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LOCAL COUNCIL AWARD SCHEME BRONZE

RESERVES POLICY

1. Introduction

West Hanningfield Parish Council is required to maintain adequate financial reserves to meet the needs of the organisation and to ensure sound financial management.

The purpose of this policy is to set out how the Council will determine, maintain, and review the level of its financial reserves.

Sections 32 and 43 of the **Local Government Finance Act 1992** require local authorities to have regard to the level of reserves needed when calculating the budget requirement. There is no statutory minimum level of reserves; however, it is the responsibility of the Responsible Financial Officer (RFO) to advise the Council on appropriate reserve levels, taking into account the Council's financial risk assessment and future liabilities.

Reserves are categorised as either **General Reserves** or **Earmarked Reserves**.

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2. Purpose of Reserves

Earmarked Reserves

Earmarked Reserves are held to fund specific future projects or known liabilities, including but not limited to:

- Community projects identified through the Council's budget or action plan
- Planned capital or one-off expenditure
- Identified financial risks

Earmarked Reserves will be established on a needs basis, aligned with anticipated requirements.

Only the Council may approve the creation, use, or removal of Earmarked Reserves. Expenditure from these reserves must be authorised by the Council and Earmarked Reserves must not be used to fund ongoing revenue expenditure, as this would be unsustainable.

Where Earmarked Reserves are used to meet short-term funding gaps, they should normally be replenished in the following financial year. Where reserves are used to meet a specific liability, replenishment will not normally be required, having served their intended purpose.

All Earmarked Reserves will be recorded on a central schedule maintained by the RFO, detailing the purpose and balance of each reserve.

Any project with funds allocated for more than three financial years will be formally reviewed by the Council to confirm that it remains viable, deliverable, and aligned with Council priorities.

General Reserves

General Reserves are held to provide financial resilience and flexibility and may be used to:

- Manage uneven cash flows
- Offset budget pressures where necessary
- Respond to unexpected expenditure or emergencies

The level of General Reserves is a matter of judgement and will be informed by the Council's financial risk assessment, medium-term financial planning, and known or anticipated liabilities.

The primary means of building General Reserves will be through allocations within the annual budget. This will be in addition to any sums required to replenish reserves used in the previous year.

If, in exceptional circumstances, General Reserves were exhausted due to unforeseen expenditure, the Council may draw temporarily on Earmarked Reserves, subject to Council approval.

The Council will maintain a minimum level of General Reserves sufficient to meet at least three months of core revenue expenditure, including staffing, contractual commitments, and routine operating costs.

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3. Review and Governance

The level of financial reserves held by the Council will be reviewed **annually** as part of the budget-setting process and will take account of:

- The Council's financial risk assessment
- Planned and unplanned expenditure
- Current and anticipated income
- The adequacy of existing reserve levels

All virements between reserves must be approved by Full Council.

The current policy position of the Council is to hold General Reserves equivalent to approximately two-thirds of the annual precept, unless the Council determines otherwise following review.

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4. Opportunity Cost

While holding reserves provides the Council with financial stability and the ability to manage risk, the Council recognises that excessive reserves represent funds not immediately available for community benefit.

Reserves will therefore be reviewed annually to ensure that they remain necessary, justified, and proportionate to the Council's responsibilities and financial risks.

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5. Adoption and Review

This policy will be reviewed annually, or sooner if required, to ensure that it remains appropriate and compliant with proper practices.

Re-adopted: February 2026