed to a project but not spent in the budget year. Reserves can be used as a mechanism to carry forward this resource.
- Developers Contributions (CIL) – CIL Regulation 59C sets out that a local council must use CIL receipts passed to it to ‘support the development of the local council’s area, or any part of that area, by funding: a) the provision, improvement, replacement, operation or maintenance of infrastructure: or b) anything else that is concerned with addressing the demands that development places on an area.
- Other Specific Reserves may be set up from time to time to meet known or predicted liabilities. Where the purpose of a Specific Reserve becomes obsolete, or where there is an over-provision of funds, the excess may on the approval of the Council be transferred to other budget headings within the revenue budget or to General Reserves or to one or more other Specific Reserves.

Management and control of Reserves

Reviewing the Council’s Financial Risk Assessment forms part of the budgeting process and year end accounting procedures and identifies planned expenditure and an allocation for contingency towards unplanned expenditure, thereby indicating the appropriate level of Reserves required for the coming financial year.

To assess the adequacy of the General Reserve, the Council must take account of the strategic, operational and financial risks faced. The level of the reserve for the forthcoming year must be based upon a risk assessment of the Council’s income and expenditure and take into account any contingencies that may be required.

Management and control of Reserves Movements shall be reported to the Council monthly as part of the normal accounting reports, and on an annual basis as part of the annual accounting report. The use of Reserves shall be approved by the Council having regard to this policy and the councils Financial Regulations.

The level of General Reserve shall be reviewed on an annual basis during the annual budgetary review. The minimum level of General Reserve shall be recommended to the Council by the RFO. This will form part of the recommendations for the Annual Budget and Precept Request to the precepting authority. Specific Reserves shall be reviewed on an individual basis. This review will also be undertaken as part of the annual budgeting process. Recommendations on creation, amendment, cessation or continuance of Specific Reserves will be given by the RFO as part of the recommendations for the Annual Budget and Precept Request. Approval for the creation, amendment, cessation or continuance of Specific Reserves will be given by the Council.

The council’s current policy is to work towards a general reserve fund equal to at least 6 months of the current precept.

Expenditure from Reserves can be authorised in the same way as expenditure from budgets, as per Standing Orders. Reserves should not be used to fund ongoing expenditure, if reserves are used to meet short term funding gaps, they should be replenished in the following year.

Specific Reserves that have been used to meet a liability (or project) would not need to be replenished, having served the purpose for which they were originally established. Earmarked reserves that have been used to meet specific liability would not need to be replenished having served the purpose for which they were established.

Adopted	Reviewed	Next Review
April 2025		April 2026