BUGBROOKE
PARISH COUNCIL

FINANCIAL RESERVES POLICY

Bugbrooke 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. This policy should be read alongside the Council's Financial Regulations, Risk Assessment & Management Schedule, and Asset Register to ensure a joined-up approach to financial planning and risk management.

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 Clerk/Responsible Finance Officer to advise the Council about the level of Reserves and to ensure that there are procedures for their establishment and use.

TYPES OF RESERVES

Reserves may be categorised as General or Earmarked. Earmarked Reserves can be held for several reasons and are intended to be restricted for that agreed use. General Reserves are funds that do not have any restrictions as to their use. These Reserves can be used to smooth the impact of uneven cashflows, offset the budget requirement, if necessary, or can be held in case of unexpected events or emergencies.

Earmarked Reserves – Earmarked Reserves will be established on a 'needs' basis, in line with anticipated requirements and have a clearly defined purpose and timeframe. Any decision to set up a Reserve must be given by the Parish Council. Expenditure from Reserves can only be authorised by the Parish Council.

- Earmarked Reserves will not be held to fund ongoing expenditure. This would be unsustainable as, at some point, the Reserves would be exhausted. 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 (or project) would not need to be replenished, having served the purpose for which they were originally established.
- Bugbrooke Parish Council hold Earmarked reserves in the Natwest Reserve Account.
- Each year the council confirm the Earmarked Reserves and money from the precept is allocated to long term projects or expenses that are required by cannot be funded in one financial year.

- A schedule of all Earmarked Reserves, including opening balance, movements, and closing balance, will be reviewed and formally approved by the Council at least annually as part of the budget-setting process.

General Reserves – the level of General Reserves is a matter of judgment and so this policy does not attempt to prescribe an overall level. However, the current level of General Reserves to be held by the council is targeted to be a minimum of 50% of the annual precept figure. This level is considered appropriate for a council of this size and risk profile, taking into account guidance from sector bodies and the Council's identified financial risks.

- 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.
- The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its Risk Assessment & Management Schedule, which is reviewed annually.
- 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 extreme pressure is put on the Council's finances the Council must keep a minimum balance, sufficient to pay three month's salaries to staff, in General Reserves at all times.
- The level of General Reserves will be reviewed annually by the RFO as part of the budget-setting process, with recommendations made to the Council and formally minuted.

Opportunity costs of holding Reserves

In addition to allowing the Council to manage unforeseen financial pressures and plan for known or predicted liabilities, there is a benefit to holding Reserves in terms of the interest earned on funds which are not utilised. This investment income is fed into the budget strategy. However, 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.

Policy in Practice

The Council will not accumulate excessive reserves without clear justification, and all reserves must be transparently reported to ensure accountability to residents and compliance with audit expectations.

The Council will hold Reserves for these three main purposes:

- A working balance to help cushion the impact of uneven cashflows and avoid unnecessary temporary borrowing – this forms part of the General Reserves
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of the General Reserves

- A means of building up funds (Earmarked Reserves), to meet known or predicted requirements.

Approved and adopted by Bugbrooke Parish Council

Signed ______________________________ Chair

Date 11th May 2026